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Economic Regulation Authority
Perth Business Centre
PO Box 8469
PERTH WA 6849

Submission in response to the Draft Decision on Proposed Revisions to the Access Arrangement for the Western Power Network.

Moore River Company Pty Ltd (**MRC**) welcomes the opportunity to comment on the draft decision for the above access arrangement (**AA**).

Background

MRC is currently appraising the viability of solar energy generation its land.

Legal framework

The Code objective is to promote competition in markets upstream and downstream of the regulated network.¹ Currently, the RT11 structure is not having this effect. In fact, RT11 is a direct cause of hindered competition due to the impact it has as an inefficient tariff applied to our renewable energy project.

The ERA's discretion in approving a proposed AA is limited, it must not refuse approval merely because another form of AA might better achieve the Code objective.² However, this limited discretion does not mean that the ERA should approve a proposed AA that is inconsistent with the Code objective. WP's pricing methods must have the objective that the structure of the reference tariffs accommodates the reasonable requirements of users collectively.³

How RT11 impacts renewable energy generators

RT11 includes a locational price (distance from substation) which is applied as a daily rate. Renewable energy projects have a much lower load factor than conventional

¹ *Electricity Networks Access Code 2004 (the code)* s2.1.

² s4.28(b) of the Code.

³ s7.4(b) of the Code.

synchronous plants, which, when faced with a per-day rate such as is built into the RT11 tariff, results in an asymmetric impact on renewable energy projects. Without directly intending to do so, WP's tariff design is discriminating against generators that run intermittently.

RT11 is trying to send a locational signal to encourage generators to connect close to the substation, which may of itself not be inappropriate. Similarly, the use of a per-day rate might be defended on the basis that the poles must be available 24/7. Our submission, however, is that RT11 is a blunt instrument in terms of locational signals – because its use of a per day rate inadvertently biases the locational signal in a way which benefits high capacity-factor plant, which has more productive hours per day across which to spread the locational signal. Thus, although a locational signal may be an appropriate element in tariff design, in the modern world a locational signal which impacts disproportionately on intermittent generators is not consistent with the Code objective and should not be approved.

Deficiencies with RT11

MRC submits that there are four deficiencies with RT11:

First, the combination of the structure of the RT11 tariff, and a lack of traction with WP to negotiate, has the effect of **blocking renewable generators from accessing the network** and thus competing with other generators. This is inconsistent with the Code objective of promoting competition.⁴ This is not simply a theoretical error. As a result of this impact, the market is deprived of low marginal cost and low carbon energy, and the benefits that flow from increased competition

Secondly, **RT11 is not cost reflective**. We offered to WP to pay for a dedicated feeder line to the substation, and were told in response that the tariff won't change. Paying for a feeder line should result in a lower network tariff, to reflect the fact that the value of the bypassed line should be excluded from the tariff. WP is reluctant to negotiate a non-reference tariff to address this deficiency.

Thirdly, **the RT11 includes inappropriate costs**. The forward-looking efficient costs of a reference service to connect a renewable generator north of Perth should not include the full sunk cost of transmission lines built south of Perth to service coal-fired generators. To the extent that RT11 is seeking to recover from such a user any of those costs, it is inconsistent with clause 7.3(a) of the Code. We acknowledge that WP and its owner face a challenge in valuing WP's assets given the increasingly stranded infrastructure in the Collie-Perth corridor, but this problem should not be underwritten by cross-subsidies from renewable generators north of Perth.

We also accept that in a wholesale (residual) pool market, each individual generator is to some extent supported by other generators which sell energy into the wholesale balancing pool. To the ever-diminishing extent that such balancing energy comes from Collie, it may be appropriate for a renewable generator's tariffs to include some small proportion of the value of those lines. However, this does not mean that those stranded lines should be included at full value or anything like it. Any component included in the renewable generator's tariff should be discounted to reflect the fact that the Collie-Perth lines are only occasionally used and are increasingly not required because the balancing electricity can come from other sources.

Finally, **RT11 unfairly penalises renewable energy generators**. Renewable energy projects offer sustainable and low marginal cost energy, but generally need more land than conventional generators. Currently, RT11 includes a locational component that

⁴ s2.1 of the Code.

incentivises generators to connect close to substations. However, these substations are located where they are for historical reasons, including proximity to load, and thus generally are not located close to larger areas of land appropriate for renewable energy projects. If the objective were solely to minimise investment in network infrastructure, the RT11's distance based component may be entirely reasonable. However, the Code objective is broader than this, including to promote efficient network investment, in order to promote competition. Accordingly, tariffs should be designed in a way which allows the right type of generators to connect, including those that need larger areas of land in order to be efficient. Otherwise renewable energy generators will be bearing an unfair proportion of the costs associated with the fact that, in light of new technology, network substations are no longer necessarily located in the right place.

The ERA should not approve the proposed access arrangement

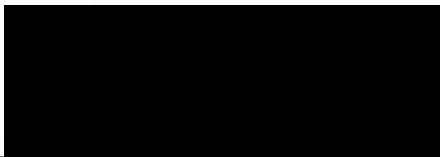
For reasons outlined in this submission, we do not believe that the proposed AA meets the Code objective. WP's pricing mechanism needs to be scrutinised and reviewed, to prevent further inefficiencies for the network and users.

It might be argued that the above issues could be addressed by a negotiated outcome, if WP was more willing to be flexible and negotiate in accordance with clause 2.8 of the Code, and accordingly that this issue is better resolved by an access dispute than by amendments to the reference tariff structure. Such an argument might have superficial theoretical merit, but overlooks the commercial reality that almost no project proponent, and especially not the proponent of a small renewable project, can afford the cost or time involved in bringing an access dispute. That is simply not a realistic commercial option. As a result, it is doubly important that the reference tariffs are not creating inefficient incentives, and are consistent with the Code objective. We ask that the ERA ensure that WP's tariff designs do not continue to frustrate renewable energy connection in this way.

Final Remarks

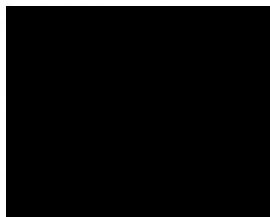
MRC remains willing to continue this conversation with WP and the ERA, with hopes to come to a viable solution, for all parties. We invite the ERA and WP to open the dialogue further with MRC.

Signed



Marcus Plunkett

Moore River Company Director



Ben Plunkett

Moore River Company