



Office of Energy
Government of Western Australia



Electricity Reform - The Status

20 April 2004

Image sources: Western Power Corporation and Sustainable Energy Development Office.





Western Australia is the least competitive of all the States....

- Severe barriers to entry of new generators and retailers.
- Higher electricity prices.
- Inhibitions on the entry of renewable energy progress.
- Pressure on Government to fund ageing infrastructure.
- WA losing attractiveness as a location for industry.





- Restructure the industry to provide for a more competitive framework for the South West Interconnected System (SWIS). Initiatives include:
 - A wholesale market for the SWIS.
 - A Western Australian Access Code.
 - Restructure of Western Power into four (4) separate entities.
 - Independent regulation by the Economic Regulation Authority.
- Maintain regulated retail prices/uniform tariff.
- Provide an enhanced focus on regional supply.





- Achieve private sector investment in generation and retail sectors to free up Government capital for network upgrades.
- Measures to facilitate renewable energy, distributed generation and demand management.
- Maintain existing assets in State ownership.
- Deliver increased customer protection.
- Give choice to more than 10 000 businesses over their preferred supplier.





Current and Proposed Industry Structure

July 2004

December 2004

January 2005

July 2006

State
Generation

State
Generation

New
Generators

State
Networks

New Access
Framework

12,500 Small
Business
Customers
Become
Contestable

Market Operated
by System
Management

Wholesale
Market

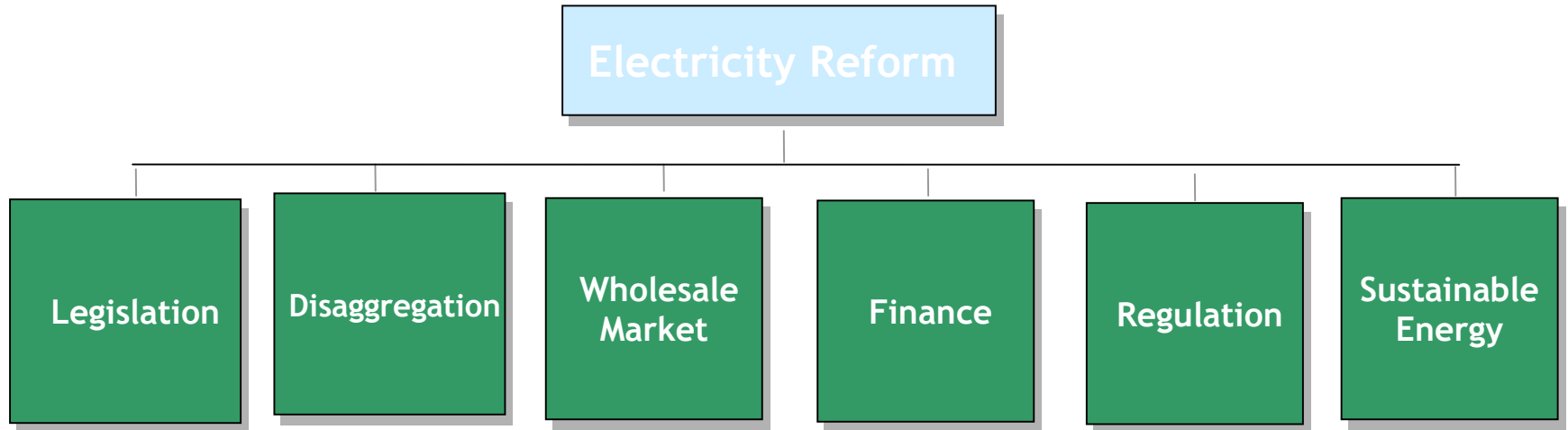
State
Retail

New Customer
Protection Code,
Ombudsman
Scheme &
Licensing
Arrangements

State
Retail

New
Retailers





- The main pieces of work are:
 - Disaggregation of Western Power.
 - Development of Wholesale Market and new regulatory framework including an Access Code and Consumer Protections.
 - Financial modelling of new business entities.





