



6 December 2017

Mr Noel Ryan
Acting Director, Energy Networks
Public Utilities Office
Department of Treasury
Locked Bag 11
CLOISTERS SQUARE WA 6850

Dear Mr Ryan

RE: Issues Paper: Regulatory reform in the North West Interconnected System

Thank you for the opportunity to comment on the Issues Paper in relation to regulatory reforms in the North West Interconnected System (NWIS) published on 14 November 2017. This letter outlines a submission from ATCO Australia Group.

ATCO Australia welcomes the regulatory certainty that would be delivered through implementing a light-handed regime to regulate third party access in the NWIS. This certainty will underpin retail competition, drive efficiencies across the Pilbara electricity supply chain and better position the NWIS for the future.

The design of the light-handed access regime, and the way it is implemented, will be critical to the success of the regulatory reform agenda. With this in mind, ATCO Australia believes it is important the reform process draws on regulatory models and arrangements already operating successfully in Western Australia and other jurisdictions. For example, the light-handed regime that applies to non-scheme pipelines under the National Gas Law illustrates design features that could be incorporated in the light-handed NWIS access regime.

It will also be important for Government to leverage the insights and expertise of current electricity asset owners in the NWIS. ATCO Australia has a keen interest in reforms that will facilitate third party access and looks forward to working with Government to fashion a 'fit for purpose' regulatory framework for the NWIS.

About ATCO Australia

ATCO Australia is a customer focussed company that develops, builds, owns and operates a range of energy infrastructure assets, supporting residential, business and commercial consumers across Australia. The Australian business includes:

- ATCO Gas Australia, which owns and maintains the largest gas distribution network in Western Australia, connecting over 750,000 customers through more than 14,000 km of natural gas pipelines and associated infrastructure. ATCO Gas Australia is subject to economic regulation by the Economic Regulation Authority under the National Gas Law (NGL) and National Gas Rules (NGR) as applied in Western Australia;

ATCO Australia Services Pty Ltd

ABN 50 067 295 238



- ATCO Power Australia, which owns and operates two power generation facilities in Australia (a joint-owned facility in Adelaide and a wholly-owned facility in Karratha) with a combined capacity of 266 MW. ATCO Australia's Karratha facility supplies electricity to Horizon Power under a long-term power purchase agreement; and
- ATCO Structures and Logistics, which has been operating in the Australian marketplace since 1961. Today, ATCO Structures & Logistics has two manufacturing facilities and eight offices across the country delivering modular solutions to a diverse group of customers.

The ATCO Australia Group is part of the worldwide ATCO Group of companies with approximately 7,000 employees and assets of \$21 billion. ATCO is engaged in pipelines and liquids (natural gas transmission, distribution and infrastructure development, energy storage, and industrial water solutions); electricity (electricity generation, transmission, and distribution); retail energy; and structures and logistics.

Regulatory reforms will deliver benefits for consumers

As a general principle, ATCO Australia supports the introduction of a formal regime to govern and facilitate third party access to electricity transmission and distribution network infrastructure in the NWIS.

Establishing such a regime would provide the regulatory certainty necessary to spur retail electricity competition in the Pilbara, and provide choice to consumers that are currently subject to a de facto retail monopoly electricity service delivered by Horizon Power.

ATCO Australia believes strongly that competitive retail markets deliver real benefits for consumers and the broader economy. The introduction of competition in the retail gas market in Western Australia has delivered substantially lower gas prices for consumers, with some retailers offering discounts as high as 35 per cent off regulated gas usage charges (retail gas prices are subject to a regulated price cap in Western Australia).

Similarly, ATCO Australia expects that retail competition in the Pilbara electricity market would also deliver real benefits for consumers, including lower prices and more innovative energy products and services. Retail competition would also deliver economy-wide benefits by incentivising efficiency improvements across the Pilbara electricity supply chain.

