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# Improving access to, and operation of, the Pilbara electricity network – the North West Interconnected System

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## Roy Hill Responses

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## Appendix – Summary list of questions for stakeholders

1. Would customers outside Horizon Power’s network benefit from competition?

*RH Response*

*Competition as an objective or outcome in itself is not worthwhile. It is only worthwhile if it leads to cheaper prices and/or a better service which people actually want or need. A potential poor example of introducing competition is the provision of tug services at Port Hedland. BHP has been the sole provider of such services for many years. Competition has been introduced, with a new provider being given a licence. That new provider is likely to have redundancy in its tug fleet (as will BHP) and has had the large capital cost of building a new boating facility for its tug fleet. This means that greater cost will be introduced and there will be less efficiency, for which users like Roy Hill are going to pay. The service will still be the same.*

*It is possible that customers outside Horizon’s network may benefit; but only if there are reduced prices, and provided that existing long-term customers of Horizon like Roy Hill do not end up paying more than the negotiated price secured under existing contract with Horizon as a result of such competition. Customers like Roy Hill should not have their commercial bargain with Horizon upset. We note that the commercial bargain is a holistic price for electricity on a long-term basis with specific service quality provisions, which was obtained through a tendered process. Also, we note that the electricity supply is for our port operation at Port Hedland and our rail maintenance yard which is also situated there. The electricity supply is crucial for us to run our operations, which is on a 24/7, 365 days per year basis, to enable us to export 55mtpa of iron ore which is our sole business. The state and the whole country benefit from our operations through royalties and port usage fees etc. Roy Hill should not have that commercial bargain taken away from it or imperilled in any way by a good intention regarding the NWIS but which leads to perverse outcomes for Roy Hill.*

2. Does the lack of a coordinated approach to electricity infrastructure in the NWIS present a barrier to entry for junior miners and renewable energy projects?

*RH Response*

*No comment.*

3. Is there economic benefit to a consolidated approach to coordinating development of electricity assets in the NWIS? Provide examples where possible.

*RH Response*

*There should be economic benefit to coordinated development. First, if there are existing assets (whether connected to the NWIS or not) with spare capacity, it may/should be possible for those assets to be utilised rather than develop other further new assets. For example, as mentioned in the Issues paper, Rio Tinto has off-grid assets at present. If it has spare capacity either generally which can be called on or which could be called on during NWIS emergencies, that should be of overall benefit to electricity supply in the seaboard Pilbara region.*

4. What process should be used to determine which networks and related assets should initially be subject to the arrangements?

*RH Response*

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*The Pilbara seaboard region i.e. near to and including where the NWIS already physically exists. We repeat our comments above about any changed regime needing to avoid harming the commercial bargain which existing customers like Roy Hill has with Horizon.*

5. Under what circumstances should other networks in the NWIS become subject to the regulatory arrangements at a later date? Should this be on a voluntary (i.e. 'opt-in') or mandated (i.e. 'deemed') basis?

### *RH Response*

[REDACTED]

[REDACTED] **RH note – part shaded in green is confidential and not to be published publicly.**

*In this respect, opt-in is the preferable course.*

6. What barriers do you see to increased competition in the NWIS?

### *RH Response*

*We understand that Alinta and Horizon cannot reach agreement by contract for Alinta to access/use the NWIS network in the area around Port Hedland due to lack of protection for Horizon in relation to liability/indemnity to Alinta for such access; and currently even if there was access then Horizon probably has conflicts of interest between its retailer role and its system operator role. It is possible that the same situation could arise between Horizon and other access seekers to the network in the future.*

*Please see our previous concerns about introducing competition just for its own sake and the concern about any new arrangement affecting Roy Hill's existing contract with Horizon.*

7. Do stakeholders consider information asymmetry to be an issue in negotiating access? If yes, what additional information is required?

