
Queuing Policy for the
Horizon Power NWIS
Network

Stakeholder Consultation
Paper

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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. Those parts of the North West Interconnected System (NWIS) owned and operated by Horizon Power are to be covered under this new regime. In March 2019, the Department of Treasury published a Detailed Design Consultation Paper² (The Design Paper) indicating 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 setting out among other things:

- the process for making 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.

1.2 CONSULTATION

Horizon Power has prepared this Stakeholder Consultation Paper to solicit views on its proposed model for managing connection applications that may be in competition for network capacity. The Paper sets out:

- context and background to the task of defining a queuing policy (Section 2);
- Horizon Power's approach to evaluating queuing policy options (Section 3);
- the models Horizon Power considered and their evaluation (Section 4);
- the proposed detailed design of the preferred model (Section 5);
- the proposed approach to addressing competitive neutrality concerns (Section 6);
- related policies that can reduce the importance of competition for network capacity (Section 7).

The paper does not pose specific questions and stakeholders may comment on any part of the paper. Horizon Power particularly welcomes feedback on the proposed detailed design set out in Section 5.

Submissions should be sent via email to PilbaraGridEnquiries@horizonpower.com.au. Please include in the subject line of the email "*Queuing Policy Consultation*". The closing date for submissions is Tuesday 26 November 2019.

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*.

1.3 NEXT STEPS

Horizon Power will consider stakeholder responses and publish its response to substantive issues raised on its website early 2020. All stakeholders who have been engaged with by Horizon Power along with any additional respondents to the Consultation Paper will be notified by email when Horizon Power's response has been published.

Horizon Power will determine its final queuing policy design and document it. Horizon Power will publish its queuing policy in an appropriate form in accordance with good industry practice and the requirements and deadlines imposed by the PNAC.

2. Context and Background

2.1 STATEMENT OF PROBLEM

When a current or new user applies to connect to the network or to modify their existing connection, Horizon Power must assess the impact of providing this new or modified service on the network at the time of connection. Complex connection applications can take up to 18 months to process and during this time, other generators and loads may connect or enter into binding agreements to connect. Thus, the full set of Horizon Power's other commitments by the time it finalises a connection agreement with the user in question cannot be known for certain in advance.

If connection assessments do not adequately account for the other new demand on Horizon Power's network that will become committed during the application process, the new connection may trigger the need for an upgrade that has not been included in the connection solution quote. In turn, Horizon Power would be left out of pocket for the cost of this upgrade unless it could pass the cost through to existing customers. Conversely, if Horizon Power adopts overly conservative assumptions regarding the competing demand for existing network capacity, the cost of providing connection solutions could be higher than necessary.

When two connection applications are being processed concurrently and their combined demand will exceed the capacity of one or more elements of the shared network, the cost of providing the connection solution offered each applicant may differ greatly, according to which of the projects is treated as preceding the other.

2.2 WHAT IS A QUEUING POLICY?

A queuing policy sets out the rules applied by a network operator in determining how to meet the requirements of multiple access seekers, in particular where the cumulative new demand exceeds existing spare capacity. A queuing policy determines which other loads and generators will be assumed to be connected to the network for the purposes of studies required to process a given connection application.

The queuing policy becomes relevant where two or more applications are competing for the same scarce capacity. In this situation, the queuing policy determines the priority between these competing applicants for the spare capacity of the shared network. A queuing policy is sometimes said to "allocate" network capacity between prospective user(s), however this is not strictly correct, since in meshed electricity networks, formal capacity rights are never assigned. In a similar vein, the phrase "capacity reservation" will be used in this paper in quotation marks to reiterate that rights to capacity are not being conferred.

2.3 WHAT SHOULD A QUEUING POLICY ACHIEVE?

A queuing policy should support an efficient and fair process for assessing connection applications and specifying connection solutions, such that:

- The finite capacity of the existing network is not exceeded and hence new connections will not negatively affect existing customers;
- Responsibility for funding augmentations to the shared network will be determined according to rules clearly articulated in advance; and
- The time, cost and uncertainty involved in providing new connections is no more than necessary.

