
Queuing Policy for the
Horizon Power NWIS
Network

Response to Stakeholder
Remarks on Consultation
Paper

CS10# 14701227.

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1. Introduction

1.1 THE NWIS REFORM

The Western Australian Government intends to implement a light-handed regulatory regime for third party access to Pilbara electricity networks¹. Horizon Power owned and operated assets within the North West Interconnected System (NWIS) will be covered under this new regime. In March 2019, the Department of Treasury published a Detailed Design Consultation Paper² (the Design Paper) which outlined specific elements of the new regime likely to be implemented through amendments to the Electricity Industry Act (the Act) and through a new regulatory instrument, the Pilbara Networks Access Code (PNAC).

The Design Paper indicates that the PNAC is likely to require covered networks to publish information on:

- the process for network access requests
- Horizon Power's roles and responsibilities regarding the processing and modelling of access applications; and
- arrangements for undertaking further investigations.

Horizon Power is seeking to support the reforms by proactively preparing documentation likely to be necessary and appropriate under the new access regime. Access seekers expect Horizon Power to maintain a fair, efficient and transparent process for managing access requests. A published policy on queuing is considered an important element of meeting this expectation. Horizon Power will develop other information and materials to complement the policy on queuing, in accordance with the requirements of the PNAC.

1.2 CONSULTATION

On 11 November 2019, Horizon Power published a stakeholder consultation paper (Stakeholder Consultation Paper) to solicit views on its proposed model for managing connection applications that may be in competition for network capacity. Horizon Power received submissions from three external stakeholders and the substantive comments and questions contained in each submission have been collated here, along with Horizon Power's response to each.

1.3 NEXT STEPS

Horizon Power will proceed to determine the detailed design of its preferred rules relating to queuing within its user access guide and other documentation concerning connections processes and demand forecasting. Horizon Power will consult on network regulatory instruments as required under the PNAC, which, at present is expected to include requirements for network service providers to consult on their user access guide and network development policy, among other things. This will provide

¹ WA Government (2017) Media Statement: "Regulatory reform to the Pilbara electricity system", <https://www.mediastatements.wa.gov.au/Pages/McGowan/2017/08/Regulatory-reform-to-the-Pilbara-electricity-system.aspx>

² Department of Treasury (2019) *Regulatory framework for the Pilbara electricity networks: Light handed access regime*.

stakeholders with further opportunities to comment on the queuing rules in light of Horizon Power's proposed approach on other, related design questions.

2. Comments and Responses

Table 1 summarises the comments and questions raised and Horizon Power's comments to each response. Comments have been grouped into the following themes:

- High-level questions
- Generators versus loads
- Meaning of capacity rights, existing and future spare capacity
- Mutually exclusive competing applications
- Treatment of deposits

TABLE 1: TABLE OF COMMENTS AND HORIZON POWER RESPONSES

SUMMARY	COMMENT	HORIZON POWER RESPONSE
High level questions		
What is the problem?	It is not clear to [Stakeholder] what issues are being addressed by introduction of this queuing policy.	Access seekers have a strong interest in knowing that the demand assumptions employed in connection studies are determined in a rigorous, unbiased and consistent manner. The queuing policy is intended to address some of the concerns that access seekers may have regarding how demand assumptions are determined. Further, the queuing policy should articulate how it will manage a problem facing larger complex projects, for which longer assessment processes can expose projects to increased risks of having to repeat studies when other customers execute connection agreements.
Inter-related policies	[Stakeholder] is unable at this time to provide feedback on the proposed detailed design of the Queuing Policy because there is not yet enough information available to determine the value associated with accessing the existing spare capacity or the risk associated with being unable to access that capacity.	<p>Horizon Power recognises that queuing represents one part of a larger system of policies that will work collectively to determine the manner in which connection applications are assessed and the terms on which connection offers are made. Since the PNAC is still under development, the other related elements have not been developed to a point where Horizon Power can share this detail with stakeholders.</p> <p>Horizon Power believes that a basic form of the queuing policy can be resolved without knowing the detailed form of the PNAC. All open access networks follow rules regarding the demand assumptions adopted in assessing connection applications, whether they are explicitly documented in a policy or implicit and embedded in operational practice. The relative administrative and commercial workability of different approaches to setting demand assumptions (the core focus of the queuing policy) are matters that Horizon Power considers can be assessed based on first principles.</p> <p>Based on the available information to date, Horizon Power anticipates that it will be required to consult on its User Access Guide and its Network Development Policy, which will provide an opportunity for stakeholders to consider the queuing policy within its broader context.</p>
Inter-related policies	[Stakeholder] considers that more information is needed in order for stakeholders to meaningfully comment on the proposed Queuing Policy. For example, more information is needed on the policy positions and the pricing signals that will be embedded in any connection charges and the circumstances where a contribution may be required for the shared network and connection assets. [Stakeholder] notes that the Public Utilities Office’s Detailed Design Consultation Paper envisaged that Horizon Power would prepare a	<p>Horizon Power is currently developing its User Access Guide and Network Development Policy (which includes a capital contributions policy) and will consult on these instruments in accordance with the PNAC. Horizon Power agrees that the means by which connection charges are determined could have a significant effect on the value that individual applicants would attach to having the ability to reserve capacity.</p> <p>Horizon Power considers that appropriate positions on the questions raised in the Design Paper can be determined in advance of finalising other related policies.</p>