ISSUE	TARGET	STATUS	
Introduction of Legislation	November 2003	Three Bills tabled in Legislative Assembly on 30 October 2003	✓
Disaggregation of Western Power	1 July 2004	Electricity Corporations Bill suspended <ul style="list-style-type: none">• Legislation drafted.• Asset transfer was well on track.• People issues resolved.	✓
Access Code	1 July 2004	Public Consultation version of Draft released on 5 April 2004.	✓
Wholesale Market Rules	July/August 2004	Draft 2 released for comment on 16 April 2004	✓





ISSUE	TARGET	STATUS	
Sustainable Energy Package	October 2003	October 2003	✓
Top Up and Spill	April 2004	April/May 2004	✓
Financial Modelling	30 June 2004	On track	✓
Consumer Protections	September 2004 / Mid 2005	Customer Code on track for June 2004 for public consultation	✓





Electricity Reform Legislation

~~Electricity Corporation Bill~~

The Bill provides for the restructuring of Western Power and specifies the powers and functions of four new entities.

Amendments and Transitional Provisions Bill

The Bill provides for consequential amendments as a result of the restructure of Western Power and other consequential and transitional amendments.

Electricity Industry Bill

Provides for a new operating framework for industry.





- Establish four (4) Successor Western Power Corporations:
 - Electricity Generation Corporation;
 - Electricity Retail Corporation;
 - Electricity Networks Corporation; and
 - Regional Power Corporation.
- Prescribe powers and functions for new entities.
- Establish a Governance framework.
- Impose limitations on the operations of the Generation and Retail entities.





Electricity Reform Legislation

Electricity Industry Bill 2004

- Electricity licensing
- Standard contracts
- Obligations to connect and supply
- Default supplier
- Extension and expansion policies
- Supplier of last resort
- Customer service code
- Electricity Ombudsman
- Access Code
- Wholesale electricity market
- Other matters (electricity tariff regulations)

Electricity Legislation Amendment Bill 2004

Amends:

- *Energy Operators (Powers) Act 1979*
- *Electricity Act 1945*
- *Parliamentary Commissioner Act 1994*
- *Electricity Corporation Act 1994*



Reform package as a result of Legislation Outcome

Yes

- Third Party Access Regime.
- Wholesale Market in the SWIS.
- Electricity Licensing.
- Customer Protection Framework (including Ombudsman Scheme, Customer Service Code, Standard Contents).

No

- Disaggregation of Western Power.
- Market Power Mitigation Measures.





- The political landscape is likely to be uncertain for an undefinable period .
- The way forward strategy will therefore need to:
 - be flexible;
 - deliver a clear path forward to Western Power and industry;
 - provide stability within Western Power; and
 - establish a clear set of constraints regarding the operations of Western Power.





Way Forward objectives are...

- balance between costs to industry and benefits.
- maintain momentum towards the development of a competitive market as a means for achieving downward pressure on prices.
- encourage private investment in generation plant.
- ensure reliability of supply.
- minimise cost of implementation.





- Top Up and Spill Transitional Arrangements being implemented.
- Market Power Mitigation ?
- Western Power organisational structure?
- Wholesale Market - Transitional Mechanism.
- Third Party Access Code being implemented.
- Low cost regulatory regime for industry.





- What is achievable?

- Strengthened Business Units.
- Ringfencing.
- Enhanced Transfer Pricing Arrangements.
- Separate Shared Services Unit.
- Special Ringfencing Arrangements for Network Businesses.
- Independent Regulator.