### *RH Response*

*No comment.*

8. What 'ring fencing' arrangements should be required of networks subject to the new regulatory framework to ensure access seekers are treated on an equitable basis? How should compliance with ring fencing arrangements be enforced?

### *RH Response*

*We envisage that there would probably need to be some ring fencing by very light touch regulation in order to introduce a framework under which Horizon Power as a vertically integrated business has at least two different*

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*business areas which cannot share information, namely its network and retail functions. We reiterate our concerns above.*

9. What implications arise from the Uniform Tariff Policy with respect to any new regulatory framework in the NWIS?

### *RH Response*

*Potentially the Tariff Equalisation Contribution may need to be retained if it is an effective measure for protecting customers in regional and remote areas if they are already connected. Is this a matter where micro-grids, if not in use, can be considered in future to minimalise costs?*

10. What barriers do you see to the introduction of an independent system operator in the NWIS?

### *RH Response*

*There is a need to make sure that existing customers like Roy Hill are not disadvantaged due to such introduction of an independent system operator. Cost is also a general issue. Roy Hill's fees with Horizon include Horizon's costs for acting as the system operator. We assume that any changes (whether it is Horizon acting in two roles (retailer and network operator) or in one role (retailer) with a new person as system operator, then this will be at no net extra cost for Roy Hill. Also, for the network operator to be successful, it will need to be able to demonstrate it can undertake the role with the right attitude i.e. light touch; and not drive outcomes which are 'gold plated'.*

11. What operational and financial inefficiencies result from the current NWIS system operation model and could be addressed by introducing an independent system operator?

### *RH Response*

*Roy Hill has not yet started taking power from Horizon, so we have not faced any operational inefficiencies to date.*

*Roy Hill notes that we negotiated a certain risk/liability/responsibility profile with Horizon in our contract with them. It may be that others would consider some of those matters to be inefficient from an overall NWIS system viewpoint. However, a number of those provisions are important to Roy Hill given the critical nature of the consistent supply of electricity for our port operations as described above.*

12. Are there significant foregone opportunities for providing more efficient dispatch of available generation resources in the NWIS, or for the integration of currently non-interconnected loads and generators in the region? What are the barriers?

### *RH Response*

*Our understanding is that there probably are foregone opportunities in that there could well be assets which are currently not interconnected, which would add extra capacity and therefore probable greater reliability to the system.*

13. What aspects of technical rules currently applied in the NWIS cause significant issues to loads/generators?

### *RH Response*

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*We have not yet operated under the technical rules with Horizon, so cannot comment from direct experience.*

**14.** What obligations to comply with a proposed new set of NWIS Technical Rules should be introduced?

*RH Response*

*Again, from a Roy Hill perspective, we have negotiated and agreed with Horizon to use an earlier version of the Technical Rules. This is due to our familiarity with such rules through our use of them elsewhere.*

*We understand that if any opening up of access to the NWIS network is beneficial overall for customers/users of electricity, then having one set of rules to apply with minimal derogations for individual users is probably useful. Again however, we think that ‘grandfathering’ existing arrangements with users like Roy Hill is fair.*

**15.** What barriers to cooperation and or the efficient provision of ancillary services are caused by the low number of large and diverse/competitive interests in the NWIS and under what circumstances?

*RH Response*

*We are not directly aware of such barriers to cooperation. We reiterate our comments above that large customer with significant operations like Roy Hill that will shortly be dependent on reliable supply from Horizon, we should have the right level of priority after accounting for other priorities such as hospitals etc.*

**16.** Are the National Competition Council guidelines for designing a fit-for-purpose access regime for the NWIS sufficient? Should additional guidelines or criteria be considered based on the specific circumstances of the NWIS?

*RH Response*

*If the regime is to be changed, there should be negotiated outcomes as much as possible, with the least regulation necessary to effect the changes while also protecting/not disadvantaging those who have existing contracts with Horizon*

**17.** How should the costs and benefits of potentially moving to a new regulatory framework be assessed in developing the new framework?

