



WESTERN AUSTRALIAN  
LOCAL GOVERNMENT ASSOCIATION

7 February 2007

Our Ref: 05-028-03-0008-01mb

Mr Robert Pullella  
Executive Director Competition, Markets and Electricity  
Economic Regulation Authority  
PO Box 8469  
Perth BC WA 6849

Dear Robert,

Please find attached the WA Local Government Association Submission on Western Power's Revised Proposed Access Arrangement for the South West Interconnected Network.

This composite submission reflects the views of our Member Councils. In general, the consultation process that the WA Local Government Association undertakes for proposals of this nature takes place over twelve weeks to allow time to collate comment from the sector. The Partnership Agreement on Communication and Consultation, endorsed by the State Government, outlines clearly that this timeframe will be afforded Local Government on State consultation affecting the sector. Although the Association appreciates the need to call for urgent submissions, we request that the ERA respect this agreement in future and offer an appropriate consultation period.

The Association asserts that the necessity to produce reliable and equitable energy to the sector is a platform for negotiations with Western Power which will benefit the whole community and will promote and facilitate growth in regional areas. A successful revision of the Access Arrangement will represent a significant opportunity for Western Power to participate in the provision of reliable energy for rural areas in a partnership role, generating significant positive publicity and opening up communication channels between renewable and coal/gas energy providers. It will also provide significant development opportunities for rural Western Australia by ensuring adequate energy provision to industry.

For further enquiries on this submission please contact Melanie Bainbridge, Environment Policy Officer, on Ph: (08) 9213 2039 or Email: [mbainbridge@walga.asn.au](mailto:mbainbridge@walga.asn.au).

Yours sincerely,

**W (Bill) Mitchell**  
President

Local Government House  
15 Altona Street  
West Perth WA 6005  
PO Box 1544  
West Perth WA 6872  
Telephone: (08) 9321 5055  
Facsimile: (08) 9322 2611  
Email: [info@walga.asn.au](mailto:info@walga.asn.au)  
Website: [www.walga.asn.au](http://www.walga.asn.au)

**SUBMISSION**

TO THE

**ECONOMIC REGULATION AUTHORITY**

IN RESPONSE TO THE

**ACCESS ARRANGEMENT PROPOSED BY WESTERN POWER  
FOR THE SOUTH WEST INTERCONNECTED NETWORK**

**Monday 30<sup>th</sup> Jan 2007**

For enquiries on this submission please contact Melanie Bainbridge, Environment Policy Officer, on Ph: (08) 9213 2039 or Email: [mbainbridge@walga.asn.au](mailto:mbainbridge@walga.asn.au).



---

## THE WESTERN AUSTRALIAN LOCAL GOVERNMENT ASSOCIATION'S SUBMISSION ON THE ACCESS ARRANGEMENT PROPOSED BY WESTERN POWER FOR THE SOUTH WEST INTERCONNECTED NETWORK

**About WALGA:** The Western Australian Local Government Association is the peak organisation of Local Government in Western Australia, providing representation, leadership, advocacy and capacity enhancing services to its members. Local Government in Western Australia includes some 1, 400 Elected Members and 11, 500 employees serving the interests of the 1.76 million constituents within the State.

The Western Australian Local Government Association (the Association) herewith submits this response to the access arrangements proposed by the Western Power Corporation for the South West Interconnected Network (SWIN).

**Position in summary:** The Association does not support the proposal to the Economic Regulation Authority (ERA) of the Western Power Corporation on access arrangements for the South West Interconnected Network in its current form as it presents significant equity issues and transfers regulatory authority to a body not equipped to address these issues.

### **1. Proposed provision (under the standard access contract for reference services) that will allow Western Power to unilaterally determine to reduce a network user's contracted capacity at a connection point.**

The Association as the representative of the Local Government sector supports the renewable energy industry and a move to decentralised energy generation mechanisms.

Economic growth in 'fringe-of-grid' areas is severely limited by the current centralised distribution arrangements overseen by Western Power and this is a significant contributing factor to some areas of regional Western Australia experiencing an economic sustainability crisis.

**Equity of Distribution:** While ostensibly the redistribution of energy via the proposed provision that will allow Western Power to unilaterally determine to reduce a network user's contracted capacity at a connection point **could** stand to benefit some communities whose energy allocation/distribution is substandard, Western Power can give no guarantees that the economic efficiencies generated by this provision would be redistributed to areas of greatest need. Its previous record of service to these areas sets a precedent for continued energy inequity.

