

8 February 2019

Ms Sara O'Connor
Assistant Director, Market Regulation
Economic Regulation Authority
PO Box 8469
PERTH BC WA 6849

Submitted online

Dear Ms O'Connor

Re: Submission – Report to the Minister for Energy on the Effectiveness of the Wholesale Electricity Market 2017/18 – Discussion Paper

As an energy infrastructure and related services company active in Australian gas and electricity markets, ATCO has a keen interest in policy and regulatory measures to address the effectiveness of the Wholesale Electricity Market. This letter outlines a submission from ATCO in response to the Economic Regulation Authority's Effectiveness of the Wholesale Electricity Market 2017/18 discussion paper published on 22 December 2018.

OVERARCHING COMMENTS

The themes of ATCO's submission to the ERA are as follows:

- In a changing energy landscape, it is imperative that there is policy and regulatory certainty together with clarity around the future role of Government utilities to encourage investment in the Wholesale Electricity Market by the private sector and to deliver improved choice and more efficient cost of service outcomes for consumers; and
- ATCO is supportive of current Government initiatives to reform the Wholesale Electricity Market and welcomes the opportunity to work with Government to achieve its objectives.

ATCO's detailed submission on the discussion paper is attached.

ABOUT ATCO

ATCO has been proudly operating in Australia and providing employment opportunities for more than half a century. ATCO is a customer-focussed global company that develops, builds, owns and operates a range of energy infrastructure assets, supporting residential, business and commercial consumers. ATCO is committed to investing in its people, innovation and technology to drive leading-edge application based research.

In Australia, ATCO:

- owns and maintains two non-regulated gas distribution networks in Albany (LPG) and Kalgoorlie (natural gas), together with the largest (Mid-West and South-West) gas distribution network in Western Australia, servicing over 750,000 connections through more than 14,000 km of natural gas pipelines and associated infrastructure;
- owns an exempt retailer (Source Energy Co) in the Wholesale Electricity Market that provides electricity to almost 400 embedded network customers in strata developments through a combination of solar PV, grid purchases and battery storage;
- owns and operates two power generation facilities (a joint-owned facility in Adelaide and a wholly-owned facility in Karratha) with a combined capacity of 266 MW;
- is drawing on its established expertise in natural gas to explore the future role of hydrogen through the research and development of ATCO's Clean Energy Innovation Hub (an embedded hybrid microgrid system that incorporates renewable solar generation, battery storage, natural gas backup generation); and
- manufactures and delivers modular building solutions to a diverse group of customers.

ATCO's Australian businesses are part of the worldwide ATCO Group with approximately 7,000 employees and assets of \$22 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.

If you have any questions or would like to discuss any of these issues further please contact me or Amy Stanley, General Manager Human Resources and Corporate Affairs.

Yours faithfully



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

Attachment 1: ATCO submission

ATTACHMENT ONE: ATCO SUBMISSION

ATCO's response to the Economic Regulation Authority's Effectiveness of the Wholesale Electricity Market 2017/18 discussion paper are discussed in turn below.

PRICING TRENDS IN THE WEM AND POTENTIAL DRIVERS

Question 1: What other factors may be driving up wholesale electricity prices if not demand or fuel costs?

Western Australia's Wholesale Electricity Market (WEM) is a mature and complex market where costs extend beyond demand and fuel. Wholesale electricity costs are influenced by a range of factors including administration costs, recovery of predominantly fixed fuel costs (such as gas transport and gas storage costs) and ancillary services.

ATCO considers the emerging driver for increasing wholesale electricity costs has arisen from the increased importance on "security of supply" and "grid stability" which in turn is driven by the increasing market penetration of non-scheduled generators. The cost of electricity generation is falling, and negative at some trading intervals during the day in the WEM, while the total capacity requirement to meet the peak demand remains the same, if not increasing, due to the non-scheduled nature of distributed energy resources, including large scale solar and wind generation.

With respect to fuel costs, the average fuel price in Western Australia, as published by the Department of Mines, Industry Regulation and Safety, predominantly reflects large long-term gas supply contracts. In recent years, many of these long-term contracts have been subject to price reviews or have expired and have been subsequently replaced with new contracts. As such, currently available published data is unlikely to reflect actual gas prices used for generation in the South West Interconnected System (SWIS). Given Synergy's dominance in the WEM, ATCO considers Synergy's gas position (that being contracted price, contracted supply-demand balance and gas market price) has the potential to significantly influence electricity prices in the WEM.