Wholesale Market - Key Elements

Bilateral Contracts



Residual Trading Market

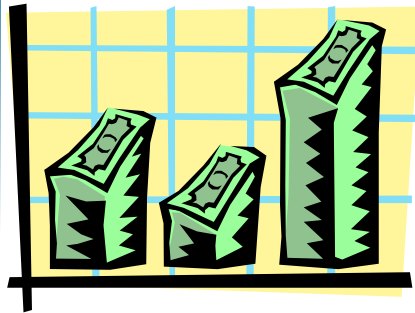
Balancing

Load following

Available Capacity



Settlement



Years/months ahead

Day ahead

30 Min ahead

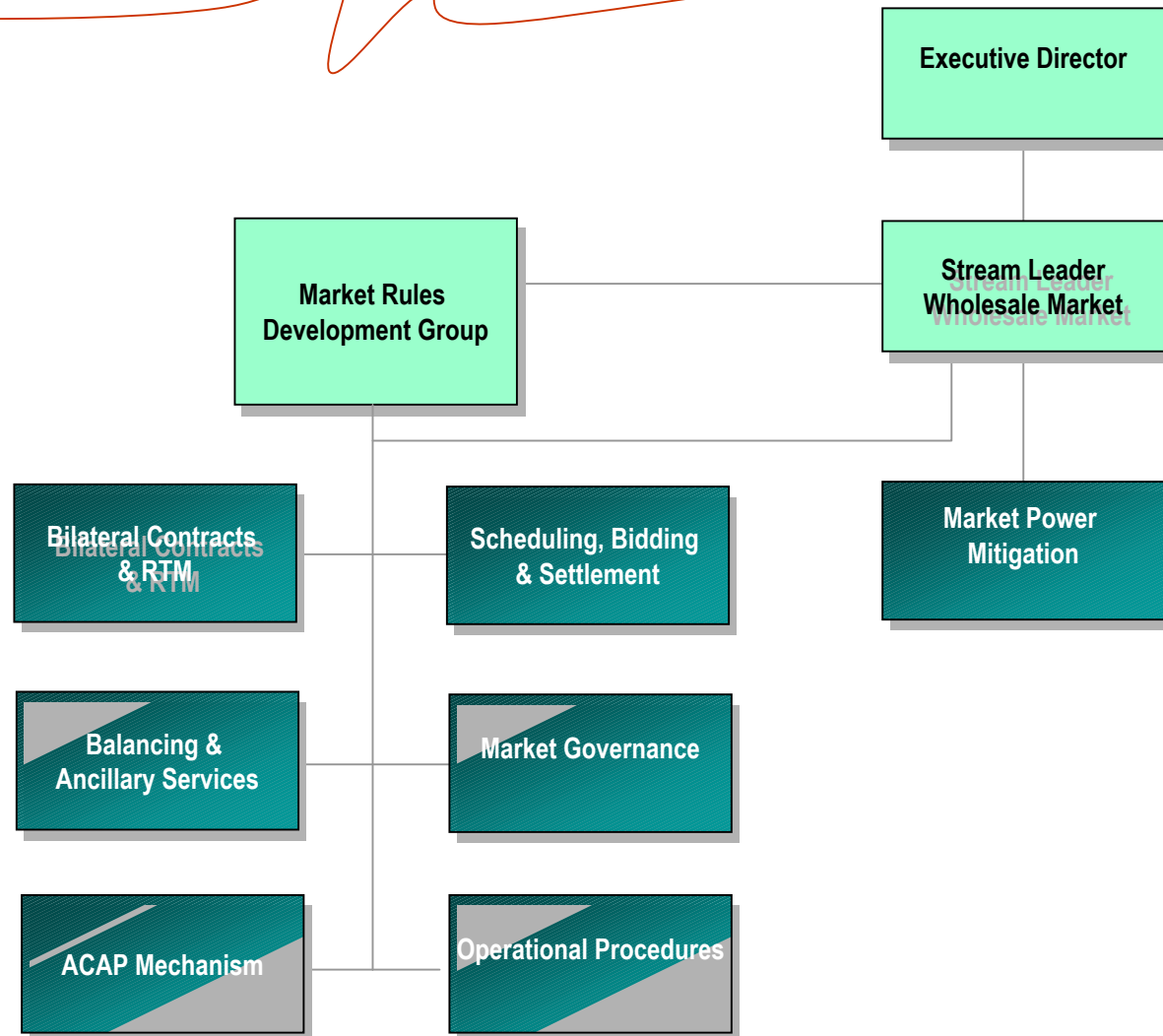
Now

Future





Market Rules Development Group





Draft Detailed Design completed.



Detailed Market Governance Framework completed.



Draft Market Rules near completion.