	“Network Development Policy” which would contain their connections and capital contributions policy.	
Application to other providers	In the event that the finalised access regime provides scope for Horizon to apply this policy, it remains uncertain at this point whether other network providers (i.e. Alinta) would adopt the same policy.	Horizon Power does not foresee a requirement for other service providers in the NWIS to adopt the same regulatory policies as Horizon Power. It expected that this will be a matter for other providers to determine policy.
Generator connections		
Constrained versus unconstrained access	Proposing a queuing policy may be interpreted as promoting ‘unconstrained access’ in the Pilbara which would appear to be contrary to the design framework, and also where the South West Interconnected System (SWIS) is supposed to be moving to promote efficient investment.	<p>Horizon Power supports the Government’s intention to establish arrangements for constrained network access for new generators, including the creation of suitable system operation arrangements capable of managing constrained dispatch. See Public Utilities Office (2019) <i>Regulatory framework for the Pilbara electricity networks: System operations arrangements, Detailed Design Consultation Paper</i>.</p> <p>Horizon Power notes that unconstrained network access for loads remains the norm both in the SWIS and in the National Electricity Market (NEM), since most loads do not compete within electricity markets to be supplied when network constraints bind. Networks are usually planned and connection offers are usually determined allowing loads to remain unconstrained. Nonetheless, nothing in the queuing policy will preclude customers seeking to connect new loads on a constrained basis – such as where a customer wishes to reduce connection costs in a constrained part of the network.</p>
Application of the policy to generators	The queuing policy appears to focus primarily on connection of loads, and it is not evident if the proposed process/model is also intended to apply to generators as some of the language is ambiguous.	<p>Horizon Power will clarify in the queuing policy that it is intended to apply to generators as well as loads.</p> <p>The demand and generation assumptions used in studies for generator connections will be determined in accordance with the queuing policy. However, assuming a constrained access model for generation, the queuing policy will typically have limited commercial implications for generators. Since a new generator will connect on the basis that its right to dispatch is always contingent on there being sufficient capacity on the network, the order in which new generators acquire this constrained network access right is immaterial.</p> <p>In theory, a generator could use the deposit mechanism as a means of ensuring that its dynamic studies will not be subject to a requirement to include the dynamic model of another generator that may conclude an agreement before it. In practice, most generator connections are expected to fall well below the capacity threshold proposed to apply to the deposit mechanism.</p>