Question 2: Do market participants consider generators are changing their bids into the balancing market to recover higher start-up and shut down costs over shorter run times?

ATCO does not submit a response to this question.

Question 3: Is the market applying sufficient pricing discipline on generators in light of the high level of concentration in the WEM?

ATCO does not submit a response to this question.

Question 4: Aside from disaggregation, what other measures could improve competitive discipline in the WEM? How would these measures work?

Within the WEM currently, independent generators are required to bid into the balancing market on a facility basis according to their short run marginal costs. Synergy however, bids generation on a portfolio basis. This approach is a result of a legacy issue, specifically, when Synergy was fully integrated with Western Power and represented the only generator in the WEM. ATCO considers these arrangements are not reflective of the current market and have the potential to reduce

competition as other generators are not subject of the same portfolio benefit in setting a bidding price.

ATCO considers a review of the current approach to portfolio bidding, and possible transition to facility bidding, would provide greater transparency of increases in wholesale electricity prices, including costs for ancillary services. As such, ATCO is supportive of the work being undertaken by the Western Australian Government and Public Utilities Office through its Wholesale Electricity Market Reform work program.

Question 5: What other factors should the ERA consider that may underlie wholesale price increases in the WEM?

ATCO does not submit a response to this question.

FUTURE RISKS AND THE INVESTMENT ENVIRONMENT

Question 6: Are market participants satisfied that innovation trials are sufficiently open to participation from entities independent of government?

ATCO recognises the importance of innovation trials for both public and private energy businesses as they actively determine strategies to adapt to and grow in a rapidly changing environment. ATCO also recognises that Government owned utilities in Western Australia have been afforded the opportunity to conduct trials (e.g. Kalbarri microgrid) to test new technology and build expertise.

While ATCO has not yet had the opportunity to partner with a Government owned utility to provide or participate in innovation trials, ATCO is currently pursuing its objective to demonstrate the role of gas in an embedded commercial hybrid microgrid system via its Clean Energy Innovation Hub (CEIH). The establishment of ATCO's CEIH will enable research into the commercial application of cleaner and more reliable energy in microgrid systems in the near term as well as incorporating the production, storage and use of hydrogen in the energy mix in the longer term.

ATCO welcomes the opportunity to collaborate with Government to deploy technologies like the CEIH in line with market demand. However ATCO is mindful of limitations under the current State-based regulatory frameworks, where energy network businesses like ATCO face regulatory barriers to participate in these markets. For example, current drafting of the *National Gas Access (WA) Act 2009* prohibits the transport of gas where the principal constituent is hydrogen.¹ As such, ATCO is supportive of opportunities to participate in the Economics and Industry Standing Committee 'Inquiry into Microgrids and Associated Technology's in WA'. ATCO considers this a positive step towards removing these barriers and improving the investment environment. Without such reform there is a risk of potentially stifling innovation, entrenching energy silos, and is ultimately not in the long term interests of consumers who are likely to face otherwise higher costs and less choice.

Question 7: To what extent do market participants rely on, or derive benefit from, the electricity statements of opportunity in planning and investment decisions?

The Electricity Statement of Opportunity (ESOO) is a critical document in understanding the current state of the market and possible forward projections. ATCO considers the ESOO is an independent view of the market which provides valuable insights for possible investment decisions. ATCO

¹ ATCO's full submission to the Economics and Industry Standing Committee can be found at: [http://www.parliament.wa.gov.au/parliament/commit.nsf/\(Evidence+Lookup+by+Com+ID\)/9CF2797B904F89494825827F0025F084/\\$file/20180413+-+MAT+-+Sub+No.13+-+ATCO+Australia.pdf](http://www.parliament.wa.gov.au/parliament/commit.nsf/(Evidence+Lookup+by+Com+ID)/9CF2797B904F89494825827F0025F084/$file/20180413+-+MAT+-+Sub+No.13+-+ATCO+Australia.pdf)

encourages AEMO to continue to engage with industry on the development of the ESOO and the assumptions that underpin it.

Question 8: Should market participants signal intended or probable plant retirements at least three years in advance, as has been suggested in the National Electricity Market; or, should the market operator undertake its own analysis of the probable plant exit dates?

The retirement of plant is best managed as a commercial decision to be made by market participants who are best placed to make the determination based on expected plant life and business requirements in a fully competitive market. In many cases retirement of plant can be reasonably and objectively forecast from information already publically available such as commissioning dates, expected life of the type of generator and run times.

