

ELECTRICITY INDUSTRY AMENDMENT BILL 2019

Introduction and First Reading

Bill introduced, on motion by **Mr W.J. Johnston (Minister for Energy)**, and read a first time.

Explanatory memorandum presented by the minister.

Second Reading

MR W.J. JOHNSTON (Cannington — Minister for Energy) [12.37 pm]: I move —

That the bill be now read a second time.

The Electricity Industry Amendment Bill 2019 before us today represents the culmination of reforms first discussed during the Carpenter Labor government. As members are aware, the Pilbara region is critical to Western Australia's economy, accounting for over one-third of Australia's primary exports by value. Despite this, the region labours under an electricity system that is fragmented, high cost and uncompetitive. It has evolved in an ad hoc manner, with multiple owners and operators of generation assets and loosely connected electricity networks.

The purpose of this bill is to deliver on the government's commitment to establish a fit-for-purpose regulatory framework for the Pilbara region. The bill does this by creating a head of power to implement a light-handed third party network access regime and establish an independent system operator. The reforms are intended to improve the efficiency and effectiveness of electricity services in the Pilbara and support regional economic growth and development. The bill recognises that the reforms are being implemented within the Pilbara's established commercial and operational environment. To this end, there has been a strong focus on consultation to ensure minimal impact on existing arrangements. Consistent with the current structure of the Electricity Industry Act 2004, the bill sets high-level principles and empowers the making of subordinate instruments, most notably the Pilbara networks access code for the light-handed access regime; the Pilbara networks rules for system arrangements; and the regulations, which will provide for a range of detailed subsidiary matters. The bill also includes provisions to facilitate the use of new technologies in Western Power's network, specifically standalone power systems and energy storage devices.

Light-handed regulation is designed to avoid the time and costs associated with full regulation by deferring various issues from up-front determination by the regulator to negotiation and, if necessary, arbitration between an access seeker and the network provider. This bill establishes a light-handed regulation option for networks in the Pilbara. It does not seek to make changes to the existing process for determining whether an electricity network should be covered and therefore subject to regulation. It will not change either the risk of coverage or whether a coverage application will be successful. The regime will be available to all networks in the Pilbara region. Either network service providers can opt in to avoid the risk of full regulation or, if an application to the minister seeking access to a network is successful, the minister will have the ability to select the light-handed access regime to apply. However, the light-handed regime will not be mandatory and will not be imposed on a network against their wishes. The new regime will apply to Horizon Power's network in the north west interconnected system on commencement, following a decision by the former Minister for Energy to cover the network and open it up for third party access. Under these reforms, coverage will also be extended to the Alinta DEWAP network. This will, for the first time, enable competition for contestable customers in the Pilbara supplied through these networks. The light-handed regime will be codified in the Pilbara networks access code, which will include the principles by which prices will be determined, the information that a network owner must make available, the negotiation and dispute resolution framework, ring-fencing requirements and cost-recovery provisions.

The bill also establishes the system operations arrangements for the Pilbara network and empowers the making of the Pilbara networks rules. The rules will codify the ISO arrangements and functions, which will be primarily based around improving system security, managing essential system services and facilitating whole-of-system planning. In the Pilbara, all ISO functions will apply to interconnected networks. However, for non-interconnected and non-covered Pilbara networks, the role of the ISO will be limited to the collection and reporting of information to support whole-of-system planning. After extensive industry consultation, an administrative ISO model has been identified as the preferred approach for the Pilbara as it is the least cost and has the least intervention. Under this model, the Pilbara ISO will be limited to providing oversight, without taking control or operation of the system on a real-time or day-to-day basis. In keeping with the light-touch approach of the new framework, the Pilbara networks rules will recognise current arrangements for existing connected facilities and set a time frame and process by which new technical rules will need to be adopted by network service providers. As with system operation functions in the south west interconnected system, the Pilbara ISO will have immunity from civil monetary penalties when a function is performed in good faith. Other parties will also be provided with immunity when performing functions delegated by the Pilbara ISO. This immunity may be rolled back in certain circumstances when a party to an existing contract demonstrates that the immunity provision unduly affects their existing negotiated position.

Once Horizon Power's network is opened to third party access, it is likely that large industrial customers will move from existing contracts and tariffs to a lower market price, either with Horizon Power or a third party. This will restrict Horizon Power's ability to recover the fixed generation costs it has incurred to supply its customer base, particularly those associated with high-cost take-or-pay contracts entered into by the previous government. To limit the financial impact on Horizon Power, and ultimately the cost to consumers, it has been necessary to implement a temporary access contribution to recover a portion of these fixed generation costs. The TAC will initially be set at the equivalent of 10¢ per kilowatt hour and will be determined annually by the Treasurer. The TAC will not increase the existing cost of electricity, because the generation costs to be recovered by the TAC are already factored into Horizon Power's cost-reflective tariffs and market contracts. Rather, the TAC is a mechanism to ensure that a portion of these costs continue to be recovered, regardless of which retailer supplies the customer. The TAC will not recover costs from Alinta's existing customers or customers with dedicated connection points.

Separate to the Pilbara reforms, and also included in this bill, are amendments to facilitate the use of standalone power systems and energy storage devices in Western Power's network. As the current regulatory framework for electricity supply is based on a traditional supply chain of large-scale generators connected to a network of transmission and distribution lines, it does not adequately support these new technologies. Standalone power systems are not connected to the electricity network and have proven to be more cost effective, safer and more reliable than traditional network infrastructure in the correct circumstances. Storage devices such as batteries are becoming an increasingly important tool to manage the system risks associated with the continued uptake of rooftop solar panels in Western Power's network. These devices can act as a sponge to soak up excess energy generated by rooftop solar panels during the day and release this energy when it is needed, which will assist in supporting the uptake of solar panels by customers in the south west. The amendments in the bill will facilitate the use of standalone power systems and storage devices and allow for subsequent amendments to be made to the Electricity Networks Access Code 2004 to ensure that the cost of these technologies can be recovered through regulated tariffs. These amendments will ultimately provide substantial benefits to energy consumers in both the south west interconnected system and regional areas.

Energy Policy WA has undertaken extensive stakeholder engagement throughout the detailed design of the bill and will continue to engage closely with stakeholders on the drafting of the subsidiary instruments to ensure a smooth transition to the new framework. I commend the bill to the house.

Debate adjourned, on motion by **Mrs A.K. Hayden**.