

## LEGISLATIVE COUNCIL STANDING COMMITTEE ON ESTIMATES AND FINANCIAL OPERATIONS

### 2019-20 BUDGET ESTIMATES HEARINGS – QUESTION ASKED PRIOR TO HEARING

#### Department of Treasury

#### Hon Tim Clifford MLC asked:

2. I refer to the Energy Transformation Strategy as detailed on page 145 of the Budget Paper 2, Volume 1, and I ask:

- a. Will the strategy apply to the NWIS?

Answer: The Energy Transformation Strategy (the Strategy) focuses on the South West Interconnected System (SWIS) to address the specific challenges faced in the SWIS. However, some of the work delivered as part of the Strategy will have application across the State and could be used to inform network and market development in the North West Interconnected System (NWIS).

In addition, the Distributed Energy Resources (DER) Roadmap being developed as part of the strategy will consider how to integrate DER (small-scale energy resources located within the distribution system such as rooftop solar photovoltaic systems) both within the SWIS and across the State.

- b. If no to 1) will a similar strategy be developed for the NWIS?

Answer: Changes are already underway, led by the Public Utilities Office of the Department of Treasury, to improve the security, reliability and affordability of energy supply in the NWIS.

As part of the Pilbara Electricity Reforms, Government is progressing work to implement a light handed access regime to the electricity grid in the Pilbara to improve access to the system by third parties. These reforms also include the establishment of an independent system operator for the NWIS to improve the security and reliability of power supply in the region and help facilitate better coordination between market participants.

- c. If no to b), please outline why?

Answer: Not applicable.

3. I refer to the Energy Transformation Strategy as detailed on page 145 of Budget Paper 2, Volume 1, and I ask:

- a. How does Treasury anticipate this strategy will increase the uptake of renewable energy to the SWIS?

Answer: The framework for accessing the SWIS is based on an unconstrained design, where generators can connect to the network and generate up to an agreed threshold. In the past, as Western Power was augmenting the network in response to growth in peak electricity demand, there was generally no need for generators to contribute to the cost of augmentation. However, as peak demand growth slowed over the last decade, there has been little economic justification for Western Power to continue augmenting the network. In fact, many parts of the network, while legally contracted, are greatly underutilised.

While there is enough network capacity to ensure peak demand is met, there is legally little 'spare' capacity in the network to allow new generators to connect and to produce up to their maximum output. Therefore, new generators seeking access on an unconstrained basis have to bear the cost of augmenting the network, which can reach hundreds of millions of dollars, making new projects unviable.

Under the Energy Transformation Strategy, the Government will implement a constrained network access regime to improve generator access to the SWIS. This means that new generators will be able to connect to the SWIS without the need to bear the cost of augmenting the network. In exchange, generators will agree to have their output curtailed when the network is congested in order to maintain the safe and secure operation of the power system.

Under the Energy Transformation Strategy, the Wholesale Electricity Market arrangements in the SWIS will also be modernised to allow new technologies to participate more fully in the market. New technologies such as batteries can complement renewable generation sources such as wind and solar to provide a 'firm' renewable energy source that can deliver a wider range of energy and system security services.

This will reduce the cost of entry for renewable energy generation projects seeking connection to the SWIS and, in turn, facilitate the uptake of large-scale renewable energy generation.

The development of the DER Roadmap will also support ongoing uptake of rooftop solar photovoltaic systems by finding ways of overcoming the challenges presented to system security and reliability in towns and suburbs with high levels of intermittent, renewable generation.

b. How will this strategy contribute to lowering energy prices on the SWIS?

Answer: Several of the projects to be delivered as part of the Energy Transformation Strategy will contribute to lowering electricity supply costs in the SWIS.

- The Whole of System Plan for the SWIS will identify the best options for investment in our network and power system to maintain security and reliability of supply at the lowest possible cost.
- The move to a constrained network access regime will defer the need for investment in network infrastructure, maximise utilisation of existing infrastructure and support the entry of additional low-cost, low-emissions energy sources in the SWIS.
- The development of a DER Roadmap will facilitate the integration of these resources into the power system in a way that maximises their benefits and addresses their challenges. For instance, the Roadmap will assist in managing the intermittent and non-controllable nature of generation from small-scale solar systems and, in turn, reduce associated power system management costs.

c. Will Treasury please table all supporting documentation?

Answer: The attached report from Ernst and Young, which is available on the Department of Treasury website, provides information on the estimated overall market benefits of implementing a constrained network access regime.

4. In Budget Paper 3, page 269, the subsidies paid to Horizon through the Tariff Equalisation Contribution are outlined; will the Government outline what mitigation strategies are in place to continue to fund Horizon Power using this funding source when 60% of the TEC is sourced from Synergy's residential and small business customers, of which the revenue is down by \$103 million according to Budget Paper 3, page 45?

Answer: Government will continue to work with:

- Horizon Power to minimise its Tariff Equalisation Contribution requirements through an ongoing focus on cost efficiency whilst delivering safe and reliable power to its customers; and
- Synergy to ensure that it is financially sustainable in the short term and into the future, whereby Synergy will endeavour to respond to pressure on its financial performance through Government-approved initiatives cost management and contractual arrangements where appropriate.

31/5/19  
5/6/19

Initialed by \_\_\_\_\_