Our ref: LTR2022_0613
Enquiries: James Campbell-Everden
Telephone: 0428 379 234

Mr Wai Soon Leong
Tech Compliance and Invest Assurance Lead
Horizon Power
PO Box 1066
BENTLEY DC WA 6983

Dear Mr Leong

DRAFT PILBARA ISOCO MID-YEAR BUDGET REVIEW 2023-24

Thank you for your submission on the Pilbara ISOCo (ISO) mid-year budget review 2023-24 (mid-year review). Public consultation is an important part of the ISO's transparent decision-making process.

The ISO is an independent public company and its budget, including the mid-year review, is approved by the ISO Board. The ISO Board consists of the Independent Chair, Government Appointed Director and Member Directors from APA, Horizon Power and Rio Tinto.

The ISO is required to develop and manage its budget to meet the budget objective, which includes:

- fees are consistent with the Pilbara Electricity Objective; and
- the ISO fees include only costs which would be incurred by a prudent person performing ISO functions under Part 8A of the Act, acting efficiently, in accordance with good electricity industry practice (GEIP), and seeking to achieve the lowest practicably sustainable cost of performing those functions, while effectively promoting the Pilbara electricity objective; and
- the secondary objective, which is to achieve the primary objective as simply and inexpensively as possible, while ensuring that all affected stakeholders (including consumers to whom the costs may be passed on) have a reasonable opportunity to be heard.

The ISO Board must ensure the ISO is adequately funded to perform its functions under the Pilbara Networks Rules[1] (Rules). At the time of approving the 2023-24 Budget, the ISO Board recognised that it was likely that additional resources to those approved would be needed, but that it was too early to be confident what those resources would be. The Board therefore resolved that the ISO operate with minimal additional resources for six months, using this time to assess additional resourcing requirements

[1] See Attachment 1 – Key functions conferred on the ISO (Ch.2 of the Rules).

to meet upcoming workload and bring a proposal for additional resources for consideration through the mid-year review process. This forms the basis of the mid-year review adjustment in respect of additional resources.

With regard to Horizon Power's specific comments on the mid-year review:

Process and timing

The process and timing for the ISO mid-year review is detailed in subchapter 4.5 of the Rules and the Interim Budget and Cost Management Procedure.[2] The ISO chose to undertake the standard consultation process in accordance with Appendix 1 of the Rules seeking public comment from 15 December 2023 to 5 January 2024.

The ISO acknowledges that some stakeholder personnel may be on leave during this time and that consultation over this period is not ideal, however on this occasion it was justified given the comparative newness of the regulatory regime and the desirability of the ISO to be best positioned to undertake its obligations under the Rules and to respond to industry demand for its services. As a consequence, the ISO did not grant an extension of time, but notes that the ISO has discretion to consider late submissions in accordance with A1.6 of the Rules.

Regulatory and Technical Labour Costs

The ISO provided a cost breakdown (Attachment 2) in the published draft mid-year review. The breakdown provided attempts to balance the confidentiality and bargaining position of the ISO in negotiating with service providers and prospective employees with the desire for transparency.[3] It should also be noted that the Pilbara ISO Board are provided with a full breakdown of costs and role descriptions and the alignment with the Budget objective.

The ISO appreciates Horizon Power's acknowledgement that the ISO must be adequately supported to carryout its functions under the Rules. Horizon Power has requested a further information on the roles of the senior engineer and the regulatory business and support officer. With regard to:

- Senior Engineer:

  This is an important position within the structure of the company. In addition to the tasks published in the draft budget, The senior engineer's role also includes maintaining constraint rules, assessing generation adequacy, managing ESS procurement as well as providing business continuity during periods of leave or staff turnover.

[2] Note the revised Interim Budget and Cost Management Procedure V2.0 includes a new subchapter 2.4 Mid-year Adjustment Setting took effect from 1 January 2024.
[3] Note paragraphs 2.2.2 and 2.23 of the Interim Budget and Cost Management Procedure V2.0.

- Regulatory and Business Support Officer:

  This role will provide administrative support to the team as well as provide key regulatory advice. There are considerable administrative and regulatory tasks which the ISO is required to perform to operate the company, meet its obligations under the Rules and undertake various tasks requested by the Board and Board subcommittees. It is not efficient for these tasks to all be performed by senior staff within the ISO.

The ISO will continue to transition outsourced services to ISO personnel where it is prudent to do so. Notably in this budget adjustment is the request for funding for a power factory licence. If approved, this will be an important step for the ISO to commence undertaking some modelling related functions internally. This is expected to provide a greater level of service and also reduce the reliance and costs associated with the use of consultants.

Consultants will continue to be used for specialist and bespoke work outside of the current capability and capacity of the ISO, such as the preparation of the ACCC authorisation and an obligations register. These additional costs are included in the revised funding for legal and professional fees included in the mid-year review adjustment.

Technical Investigations and Reviews

Horizon Power has requested further information on the scope of the technical investigations that the ISO is proposing to undertake. These studies relate to a repeat of constraint studies and essential system services studies that are required following updates by NSPs to the whole of system model as well as system strength studies to better understand the impact of renewable penetration on the system.