ATCO Australia considers that these benefits should outweigh the potential adverse financial impacts of retail competition on Horizon Power and, by implication, the State's budget position. Nevertheless, it is likely that further policy and regulatory reforms will be required to address these impacts, including revisiting the Uniform Tariff Policy and considering alternative subsidy arrangements for the Horizon Power business.

Designing a regulatory framework to support third-party access

A relatively simple and quick way of establishing a formal regime in the NWIS would be to regulate third party access to this infrastructure under the *Electricity Networks Access Code 2004*, which is the same regulatory framework that applies to the Western Power network in the South West Interconnected System.

However, ATCO Australia recognises that although this approach has the benefit of simplicity and speed, it may impose an unnecessarily high regulatory burden on market participants in the NWIS and drive sub-optimal economic and policy outcomes. This is a particular concern given the NWIS is a relatively fragmented and



immature electricity system with substantial growth potential – imposing a full economic regulation regime may discourage risk taking by infrastructure asset owners and stifle future system consolidation and development.

In this context, ATCO Australia supports, in principle, the implementation of a light handed access regime in the NWIS. In particular, a version of the light handed regime that applies to non-scheme pipelines under the National Gas Law and National Gas Rules appears to offer a suitable regulatory guide for the NWIS.

The regulatory approach embodied in this framework emphasises commercially-informed negotiation between access seekers and asset owners backed up by access to arbitration if these negotiations reach an impasse. The effectiveness of this regime has been bolstered by recent reforms to information disclosure obligations and arbitration processes, which were progressed under the guidance of the Gas Market Reform Group.

The effectiveness of any light handed access regime implemented in the NWIS will hinge primarily on the effort put into the design of the framework. In ATCO Australia's view, the light handed regime available in the national gas regulatory framework should primarily be used as a guide for regulatory reforms in the NWIS. For this reason, ATCO Australia welcomes the opportunity to work with Government to inform the design of a 'fit for purpose' light handed access regime for the NWIS.

System operation arrangements

ATCO Australia considers that system operation is a crucial aspect of a safe, reliable and stable electricity system and therefore supports, in principle, reforms that will formalise arrangements for system operation in the NWIS.

However, given the legacy arrangements currently in place and the patchwork nature of the NWIS, developing system operation arrangements suitable for the NWIS will be a substantial undertaking. As a consequence, it could be challenging to settle on a final design for system operation at the same time as developing a 'fit for purpose' light handed access regime for the NWIS.

Nevertheless, in designing system operation arrangements for the NWIS, ATCO Australia considers it important that these proposed arrangements should:

- leverage the expertise and capability of existing market institutions, such as the Australian Energy Market Operator;
- structurally separate system management activities from network operation activities and network asset owners;
- require a consistent set of technical rules and standards; and
- make a clear regulatory distinction between responsibility for the safe and secure operation of the NWIS and the delivery of system management services (consistent with the arrangements in the South West Interconnected System).

Consideration should also be given to establishing the broad regulatory contours of a 'proto' wholesale electricity market, such as a 'top up and spill' system, which would facilitate market balancing and settlement where there are excesses or deficits in contracted supply and demand across the system.



Implementation considerations

ATCO Australia endorses the guiding principles for a regulatory framework in the NWIS outlined in Section 4 of the Issues Paper.

In particular, ATCO Australia considers that any regulatory reforms should recognise and protect the commercial interests and priorities of privately-owned electricity network and generation assets in the NWIS. The regulatory reforms must also provide contractual and regulatory certainty by preserving contractual or other arrangements, particularly if proposed arrangements could impact the capacity or dispatchability of incumbent generators.

If you have any questions or would like to discuss any of these issues further, please contact me or Matthew Cronin, General Manager Regulation, ATCO Gas Australia.

Sincerely,

A handwritten signature in blue ink, appearing to be "J.D. Patrick Creaghan", with a stylized flourish extending to the right.

J.D. Patrick Creaghan
Managing Director and Chief Operating Officer

ATCO Australia
Level 12, 2 Mill St
Perth WA 6000
T: +61 8 6163 5407