*RH Response*

*Ideally there should be a matrix of priorities of desired objective, cost and benefit, which then gives an answer as to whether the objective is worth adopting.*

**18.** If you are a generator or electricity retailer, would you be interested in seeking access to the services of the Horizon Power NWIS network, or any other Pilbara network now or in the foreseeable future?

*RH Response*

*Not applicable to Roy Hill*

**19.** To what extent should access arrangements be based on negotiation between parties and to what extent should they be subject to imposed requirements on both parties?

*RH Response*

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*Roy Hill prefers negotiation as much as possible, with as few imposed requirements as possible.*

20. The National Gas Law and National Gas Rules provide a framework for the regulation of pipeline services. For a lightly regulated service, a more limited access arrangement can be lodged where the pipeline operator determines its own tariffs. The access arrangement provides a starting point for parties to negotiate access on commercial terms. In the event of a dispute, the National Gas Rules contain a dispute resolution mechanism.

- a. What features of the framework for the regulation of pipeline services do you consider may be appropriate for the regulation of electricity network services in the NWIS?

*RH Response*

*In the time available Roy Hill has not reviewed the National Gas Law and National Gas Rules in detail. However, this model would appear to be appropriate in that it is light touch and gives parties the chance to negotiate outcomes among themselves.*

- b. Are there features of the framework for the regulation of pipeline services that may not be appropriate for the NWIS, given its particular circumstances?

*RH Response*

*Roy Hill is not familiar enough with the gas pipeline regulation to offer any meaningful comment.*

21. If agreement on an access-related matter cannot be reached, how should disputes be resolved? What is the appropriate dispute resolution body?

*RH Response*

*Disputes should be resolved by arbitration.*

22. Should guidance relating to the setting of electricity network access prices, such as the build-up of costs (e.g. asset valuation, cost of capital, operating costs) and tariff design (e.g. tariff structures, postage stamp pricing, etc.), be specified in the regulatory framework or should this be addressed solely via commercial negotiation?

*RH Response*

*Roy Hill considers that commercial negotiation should be sufficient. If there was a perceived need for guidance, then perhaps something like the Rail Access Act and Code requirements would be useful?*

23. Should any regulatory oversight or monitoring of electricity network access prices on the NWIS be undertaken? If so, how and by whom?

*RH Response*

*Roy Hill prefers there to be as little regulation applying to businesses as possible. Therefore, unless there is a good reason for such oversight/monitoring, it should not be required. However, network owners/operators should not be allowed to 'gold plate' the network or to gouge prices, to customers' detriment.*

24. What is the period that parties are likely to seek to have network access prices locked in? Does this period vary between a framework with negotiated outcomes or one with stronger regulatory oversight?

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*RH Response*

*No comment at this time.*

**25.** How would capital expenditures and upgrades to the networks be addressed in the new regulatory arrangements, particularly with respect to price and service outcomes?

*RH Response*

*The regime needs to be sufficiently robust to prevent ‘gold plating’/unnecessary costs and unnecessary increased prices. If any capital expenditure or upgrade is needed, the relevant service outcome/benefit and price needs to be made clear.*

**26.** How should non-price considerations (such as security and reliability of supply and customer service standards) form part of a light-handed regulatory framework?

*RH Response*

*Roy Hill repeats its comments above that as a large enterprise customer, it has and expects continuity of reliable supply.*

**27.** How should capacity constraints be addressed in the new regulatory framework? Should the networks be required to only offer an unconstrained connection (e.g. N-1)? How are constraints managed post connection?

*RH Response*

*Roy Hill in the first instance is keen to see that the provisions in its contract with Horizon continue to apply.*

**28.** What issues do you see as contentious for access seekers or access providers that are unlikely to be resolved through commercial negotiation (e.g. liability and indemnity)? How could these issues be resolved without unreasonably impacting the property rights of participants? Do other parties have a right to object to connections or material changes that might impact them?