**Documents available
on ERIU's website**



www.eriu.energy.wa.gov.au





- Existing market design is dependent on the disaggregation of Western Power.
- We need a low cost, simplified transitional market arrangement.
- Possible to implement a considerably simplified market design but still based on the Electricity Reform Task Force's framework.
- Office of Energy has undertaken work on this and will consult with industry in near future.





Access Code...

- Is a “Second Generation” Code.
 - Is a comprehensive regulatory regime whilst providing significant flexibility and discretion to a Service Provider and the Economic Regulation Authority.
 - Mandates the approval of “Access Arrangements” governing third party access to electricity networks which are “covered” by the Code.
 - Has been developed with extensive industry consultation.
-
- The Economic Regulation Authority will be responsible for approving proposed Access Arrangements, and other regulatory oversight (such as monitoring of ring-fencing).





- General Principles.
- Coverage.
- Approval and Review Process.
- Content of Access Arrangement.
- Pricing Principles.
- Regulatory Test.
- Capital Contributions and pre-payments.

- Dispute Resolutions.
- Service Standards and Interconnection.
- Technical Rules.
- Metering.
- Ringfencing.
- Transitional Provisions.
- Administration Issue.
- Model Terms.





Public Consultation Draft of Code completed.



Public Consultation underway and closes 14 May 2004.



Target date for implementation 1 July 2004.

**Draft Access Code available
on ERIU's website**



www.eriu.energy.wa.gov.au





- Public Forum to be held on **Tuesday, 4 May 2004 at 9.30am** (QV1 Function Centre).
- Transitional Arrangements to be determined.
- Finalisation of Code following Public and industry consultation.
- National Competition Council certification.
- ERA assumes responsibility.
- Continuing industry consultation.





ERA...

- will be responsible for the granting of electricity generation, transmission, distribution, retail and integrated regional licences;
 - can impose conditions upon licences; and
 - can be compelled to consult with stakeholders prior to granting a licence.
-
- Western Power is required to obtain electricity licences.





- Need to develop a staged Implementation aimed at minimising regulatory burden on industry.
- The license framework contains a number of mechanisms to provide implementation flexibility and realistic levels of regulation:
 - Exemptions.
 - Policy guidance by Government to Economic Regulation Authority
 - Public consultation on regulations.
 - Appeal mechanisms.
 - Exclusions.





Ombudsman

Distributor & Retailers

Mid 2005

Customer Code

Distributor & Retailer

September 2004

Standard and Non
Standard Contracts

Retailer

September 2004





- The new electricity market is the key means to achieving greater sustainable energy outcomes.
- The philosophy used to design the market arrangements has been to remove unnecessary impediment to all generation technologies and demand management participation.
- Renewable energy generators will be able to sell electricity in a range of market mechanisms.





New Initiatives...

- Up to \$6 million subsidy to assist renewable energy generators.
- New transitional Top Up and Spill (TUAS) balancing regime will provide substantial benefits to Renewable Energy Generators.
- License conditions to require electricity retailers to test the WA market, giving renewable energy an opportunity to compete.
- Two studies to maximise sustainable energy opportunities flowing from the reforms.
- A new procurement is currently being held to supply Western Power with 100 000 Renewable Energy Certificates per year.





Sustainable Energy - Existing Balancing Regime

- Independent Power Producers (IPPs) can currently gain access to Western Power's networks to supply their customers.
- IPPs must balance generation and loads in real time or face significant penalties. Current arrangements provide real barriers to renewable projects.
- Contestability is effectively restricted to large (megawatt sized) loads.





- TUAS provides pre-set prices for IPPs to Top-Up, if short, and Spill, if long, with Western Power as counter-party. Provides for balancing and for economic trading for IPPs.
- Allows IPPs to avoid investment in balancing equipment and avoid out-of-balance penalties.
- Opens up the opportunity for effective competition through to the 5.7 kW tranche of customers.
- Allows intermittent generators (eg wind farms) to spill all uncontracted energy at the balancing price.
- Allows generators to economically enter the market without having contracts for all of their output (by spilling to Western Power).





- Transitional arrangements to be operation from April/May 2004.
- Government has committed that no existing renewable energy generation will be worse off.





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Questions ?