It is admirable that Western Power should attempt to release 'banked' capacity to other users in order to ensure equity on the grid. If Western Power is allowed to unilaterally reduce capacity of users not using their contracted capacity, priority access should be offered to these users, who may be disadvantaged in the future as a result of having their capacity curtailed. They should not, at a later stage, be forced to rejoin the queue and go through the application process again, amassing additional charges. If the fact that reductions in allocation to certain users, who then wish to regain their reduced capacity at a later stage means Western Power needs to make grid enhancements to cover this capacity, this responsibility should be taken on by Western Power and not devolved to users.



**Renewable Energy Disincentives:** In addition this provision creates a disincentive for renewable energy suppliers attempting to access the grid. In this respect it contravenes the *Electricity Networks Access Code 2004*.

One of the key elements of Part 9 of the Act is the provision of non-discriminatory conditions for the facilitation of renewable energy in the SWIN. There exists at this point, limited capacity on the SWIN for new renewable energy projects, particularly those which provide intermittent or fluctuating generation.

The effecting of this provision would make Western Power responsible for the determination of capacity for these renewable energy generation mechanisms, which would require a connection point into the network but would find it difficult to estimate upper level capacity.

There is a possibility that this may present a discriminatory bias in that renewable energy generators cannot be treated in the same manner as standard suppliers as consistency of supply cannot be guaranteed.

**Potential inflexibility and insensitivity of proposed arrangements:** The proposal is particularly unattractive to network users with respect to contracted capacity in that users may choose to contract excess capacity in order to cater for projected/future needs.

Renewable or small energy generators in particular may choose to apply once for an ongoing or expanding project which may use only a certain capacity initially but which may be projected to double or even triple that capacity need over time.

Making one application in this situation is cost and time effective, but may lead to users temporarily 'sitting on' unused but contracted capacity. While Western Power asserts that this could be considered 'anti-competitive behaviour', the user would consider it a simple efficiency, based on the fact that the application and queuing process and capital contributions policy may hinder or even preclude the contracting of sufficient capacity to complete the project at a later date.

**Rationale of proposal:** The 'banking' of contracted capacity could only be considered anti-competitive behaviour if intended to disadvantage another user.

The identifying and monitoring of such behaviour would more appropriately be a role of the Regulatory Authority (the ERA) rather than the service provider. The proposal would also put unnecessary constraints on network users in managing contracts for network services.

**Appropriate Jurisdiction:** The Association recognises Western Power's concerns on issues of anti-competitive behaviour but maintains that these issues should not necessarily fall under Western Power's authority.

While Western Power's concerns are relevant they are suitably covered under section 115 of the *Electricity Industry Act 2004* which legally prohibits users from hindering or preventing access by any person in accordance with the Code (*The Electricity Networks Access Code 2004*).



The Association also queries the validity of the concerns of Western Power over the likelihood of anti-competitive behaviour by users in light of what is essentially a monopolistic position in the power distribution mechanisms in Western Australia, which would appear anti-competitive in and of itself.

**Supported alternatives:** In terms of the monitoring arrangements and concerns of competition, the responsibility and authority for these issues should not sit with the service provider but with the regulatory authority, in this case the ERA specifically. If the concern that primarily drives this proposed provision is that of anti-competitive behaviour, the concern can be dissolved by delegating responsibility for the issue to the relevant authority.

The Local Government sector in some regional areas is already disadvantaged by the unreliability of power supply without the added disadvantage of prospective suppliers such as the renewable energy industry being discouraged from servicing these areas by unreasonable determinations to reduce or curtail their contracted capacity.

## **2. The treatment of capital contributions under the proposed access arrangement.**

The Association is concerned that the development of the SWIN be both equitable and sensitive to all users, and contains a focus on Greenhouse Gas mitigating technologies. The State has an obligation to recognise and act on the significant threats that Climate Change poses, and the energy industry in particular has an obligation to respond to and manage those risks.

**Disincentive effects:** In light of this obligation the significant capital contributions outlined under the proposed access arrangement may provide a disincentive to small - medium capacity renewable energy generation mechanisms which are often largely funded by contribution, corporate investment, grants or community investment. Any increase in tariffs is likely to place an inordinate financial burden on these generators, perhaps precluding their entry into the market.

**Restriction of growth:** Western Power's proposed capital contributions policy may limit opportunities for extensions and expansions of the network by potentially requiring a large part of the cost of a network enhancement to be met, at least in the first instance, by the new electricity customer who triggers the need for enhancement.

Renewable energy generators may find these costs difficult to absorb, particularly if their financing arrangements involve community investment or grants with finite funds.

**Identifying the user in 'user pays':** There is also an equity issue arising from upgrades or enhancements that benefit the whole but are paid for by a single user.

While Western Power should be ensuring best possible service to all 'consumers', if an enhancement triggered by a new electricity user creates a wider community benefit, should the costs of that enhancement not be dispersed? This is a



particular issue if both the enhancement and the user itself provide a service to the community.