*RH Response*

*There may need to be some process prescribed by regulation, with an independent person to resolve the dispute. Potentially other parties should have a right to object.*

**29.** Should periodic reviews of a new regulatory framework be conducted to ensure the framework achieves the targeted objectives?

*RH Response*

*Yes. Roy Hill suggests every five years.*

**30.** What information requirements should be placed on participants to ensure any new regulatory framework for the NWIS is operating as intended?

*RH Response*

*Roy Hill considers that the information requirements should be the bare minimum.*

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- 31.** What should the guiding objectives for the independent system operator be? Are the National Electricity Objectives appropriate for the NWIS?

### *RH Response*

*Roy Hill considers that the National Electricity Objective, namely to promote efficient investment in, and efficient operation and use of, electricity services for the long-term interests of consumers of electricity with respect to – price, quality, safety, reliability, and security of supply of electricity; and the reliability, safety and security of the national electricity system, should be sufficient. In addition, any operator will need to be fair in its treatment of existing customers.*

- 32.** Should the proposed independent system operator be granted statutory immunity that excludes, or caps, liability for damages claims from third parties? Should there be any exclusions from immunity?

### *RH Response*

*In principle if such immunity is accepted in other jurisdictions/systems/regulation as the most efficient way for an operator to be set up and act, it may be the best position to adopt in future. However, if there are existing arrangements under contracts, those rights should be preserved or else the commercial reasons for the customer who entered into that arrangement will be lost.*

- 33.** Is there a preference for the independent System Operator functions to be held by a separate entity or ring-fenced within an existing network operator? Similarly, is there a preference for how the costs of an independent system operator should be recovered?

### *RH Response*

*Roy Hill does not have a preference as to whether or not the operator is a separate entity or ring-fenced in the way mentioned. Roy Hill once again is concerned that existing customers like it should not be expected to pay any net extra costs/payments for the provision of electricity above the costs which it has already agreed to pay under a contract which it has negotiated.*

- 34.** What level of governance should be applied to the proposed independent system operator? What should the key features of the governance framework be?

### *RH Response*

*There probably should be governance to see that the system operator is acting in compliance with the objectives for such a role.*

- 35.** How much visibility of the NWIS power system will an independent system operator require? How far should the visibility (and real-time data requirements) extend into generation facilities and the distribution network?

### *RH Response*

*No comment.*

- 36.** Will a more formalised approach to managing outages (planned and unplanned) benefit electricity users on the NWIS?

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### *RH Response*

*A more formalised approach should benefit electricity users. However, Roy Hill once again reiterates its comments above, to the effect that either its rights under its negotiated existing contract should be honoured or that it should be afforded appropriate priority in the managing of outages given its important business operations.*

**37.** Should an independent system operator for the NWIS have powers to manage and investigate system critical events similar to that of SWIS system management? What dispute resolution mechanism is preferred?

### *RH Response*

**38.** Is there a reason why a system of economic dispatch of generation and constrained network access should not be introduced to the NWIS?

### *RH Response*

*No, provided that existing customers who hold contracts with Horizon should not be prejudiced or lose their contractual rights as a result.*

**39.** If introduced, should the independent system operator include oversight of longer term planning and forecasting requirements that inform development of the NWIS?

### *RH Response*

*This is probably a useful task.*

**40.** Are there additional functions to be included in the independent system operator role and when?

### *RH Response*

*None at this time.*

**41.** What are the potential costs of introducing an independent system operator?

### *RH Response*

*These have been noted and commented upon in Roy Hill's responses above.*

**42.** Are the guiding principles listed above for the design of a regulatory framework in the NWIS complete? Should additional guiding principles be considered?

### *RH Response*

*Subject to the comments in Roy Hill's responses above, Roy Hill does not consider that any other guiding principles are required.*

**Julian Hill, Head of External Affairs**

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