ATCO considers that forewarning of generating plant closures around three years in advance is reasonable, however ATCO also acknowledges that forecast retirement is only an indicator and generators should not be bound by an anticipated retirement date. For example, the retirement of assets can be brought forward as a result of premature equipment failure or extended to accommodate changes in circumstances without adverse consequence.

Question 9: If not advanced notice of plant retirements, what other mechanisms could be used to signal investment opportunities and improve the operation of the capacity mechanism?

ATCO does not submit a response to this question.

Question 10: To what extent do policy uncertainty and behind-the-meter changes in generation and storage influence decisions to develop projects in the WEM?

Uncertainty surrounding energy policy both locally and nationally has a significant impact on investment decisions by market participants. Specifically, policy uncertainty relating to the capacity market, full retail contestability, and Synergy and Western Power's future role in the energy market all present key barriers to market participants being able to develop and implement innovative and integrated energy solutions and offerings to WA consumers.

In a time of such uncertainty, investors are unlikely to commit to a business model that is not supported by clear policy. Alternatively should a decision be made to invest, parties are likely to factor in risk and seek higher returns which ultimately impacts the end user through higher prices. Clear and credible policy allows for the development and implementation of robust business models and the most efficient pricing of risk.

In the move away from fossil fuel generation and increasingly toward small scale solar generation and energy storage, ATCO considers that behind-the-meter changes in generation and energy storage are being factored into decision making by investors, as they price in the impact of solar photovoltaic systems, battery storage and more broadly, 'smart' homes.

Question 11: Do market participants consider the investment environment in the WEM is challenging? If so, why?

For the reasons set out in the response to Question 10 above, ATCO considers that investment in the WEM is challenging. Reforms pertaining to full retail contestability, the future role and form of Synergy and Western Power, contestable metering (as seen in the national energy market) and

behind-the-meter solutions coupled with uncertainty around the Federal renewable energy targets have led to a very challenging and uncertain investment environment.

Question 12: Do market participants consider the investment environment in the WEM will improve or worsen over the short to medium term? If so, what factors will drive this change?

The settlement of clear Government policy, at both Commonwealth and State levels, would assist in facilitating the private sector's ability to make decisions to invest in generation assets within the WEM. Specifically, the outcome of the forthcoming Federal election should provide the opportunity for clarity on Australia's position on renewable energy, climate change and associated targets. More locally, ATCO suggests policy certainty regarding the future of Western Australia's generation mix and guidance on the compatibility of WA climate policy with the national agenda will encourage well defined and positive investment decisions being made by participants in the WEM.

Question 13: What is the likelihood that the State Government will need to invest to replace generation assets?

Ultimately, the State Government's need to invest to replace generation assets will be subject to Synergy's assessment of the life for those assets coupled with the ability to meet electricity demands for West Australian consumers. ATCO does note however, the decision to retire 380MW of Synergy's non-renewable generating capacity (by September 2018) to address oversupply in the market.

ATCO considers that if the State Government could provide policy certainty to support further reform in the WEM (specifically retail contestability, facility bidding, clear renewable energy targets and support for distributed energy) then it is highly likely that the private sector will invest in additional generation to meet the needs of the West Australian market. In this context, ATCO expects there would be a low likelihood for the State Government to need to invest to replace traditional generation assets and welcomes the opportunity to continue private sector investments in the future of distributed generation.

Question 14: What could organisations such as the ERA, AEMO, Western Power and the State Government reasonably do to improve the investment environment?

ATCO understands that in a rapidly evolving energy landscape, Government owned utilities are actively determining their own strategies to adapt to change and grow their business. In this regard, ATCO encourages coordinated investment in distributed generation technology between Government owned utilities and the private sector to deliver innovative, valued solutions that are in the long term interest to consumers.

ATCO further encourages policy and regulatory certainty, alongside technology neutral market reform to improve the investment environment of the WEM to enable competition from the private sector that will deliver improved choice and more efficient cost of service outcomes for consumers. ATCO is committed to working with policy makers and regulators to achieve this objective.

MARKET ADMINISTRATION, GOVERNANCE, AND REFORM

Question 15: Do market participants consider that market operation, administration and development expenditure is delivering the benefits anticipated? If not, is the market and its electricity consumers failing to secure the benefits because of structure, governance, lack of competition, or scale?

ATCO does not submit a response to this question.