**Fringe of grid issues:** Enhancements to the network are a much needed and appreciated improvement, especially for the grid extremities and those regions facing 'fringe-of-grid' issues.

The Association's work has illustrated the need for these regions to be reliably supplied with power in order to achieve their own economic sustainability. For this reason the Association advocates an 'outside in' mode of enhancement and requests that improvements to the network be made first to the areas of greatest need in order to address the limits to growth that unreliable supply represents for some regional areas.

**Multiple bottom lines – cost effectiveness as sole basis for service planning:** Several instances of businesses eschewing wheatbelt and mid-west regions as a result of unreliable power supply have been highlighted recently. In contrast, the Association has been involved in an instance in the Great Southern region of a single user applying for a network enhancement in order to develop a mining proposal which does not easily benefit other users, as the enhancement would traverse private property.

Although an enhancement on a different line could feed both the community and the mine, with the added benefit of being able to accommodate a renewable energy generator who could supply the mine with renewable, carbon efficient energy, Western Power has continued to investigate the single user enhancement, on the basis of cost and time restraints.

As a result the Local Governments in the region, the wider community and industry and investment are all affected by the lack of assessment of social and regional issues. In these situations there has been a lack of planning around servicing the needs of the regions and the obligation our State Electricity Industry has to the greater community.

### **3. The ability of Western Power to require payment of capital contribution in the nature of 'headworks' charges.**

The proposed capital contributions policy has mechanisms built into it that may affect the 'buy in' of small and renewable generators to the network and inhibit the equitable enhancement of the network. This is particularly problematic for communities existing at the grid extremities, whose current power provision is unstable.

**Ability of smaller consumers to pay:** A particular issue for Local Government is the financial impracticality of a triggering new user to make a substantial upfront capital contribution for the whole of any uneconomic and/or uncommitted portion of the enhancement.

While Local Governments may be able to support and direct the development of small, decentralised and renewable energy plants in their region through investment and grant funding they are unlikely, particularly taking into account the fact that many are financially unsustainable in their current state, to be able to



allocate resources to cover the costs of capacity they will not need or use in the short to medium term.

For Western Power to transfer the full burden of capital contribution to a triggering user, and then to on-sell the unused capacity to their own gain, presents an issue of transparency and equity that should not be allowed to impact on the use of the network by smaller users. This policy may make 'buy in' to the network for some renewable energy generators untenable, thus undermining the Code and creating a prohibitive environment for renewable energy resources.

The proposed new access arrangement will provide a means for Western Power to seek a capital contribution from land developers, so that it can increase electricity capacity in areas where demand is likely to exceed supply. Such a far-reaching arrangement does not currently exist.

The Association's concern with this is that the 'user pays' principle could preclude new development, much needed for rural sustainability. In some locations the cost of increasing capacity could be quite substantial, and could make the development uneconomic.

It is vital that land developers, industry, agencies, consultants and Local Government are allowed to input into this process, especially with regards to the principle of user-pays, community benefits and other aspects of promoting land release in regional WA. There may also be a case for Government assistance, in the form of grants or subsidies which may be necessary in order to ensure that all users have an equal opportunity to access the network.

**Corporate responsibility:** Alternative means for the funding of capacity enhancements need to be developed in order to comply with the Code and enable all users to access the network fairly. While recent electricity sector reform has assisted in making the investment decision-making process and associated costs more transparent through the Code's various investment tests and ERA regulation, there is still an imperative for Western Power to operate as a commercial venture.

While this is acceptable, the State must have some consideration for the development of regional Western Australia. A commercial return on investment by the principal service provider should be weighed against broader 'triple bottom line' investment decisions that are in the interest of state and regional development and as such, should be incorporated to form a part of the business model of Western Power.

**Transparency:** To ensure transparency and equity in development costs and present less of a barrier to prudent augmentation of the network, while simultaneously meeting the user pays principle outlined in the Code, the Association advocates an averaged capital investment that is distributed across the region, spreading the capital costs of upgrades fairly to all future users, rather than disadvantaging triggering users.

**Supported alternative:** The Association therefore supports the Office of Energy's recommendation that an averaged regional 'headworks charge' mechanism for



obtaining capital contributions, which would present a significantly lessened barrier to expansion of the network, allow greater 'buy in' to the development of the SWIN and allow smaller scale renewable energy generators to develop projects, thus achieving carbon mitigation targets and assisting in ensuring that regional development throughout Western Australia is not compromised by State Government service providers.

To discuss this submission, please contact Melanie Bainbridge, Environment Policy Officer on Ph: (08) 9213 2039, Fax: (08) 9322 2611 or [mbainbridge@walga.asn.au](mailto:mbainbridge@walga.asn.au)