		To the extent that a new load was prepared to accept a non-firm network service (i.e. constrained access for loads), the queuing policy would have a similarly limited relevance to that load's connection application.
Capacity rights, existing and future spare capacity		
Existing spare capacity	<p>Section 2.4 indicates the scope of this policy only entails "existing spare capacity" and not (amongst other things) future capacity that becomes available because of an augmentation project or a customer falling away. Accordingly, it appears that the policy has a very limited application and [Stakeholder] seeks clarification as to what is meant by:</p> <p>(a) "spare capacity"; and</p> <p>(b) what date will be used to define "existing"</p>	<p>The policy will be drafted to ensure a clear meaning of the phrase "existing spare capacity" and a clear statement of the exclusion relating to uncommitted new network development projects.</p> <p>The exclusion of future capacity from the scope of the policy was intended to prevent situations where a queue is established for the purposes of applicants acquiring priority as between themselves for access to capacity that may be developed in the future. This would encourage undesirable, strategic behaviour.</p> <p>Spare capacity as referred to in Section 2.4 is the difference between the demand forecast as at the time the party seeks to connect, and the expected capacity of each relevant network element at that time. "Existing" thus means the capacity in the shared network that is expected to be in service by the specific date the applicant seeks to be connected. This implies the inclusion of discrete upgrade projects not yet completed that have been approved and scheduled.</p> <p>The capacity created by projects of this kind is not proposed to be excluded from the scope of the queuing policy. "Future capacity", for the purposes of the Stakeholder Consultation Paper refers to the capacity that may be delivered in the future by as yet undefined or uncertain network projects that may be undertaken in the future to resolve a given constraint.</p>
Future spare capacity	<p>[Stakeholder] seeks clarification as to why future capacity (as a result for example of augmentation projects or exiting customers) appears to be out of scope. Section 2.4 states that "Horizon Power does not consider that there is a strong case for establishing or managing a queue for either of these situations" however, no reasons for this view are articulated. Given that exiting customers, and upgrades in particular, could conceivably be a real source of available capacity sought by competing applications, it is unclear why this would be out of scope.</p>	<p>Horizon Power's intention in this instance is to specify rules that avoid creating a queue for capacity that may be released contingent upon uncertain future events.</p> <p>As noted in the Stakeholder Consultation Paper, the technical assessment of applications can be highly sensitive to assumptions about what other loads or generation will connect, where and when. At the same time, capacity within electricity networks is not amenable to the establishment of tradable rights due to the complex nature of flows within meshed networks. This means that an applicant cannot resolve the problem of interdependency with other projects by purchasing rights to (or an option over) proposed new capacity, as might occur for a gas transmission line.</p> <p>For this reason, Horizon Power proposes an approach to facilitating connections that encourages access seekers to focus on progressing their own connection applications as quickly as possible. The queuing policy, therefore, should not incentivise access seekers to position themselves to benefit from investments that other existing or future electricity customers may trigger.</p>

		<p>Horizon Power will consider removing the proposed exclusion on consideration of future capacity while retaining the principle that connection applications will be based on the spare capacity in the shared network that is already <u>committed</u> to be in service by the specific date the applicant seeks to be connected.</p>
<p>Procedural implications of paying the deposit</p>	<p>Table 4 (Detailed Design Elements) explains that capacity can only be reserved by complex, high cost applications, and that small/mid applications can be processed quickly/cheaply. [Stakeholder] seeks clarification as to:</p> <p>(a) When will the small/mid applications be processed. If they are processed ahead of holders of reserved capacity, it would appear that the purpose of the queuing policy and capacity reservations could be undermined. This is particularly so given that multiple small/mid applications (for example, multiple applications of 5MW) could amount to substantially competing applications.</p> <p>(b) Whether the deposit is payable per application, or per project. The latter would be more appropriate. There may be circumstances where operators submit staged applications for the same project.</p> <p>(c) The nature of the reservation period. The reservation is noted to be limited for a maximum period such as 18 months. Does this period commence at the time of reservation, and is it distinct from the term of the contract (which we understand will be a negotiated outcome)?</p>	<p>(a) The demand assumptions for the date at which connection is sought will be fixed for an applicant who elects to pay the deposit (assuming the applicant is eligible for this reservation mechanism). New discrete loads that are not yet committed are never to be included in this forecast – consistent with Horizon Power’s forecasting policy. Thus, while other smaller applicants who do not qualify for the deposit mechanism may proceed to contract execution in the time between the applicant paying the deposit and executing a connection agreement, the demand associated with these other loads will be excluded from the assumptions of the deposit-paying applicant.</p> <p>Horizon Power will include the load associated with the deposit-paying applicant in the studies performed for all other applicants, regardless of size. This will protect Horizon Power from making connection offers to other applicants that may trigger unfunded augmentations, once the deposit-paying applicant’s project proceeds.</p> <p>(b) Eligible proposals will be able to pay a deposit to “reserve capacity” for a given connection application. The intention is to allow reservation only in situations where the customer is able to progress the application relatively quickly, hence a blanket rule that capacity is reserved for a given project would not be appropriate.</p> <p>A single connection application may span multiple stages including option development and multiple revisions to the proposed connection solution. To guard against this leading to applicants engaging in strategic behaviour, the Stakeholder Consultation Paper proposes setting a maximum time limit (design element: “Reservation time-limited”) for a given connection application.</p> <p>The deposit mechanism would not be appropriate in situations where a customer seeks studies from Horizon Power regarding the likely cost of connection for a project about which the customer has not yet made a final investment decision.</p> <p>(c) The intention is to fix or lock the demand assumptions as of the date the deposit is paid and for these assumptions to be applied in whatever further studies are required to reach contract execution for a connection agreement (subject to the time limit). Once a connection agreement is signed, these assumptions will cease to be relevant to the customer’s connection costs. Once service commences, the customer will receive the level of service reliability set out in the agreement and Horizon Power will be responsible for maintaining sufficient capacity in the network to deliver this standard of reliability.</p>