2.4 SCOPE

The primary focus of Horizon Power's queuing policy will be to ensure connection application processes produce an efficient and fair "allocation" of existing spare capacity where competing applications exist.

Horizon Power is aware of other queuing policies that address other matters such as:

- the reallocation of capacity that may in the future become available when existing customers surrender their capacity;
- the allocation of new capacity that may be created through augmentation projects funded by Horizon Power; and
- the coordination of multiple connection applicants to deliver scale-efficient connection solutions.

Horizon Power does not propose to include special provisions in its queuing policy to address capacity reallocation or the allocation of new capacity that Horizon Power funds. Horizon Power does not consider that there is a strong case for establishing or managing a queue for either of these situations. Instead, parties will be permitted to apply to connect at any time and to have their applications assessed on the basis of the demand – capacity balance expected to exist at the time of their connection.

Horizon Power proposes to include in its queuing policy a general commitment to continually investigate opportunities to deliver scale-efficient connection solutions by coordinating between applicants. The queuing policy would allow for Horizon Power and a group of competing applicants to agree special arrangements for investigating and agreeing a cost-effective solution to meet their combined needs. However, coordination costs can be high and Horizon Power anticipates that it may be difficult to coordinate between competing applicants who are also commercial competitors. For this reason, Horizon Power proposes not to codify processes equivalent to those contained within Western Power's Applications and Queuing Policy for competing application groups (CAGs).

3. Approach

3.1 CONSIDERATIONS IN SPECIFYING A QUEUING POLICY

Practice of other NSPs

It might be reasonable to expect that Horizon Power would base its queuing policy on that of one of its counterparts operating under other regulatory regimes. However, queuing policies under both the ENAC and the NER, where they exist, tend to focus on the connection of generators. Horizon Power's primary concern for its Queuing Policy is that it should facilitate the timely and efficient connection of loads, which are subject to a different set of drivers and constraints compared to generators.

Queuing policies are maintained by transmission pipeline operators under the National Gas Rules, though not by gas distributors. A queuing policy appropriate for a gas pipeline may not be appropriate for an electricity network, due to the more complicated character of network capacity in a meshed network and due to the greater time and complexity of the studies required to facilitate electricity network connections.

Horizon Power has found that the practice of NSPs operating under other regimes provides limited guidance into the optimal queuing policy for Horizon Power's NWIS network.

Certainty – efficiency trade-off

Since the future is always uncertain, as the assessment of the proposed connection proceeds, the most accurate forecast of what demand will be at the time of connection is always subject to change. However, changing demand assumptions over the course of the connection application can be disruptive for the applicant as studies may need to be repeated, causing financial costs and project delays. Consequently, specifying a queuing policy involves a trade-off between procedural certainty and economic efficiency.

On the one hand, applicants desire certainty through the application process, which suggests that demand assumptions should be fixed early. On the other hand, all users ultimately benefit from connection solutions being delivered at lowest cost (economic efficiency), which requires that the most accurate demand assumptions be used – even where this means updating these assumptions mid-process.

Horizon Power does not consider that a queuing policy can resolve this tension, but a reasonable balance between these competing priorities should be sought.

Perceived bias

Being part of a vertically integrated business, Horizon Power's NWIS Network will supply network services to Horizon Power's retail business. While Horizon Power will carry out its functions in accordance with a Ring Fencing Policy to be approved by the ERA, some stakeholders may be concerned that Horizon Power will seek competitive advantage through its connection application processes.

Horizon Power must ensure that its queuing policy or other parts of its connection application process provide adequate assurance that network services are being provided in a competitively neutral manner.

Incentives

In the context of network connections, one party's behaviour has the potential to increase the costs and uncertainty borne by other parties. Thus, it is in all parties' interests to promote an efficient application process that incentivises applicants to make decisions and provide accurate information quickly, to signal their level of commitment as reliably as possible and to withdraw their application quickly if they determine they are unlikely to proceed. Conversely, it would work against the interests

of all parties to establish a process that rewards strategic behaviour such as delaying, negotiating in bad faith or proceeding with an application without strong intention to proceed.

