



City of
Greater Geraldton
a vibrant future



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Manager Projects Access
Economic Review Authority of WA
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Dear Sir/Madam

**DRAFT DETERMINATION:
NEW FACILITIES INVESTMENT TEST - MID WEST ENERGY PROJECT [SOUTHERN
SECTION]**

In relation to the Draft Determination, the City of Greater Geraldton (the City) makes the following submission.

The draft determination of the Economic Regulatory Authority (the Authority) is that it cannot give pre-approval at this stage for the total proposed expenditure of \$383.4 million to be rolled into the regulated capital base, while noting that only some \$16.7 million (4.4%) exceeds the amount that would be invested by a service provider efficiently minimising costs. The Authority also notes that Western Power estimates the net present value of incremental revenue over the next 40 years will amount to \$206 million and the net present value of other benefits (predominantly linked with an assumed increase in wind generation) will amount to \$271 million – but the Authority questions the certainty of these estimates and has sought further information from Western Power.

The Authority reports significant concerns about existing customers being exposed to an unacceptable risk of increased charges, with potentially no commensurate benefit, while recognising that the proposed 330kV transmission capability could enable significant amounts of new load and generation capacity to be connected to the network, which could bring increased revenues to Western Power. The Authority reports concerns that the majority of the proposed new incremental revenues relate to two new mining operations, one of which has yet to achieve final investment decision stage and, with this uncertainty, existing customers should not be left exposed to the risk of the other project not going ahead, resulting in the forecast incremental revenue not being realised and exposing existing customers to increases in charges. While recognising that there could be other significant potential benefits resulting from the proposed augmentation which could justify an increase in charges to customers, the Authority also considers a number of the benefits claimed by Western Power in this context (particularly in relation to additional wind generation capacity) are uncertain and based on overly optimistic assumptions. The Authority reports concerns that existing customers could be exposed to increased charges with no commensurate benefit. The City's view is that the Authority fails to properly consider all benefits flows.



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The Authority argues that without the proposed major new mining loads and new generating capacity in the Mid West, a much lower cost solution could be adopted to accommodate natural load growth in the region. The Authority questions the scenarios adopted by Western Power in support of its application, with the risk of transfer of the ex-ante risks associated with achieving a return on the new investments from Western Power to existing customers. The Authority asserts the view that these risks are borne best by the new loads that would benefit from the new assets, or by Western Power, rather than by existing customers.

The City is concerned that the Authority attributes too high a level of risk and uncertainty to the developing iron ore mines in the Mid West, ignoring the huge investment already undertaken by the primary mining companies, and their continuing commitment to projects. There is clear intent that major mining initiatives, including the second stage of Karrara, and Extension Hill development, will progress. These projects need 330kV power, and the southern section of the Mid West Energy Project would deliver it. The risk seemingly not considered by the Authority is the potential for these and other major Mid West mining projects not to progress because of deferment of access to 330kV power supplies. The Authority is urged to consider the real costs of lost or deferred economic development and employment generation opportunities in the region – and the deferment or loss of mining royalties to the State. It is unclear if or how the Authority has factored mining royalties into its draft determination process.

The City notes that uncertainty in some quarters regarding progress of the Oakajee Port and Rail Project seems to underlie uncertainty about the progress of major mines in various stages of development in the Mid West. Recent statements by the Premier, the OP&R acquisition action by Mitsubishi, and the emerging likelihood of new partners, potentially Chinese – the major investors in Mid West mines – need to be taken into account, reducing uncertainty. The electricity demand studies and associated submissions by the Geraldton Iron Ore Alliance deserve recognition by the Authority – as does the continuing commitment of the seven companies in that Alliance.

That 330kV supply is essential for development of the proposed Oakajee Industrial Estate also needs to be taken into account. Value-adding initiatives such as future development beyond beneficiation of magnetite ores to merchant pig iron production, or raw stainless steel production from the unique Weld Range ores, as well as establishment of mining industry engineering and support companies, will be deferred – or opportunities lost – in the absence of early 330kV supply to the estate.

The importance of renewable electricity generation into the SWIS to diversify its supply and contribute towards achievement of National and State greenhouse gas emission reduction targets seems to be underestimated by the Authority. Extension of existing Walkaway wind farms, and development of a new farm, have been on hold for several years, after development approval by the City Council, pending availability of 330kV connection to the SWIS. The obvious potential for substantial further investment in renewable generation in the Mid West is reflected in go-ahead of the Verve solar farm, and approval of another solar farm to the near north in the Shire of Chapman Valley. The Mid West has ideal wind and solar climates for further renewable investments. The City acknowledges the narrow economic review framework of the Authority, but asserts that there is clear need to include at very least the *economic value* of the social and environmental benefits of renewable generation – dependent on availability of 300kV connection to the SWIS – in its review process.