<p>Existing spare capacity</p>	<p>[Stakeholder] considers that the queuing policy will need to clearly identify and define exactly what 'spare capacity' is and how it will be determined at a point in time.</p> <p>In particular, the queuing policy should expressly provide that, when determining whether spare capacity exists at a point in time on the network, Horizon will assume that the capacity associated with an existing access contract will only be determined to be spare capacity when:</p> <ul style="list-style-type: none"> • in the circumstances where the current user has a firm renewal or extension right in their access contract, that right to renew / extend as set out in the access contract has expired or not been exercised; or • in the circumstances where the current user has a right to enter into negotiations with Horizon with a view to extending the term of the access contract or to enter into a new access contract, one of the following occurs: <ul style="list-style-type: none"> o the right to enter into those negotiations has expired before being initiated; or o the negotiation process has completed in accordance with the terms of the access contract and no extension or renewal has been agreed between the parties. 	<p>The primary concern of the stakeholder in this case appears to be that new applicants should not be able to take over the capacity currently used by contracted parties, unless those existing users have forfeited their contractual rights to that capacity. Horizon Power accepts this proposition, although it does not regard this as a plausible outcome of the proposed queuing policy.</p> <p>Horizon Power's contractual obligations to existing users (including obligations to negotiate renewals in good faith) will not be affected by its decisions to offer connections to new users.</p> <p>Should Horizon Power over-allocate existing spare capacity by providing a significant new connection, this would not diminish its contractual obligations to meet the requirements of an existing customer. Rather, Horizon Power would be obliged to ensure that the planning and performance standards stipulated in network contracts continue to be met – both to existing and new customers, even if this required Horizon Power to fund augmentations itself.</p>
<p>Unutilised contracted capacity</p>	<p>The queuing policy does not currently appear to contemplate the circumstance of an existing user having access to capacity on the network, but, for whatever reason, not fully utilising that capacity.</p> <p>There may be a risk that an existing user could continue to hold such unutilised capacity which may, in turn, impede new users from accessing capacity in the network until such time as the existing user's access contract with Horizon comes to an end.</p> <p>This could impact a prospective user's access to the network and may, in turn, impact the ability of the ultimate consumers of electricity to move between suppliers.</p>	<p>Horizon Power considers there may be two interpretations of this point. The first is that the stakeholder considers that where a user has contracted capacity (in the form of a CMD commitment) but does not fully use it, then this capacity should be made available to other applicants. To the extent that this is intended to suggest that an existing customer might forfeit its rights to consume up to its contracted demand level, Horizon Power rejects this view.</p> <p>A second possible interpretation is that the stakeholder calls for clear and appropriate rules for forecasting demand and, specifically, rules as to whether forecasts used in connection application processes should assume that network users will consume their full contracted maximum demand (CMD) at times of system peak or rather rely on their observed demand. Horizon Power acknowledges that this raises important issues that must be addressed in organisational policies.</p> <p>Where a new connection or a new electricity supply path is being considered from a technical perspective, assumed demand levels may have a significant effect on the outcome. There will be trade-offs to consider under either of the following two approaches.</p> <ul style="list-style-type: none"> • If the level of demand assumed is based only on an extrapolation of the observed demand at peak, this forecast might fail to account for potential or likely increases in the demand from an