Horizon Power must consider the incentives created by its queuing policy to foster desirable behaviour by applicants.

3.2 CRITERIA FOR ASSESSING QUEUING POLICY MODELS

Reflecting on the considerations set out above, Horizon Power developed evaluation criteria to assist in identifying the key strengths and weaknesses of any potential queuing policy. These are summarised and explained in Table 1, below.

TABLE 1: EVALUATION CRITERIA

CRITERION	EXPLANATION
Policy incentivises positive behaviour by applicants	An ideal queuing policy would maximise the incentive for applicants to signal their intentions clearly and accurately, share accurate information quickly and finalise negotiations expeditiously. It would provide limited incentive for strategic behaviour.
Policy ensures Horizon Power's commercial neutrality	An ideal queuing policy would ensure that Horizon Power cannot provide access on more favourable terms to one entity over another and especially that Horizon Power cannot advantage its retail and generation business through the connection application process.
Policy ensures constructive pressure on all parties to efficiently conclude the process	An ideal queuing policy would incentivise parties to progress their applications and conclude negotiations in a timely way. An ideal policy would provide no incentive for applicants to behave strategically and would penalise applicants for taking longer than necessary to make important decisions regarding their application.
Policy removes risk of planning studies becoming obsolete due to changing assumptions regarding committed capacity	An ideal queuing policy would minimise the incidence of study input assumptions changing during the progress of an application and hence avoid, wherever possible, the cost and delays arising from repeating studies. An ideal policy would nonetheless allow studies to be based on the best available information and wouldn't expose Horizon Power to the risk of over-committing its network.
Policy removes the need for strong process enforcement measures	An ideal queuing policy would minimise Horizon Power's reliance on process enforcement measures, such as hard time limits and obligations to behave in good faith.
Policy limits the exposure of commercially sensitive information	An ideal queuing policy would limit the extent to which the connection application process reveals commercially sensitive information about the applicant.

4. Queuing Policy Models

4.1 POTENTIAL MODELS

Following its review of practice among other NSPs, Horizon Power considered four potential queuing models, (summarised in Table 2).

TABLE 2: SUMMARY OF MODELS CONSIDERED

MODEL	ADDITIONAL DETAIL
Model 1 “reserve” capacity on application	Under Model 1, a queue is established wherever two or more applications are identified that will use the capacity of a shared asset and the demand associated with these applications exceeds the capacity of that shared asset. The applicant's order in the queue is determined based on the date of application. Each connection assessment will be based on the assumption that all applications higher in the queue proceed to connection.
Model 2 “reserve” capacity on provision of connection offer	Under Model 2, a queue is established only where one or more competing applicants receives a connection offer. A competing applicant only takes a position in the queue when the offer is made. Multiple applicants may join the queue as they receive an offer with the date the connection offer is made determining their position in the queue. An application in the queue must assume the prior connection of any application taking priority in the queue. For a competing application not in the queue (i.e. which has not received an offer), the connection assessment must assume that all applications in the queue will proceed to connection. Any application not in the queue can be ignored for the purposes of assessing any other application.
Model 3 “reserve” capacity on formation of connection contract	Under Model 3, the assessment of any application is based solely on existing spare capacity as determined by reference to all capacity currently utilised or contractually committed. The date of application and the date that a connection offer is made are immaterial for the purposes of determining demand inputs for any studies. Where new connection agreements are executed, studies for competing applications may need to be revised to reflect the demand arising from newly committed projects. Horizon Power will take all reasonable steps to minimise the resulting cost and delay suffered by the affected applicants.
Model 4 “reserve” capacity on payment of a voluntary, non-refundable deposit	Under Model 4, pursuant to a preliminary assessment, Horizon Power will provide a steady state study report and calculate a voluntary deposit amount. Applicants will then be given the option to pay the deposit in order to “reserve” the network capacity available at that time. Where the applicant pays the deposit, Horizon Power will commit to hold constant the demand assumptions used in the preliminary assessment. Horizon Power will also be bound to assume that the application proceeds to connection when processing other competing applications. Model 4 is a hybrid between Model 1 and Model 3. Applicants can pay to “reserve” capacity (forming a queue in a manner similar to Model 1) and otherwise the rules of Model 3 apply. The deposit will be based on forecast network access charges (e.g. 18 months' worth of charges) and be either non-refundable or partially refundable.