The ISO is very aware that the Pilbara is transitioning to a low carbon future which will see rapid growth in generation capacity, transmission infrastructure and reliance on intermittent renewable energy. The State Government recently published its *Sectorial emission reduction strategy for Western Australia*[4] which outlines the projected growth in new capacity (5x by 2030 and 50x by 2050) and transmission infrastructure (3,000km) over the next 25 years in the Pilbara to meet net zero emissions. The ISO has a significant and growing role in maintaining and improving system security in the NWIS. It is in the best interest of all stakeholders that the ISO is adequately resourced now and into the future to perform its functions and has applied that consideration in its resourcing budget.

Impact on Horizon Power's Business

As Horizon Power acknowledges in its letter, the ISO must be resourced to perform its regulatory functions under the Rules.

The proposed 2023-24 revised budget represents the maximum expected expenditure for each funding category. The ISO invoices fees for costs incurred and underspend and/or contingency items will not be recovered if they are not incurred.

[4] Sectorial emissions reduction strategy for Western Australia – Pathways and priority action for the state's transition to net zero emissions Sectoral emissions reduction strategy for Western Australia (www.wa.gov.au)

Should you wish to discuss these matters further please contact James Campbell-Everden, Chief Executive Officer of Pilbara ISOCo, on 0428 379 234 or at james.campbell-everden@pilbarisoco.com.au.

Yours sincerely

James Campbell-Everden
Chief Executive Officer
Pilbara ISOCo

23 January 2024

ATTACHMENT 1

The key functions of the Pilbara ISOCo are outlined in the Chapter 2 of the Pilbara Networks Rules and include:

(a) Maintain and improve system security

(b) Administer exemptions

(c) Develop and administer procedures

i. Notices and Communications Procedure
ii. Registration and Standing Data Procedure
iii. Energy Balancing and Settlement Procedure
iv. Cyber Security Procedure
v. Budget and Cost Management Procedure
vi. Access and Connection Procedure
vii. Essential System Services Procedure
viii. Modelling Procedure
ix. Protocol Framework Procedure
x. Visibility Procedure
xi. Compliance Procedure

(d) Administer protocol framework

(e) Manage registration and publish information

(f) Manage visibility regime

(g) Manage the power system model

(h) Undertake budgeting

(i) Determine loss factors

(j) Oversee generation adequacy regime

(k) Undertake system coordination

(l) Through the ISO control desk participate in system operations

(m) Undertake post-incident investigations

(n) Procure essential system services

(o) Undertake energy balancing and settlement

(p) Develop and administer constraint rules

(q) Provide access and connection services

(r) Undertake network coordination and planning

(s) Publish information and undertake pre-disclosure

(t) Undertake compliance monitoring

(u) Develop rule change and procedure change proposals

Legal and Professional Fees ($300,000)

The Company is projecting additional costs of $275,000 in 2023-24 for legal and professional fees. These costs relate to:

- Revised scope and preparation of the company's submission to the Australian Competition and Consumer Commission (ACCC) seeking authorisation[5] of certain functions.
- Preparation of an obligations register to assist the company in meeting its compliance obligations under the Pilbara Networks Rules.
- Preparation of internal company policies to reflect the size and growth of the company.

System Operations ($45,000)

Power Factory Licence Base Package with additional features to meet ISOCo's functions including:

- Scripting to determine and review loss factors;
- Stability analysis functions (RMS) for access and connection studies;
- System coordination including outage planning;
- Post incident investigations; and
- Harmonics to develop frequency sweeps for access and connection studies.

Engineering and Technical Services ($340,000)

Engineering Consultancy ($60,000)

The Company is projecting additional $60,000 for the remainder of the financial year to provide modelling advice and guidance to NSPs and to extend the Pilbara ISCo technical secondee to assist in the transfer of skill to the proposed new permanent Pilbara ISOCo employees.

Technical Investigations and Reviews ($280,000)

The Company is projecting additional costs of $280,000 following revised scope of study requirements relating to constraints, network planning, essential system services.

Regulatory and Technical ISO Labour Costs ($225,000)

The ISO has identified an immediate need for an additional four full time employees to assist in meeting the company's functions under part 8A of the *Electricity Industry Act 2004*, acting efficiently, in accordance with Good Engineering Industry Practice and to achieve the lowest practicable sustainable cost in accordance Rule 122 of the Pilbara Networks Rules.

The additional employees would bring the total number of permanent employees to seven.

[5] Note existing competition authorisation pursuant to S120ZF EI Act

1 X Senior Engineer (5-10 year)

Key tasks are to assist with management of Access and Connection process, manage the NWIS PowerFactory model, manage consultants with power system studies, assist with PNR and HTR exemptions, assist with compliance monitoring and post incident reviews and investigations.

2 X Graduate Engineer (0-5 year)

Key tasks include performing basic PowerFactory modelling for planned outages to inform ISO Control Desk, prepare papers and chair fortnightly system co-ordination meetings, undertake post incident reviews and investigations, informal discussions about outages (planned and unplanned), manage contract management of delegation of ISO Control Desk.

1 X Regulatory and Business Support Officer

Key tasks to include providing regulatory and business support in progressing rules and procedure changes, electricity sector research and data collection, EBAS quality checks, website and communications updates and procurement and finance activities.

Accounting and Audit Services ($30,000)

An additional $30,000 to meet the company's internal financial reporting requirements.

Other Expenses (-$100,000)

Contingency has been revised downward by $100,000 to reflect that the Company is tracking close to budget for the July to October period.