		<p>existing customer currently consuming below its contract maximum during system peaks. This could expose Horizon Power customers to costly reliability impacts or force Horizon Power to undertake capacity augmentations if existing users in future use a larger proportion of their CMD.</p> <ul style="list-style-type: none"> If the level of demand assumed always includes the full CMD negotiated with Horizon Power – for instance by adding an increment to account for any CMD amounts not presently utilised during peak demand intervals – connections solutions would be more costly to deliver on average and Horizon Power would achieve less efficient use of the assets. <p>Horizon Power acknowledges that its connections assessment approach must be supported by commercially reasonable rules regarding how “existing demand” – that is, expected demand as at the time an applicant seeks to connect – is determined. Horizon Power’s policy on demand forecasting will be an important element in demonstrating that it consistently applies to rules of this kind.</p> <p>Horizon Power does not propose to set out demand forecasting rules within the same document as the queuing rules, but rather in a separate instrument and the above considerations will inform the preparation of that instrument.</p>
Capacity rights	<p>Section 2.2 explains that the term "capacity" is an illustrative term but not strictly accurate, and it follows that formal capacity rights are never assigned or conferred. [Stakeholder] would appreciate an explanation of what rights would be conferred under this policy.</p>	<p>Rights regarding access to network services should not arise until a connection agreement is signed.</p> <p>Under a normal application process, the applicant will enjoy basic rights to receive suitable study services that adhere to good industry practice and Horizon Power’s documented policies. Where an applicant pays the deposit fee, it will obtain the additional right for its studies to be based on a stable set of demand assumptions – thereby reducing the uncertainty associated with the final cost of delivering a connection solution.</p>
	Mutually exclusive competing applications	
This category of applications not dealt with?	<p>Section 6.3 says that multiple competing applications for the same commercial opportunity will not use this model, but does not articulate any rules for deciding which application will be successful. [Stakeholder] would appreciate additional detail to clarify what are the rules for deciding which of the "mutually exclusive competing applications" are successful?</p> <p>The policy in its current form does not appear to apply to mutually exclusive competing applications which creates uncertainty with respect to applications deemed to be mutually exclusive competing applications. Moreover, this again would seem to substantially limit the utility of the policy.</p>	<p>The defining feature of “mutually exclusive competing applications” as proposed in the Stakeholder Consultation Paper is that some downstream commercial process will determine which applicant is ultimately able to proceed, as distinct from any decision made by Horizon Power Pilbara Network. For instance, two connection applicants might apply to Horizon Power Pilbara Network to explore network solutions as part of a competitive tender process to win a power supply contract with a large load. Only one of those two applicants will ultimately proceed because only one applicant will ultimately succeed in the competitive tender process (a process that is independent of Horizon Power).</p> <p>The concern raised appears to be that, by not extending the deposit mechanism to the situation of “mutually exclusive competing applications”, Horizon Power will leave the problem unaddressed. This is not the case, the relevant policy document will clarify that, in processing “mutually exclusive</p>

		competing applications”, the load of one applicant must be excluded in the studies undertaken for the other applicant.
Treatment of the deposit		
Refundability	<p>Section 4.1- Model 4 provides that the deposit would be either non-refundable or partially refundable.</p> <p>Should a party be unsuccessful in reserving capacity the deposit amount should be fully refundable, unless that party has withdrawn its request to reserve capacity, in which case a partially refundable deposit should be applicable to cover Horizon’s administrative and similar expenses up until that date.</p>	<p>Horizon Power’s intention is that the deposit should only be payable if and when the applicant is successful in requesting to “reserve capacity”. In the unlikely event that a deposit is received but Horizon Power is not able to confirm that the Applicant has successfully “reserved capacity”, Horizon Power would fully refund the deposit.</p> <p>If the suggestion is that the deposit should be partially refundable in situations where Horizon Power has confirmed the “reserved capacity” but the application is later withdrawn, Horizon Power notes that a partial refund mechanism is proposed. This mechanism is explicitly not limited to administrative expenses, as it is designed to ensure strong incentives on a deposit paying applicant to minimise the risk of forfeiture.</p>
Offsetting future charges	<p>Should a party that has reserved capacity and signed a connection agreement, then the deposit should be off-set against the forecast network access charges.</p>	<p>The connection agreement should specify what is to happen to the deposit should the agreement be executed. In some instances, the connecting party will need to provide security against future network access charges and the deposit could be applied to this purpose. Alternatively, if security is not required, the deposit could be refunded.</p> <p>The intention is that once the connection agreement is signed, the deposit will be applied for the benefit of the applicant. The policy will be clear on this point.</p>