Deferment of development of magnetite mines in the Mid West has a real cost deriving from deferment of the overall energy consumption reduction in steel making using magnetite-derived concentrates. Pre-export beneficiation requires more energy inputs than hematite fines, yes, but because the processed concentrates require less energy in subsequent steel making, the overall energy consumption is reduced markedly – and given majority power supply today utilising high emission generation, there are global economic and emission reduction environmental benefits. While the environmental and energy cost economic benefits may be derived offshore, it is arguable that those benefits should be accounted for in Australia.

Of immediate concern to the City is the reliability of the current 132kV transmission system to Geraldton, which is already at its voltage and heat limits. Immediate term power demands, including supply needs of the Geraldton Port, cannot be met, and key areas of the City are languishing in development terms because of inability of Western Power to guarantee new supplies. The Authority needs to understand that Geraldton needs enhanced supply *today*. Brown-outs in Narngulu and northern suburbs of Geraldton oblige businesses in the Narngulu industrial estate to acquire their own generation facilities, impacting ongoing economic viability of those businesses. The existing industrial estate at Narngulu needs supply augmentation now, today. The City has agreed to allow siting of a peaking generator on its airport precinct, on the fringe of the Narngulu industrial area, by Tesla Corporation to alleviate current problems. Delivery of 330kV to Three Springs in Stage 1 of the project offers promise of reinforcement of the 132kV supply, to mitigate immediate power supply problems in Geraldton. Economic growth is constrained without it. Enhancement/reinforcement of supplies further north to Northampton and Kalbarri is also dependent on this reinforcement of supply to Geraldton.

It is widely noted and accepted that the current Mid-West energy transmission network is at capacity. The system has a peak load of approximately 135MW. It is also noted that the system is currently operating with only a margin of safety of less than 1.5%. Under any acceptable measure of power transmission and supply management such a negligible margin is unacceptable and represents poor practice. It is noted the Authority has determined that the risk of a 1-2% increase in electricity charges for business users “too high a risk”. Yet this assessment completely ignores the risk of economic devastation to the region if the power supplies continue to fail through ‘brown outs’ or worse a complete power failure. There is also the catastrophic risk of actions from the Authority leading to the collapse of significant resources projects and therefore by direct reaction the failure of the Oakajee port, rail and industry park development. The economic consequences relating to obstruction or adversely impacting investor confidence in the Mid-West would make the 1- 2% power price increase for business a mere trivial matter.

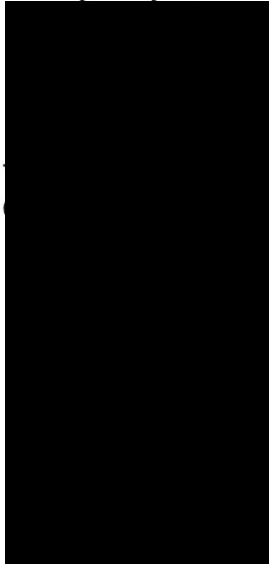
The City argues that 330kV supply to Three Springs is essential at the earliest practicable opportunity, to meet immediate term power supply needs of Geraldton via reinforcement of 132kV supplies to Geraldton. Thereafter, the City argues that 330kV supply to Geraldton should be pursued as a high priority because, without it, major projects in the north or the iron province will be delayed, limitations on power supply to industry will continue, overall economic development of the region will be seriously curtailed, and there is high risk of a increases in interruptions to supply and dangers of safety issues from the current transmission system operating at its limits.

The overall City view is that failure of the Authority to consider social and environmental benefit flows, and the economic value of those flows, impairs the viability of its draft determination and urges the Authority to approve the Western Power application and hence a complete approval and endorsement is requested.

The City's view of the a 'worst case' acceptable scenario is for the Authority to make a recommendation to NFIT determination which clearly determines a public value which will enable Western Power to negotiate with various resources and energy generation providers to ensure the suitable amount of non-public funds investment.

The ultimate worst case scenario is for the Authority to retain its current recommendation and reject the investment. Such outcomes will likely lead to massive community impact through continued and substantially worsening power 'brown outs' and 'black outs' and worse potentially lead to a drastic withdrawal of confidence and investment in the Mid-West and irreparably damage our community and economy – an outcome and responsibility which would clearly lie totally at the hands of the Authority.

Yours sincerely



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