4.2 EVALUATION AND PREFERRED MODEL

Horizon Power's preferred model is Model 4, which would give applicants the discretion to “reserve” capacity by paying a significant deposit. Horizon Power favours Model 4 based on the qualitative evaluation of the four options against the criteria introduced previously – see evaluation summary in Table 3, below.

TABLE 3: MODEL EVALUATION SUMMARY

CRITERION / CONSIDERATION	MODEL 1: "RESERVE" ON APPLICATION	MODEL 2: "RESERVE" ON OFFER	MODEL 3: "RESERVE" ON CONTRACT SIGNING	MODEL 4: "RESERVE" ON DEPOSIT
Policy incentivises positive behaviour by applicants	POOR – weak incentives to proceed quickly but strong incentives for strategic behaviour (apply first, decide later)	MODERATE – constructive individual incentives until the connection offer is made, then weak incentives to proceed quickly	GOOD – Individual incentives to ensure application progresses quickly align with broader economic costs and benefits.	MODERATE – credible risk of deposit forfeiture ³ encourages applicants to be committed and timely.
Model prevents concerns regarding the timeliness and equity of Horizon Power assessment	MODERATE – applicants secure in their place in queue but still want resolution	POOR to MODERATE – applicant concerned about "gazumping" until receipt of offer	POOR – applicant concerned about "gazumping" throughout process	MODERATE – applicants secure in their place in queue but still want resolution
Model ensures constructive pressure on all parties to efficiently conclude the process	POOR – Must be externally driven by process enforcement.	POOR – Must be externally driven by process enforcement.	GOOD – Built- in incentives	MODERATE – provided enforcement process creates credible risk of application termination and deposit forfeiture.
Model removes risk of planning studies becoming obsolete due to changing assumptions regarding committed capacity	POOR – application termination drives rework for competing applicants	POOR – rework for competing applicants may be required due to either contract execution or offer lapsing	POOR – contract execution drives rework for competing applicants	MODERATE – by creating a commitment "gate" mid-process, the risk of later withdrawals is reduced, though not removed. The reservation avoids subsequent rework arising from "gazumping".
Model removes the need for strong process enforcement measures	POOR – to minimise strategic behaviour Horizon Power must impose strict deadlines and other process integrity measures and be prepared to terminate applications.	MODERATE – during contract negotiation, HP must discourage raising of issues intended to be resolved during pre-offer evaluation	GOOD – applicant's incentives should drive desired behaviour	MODERATE – Deposit provides some motivation for applicant's compliance. However, deadlines and other process integrity measures still required.
Policy limits the exposure of commercially sensitive information	MODERATE – Horizon Power will need to make some minimal disclosures regarding potentially constrained assets.	MODERATE – as for Model 1	MODERATE – as for Model 1	MODERATE – as for Model 1

³ Deposit forfeiture or forfeited refers to deposit (or part of) which are not refunded to the applicants.

5. Detailed Design of Preferred Model

The detailed design elements of the queuing model Horizon Power proposes to adopt for its NWIS Network are set out in Table 4. Some of the design elements are discussed in further detail below the table.

TABLE 4: DETAILED DESIGN ELEMENTS FOR PROPOSED QUEUING POLICY

FEATURE	DETAIL	RATIONALE
“Capacity reservation” available only for more complex, high cost applications	Horizon Power will specify criteria that determine which applications are eligible to “reserve” capacity. The proposed eligibility criteria is the application relates to a connection: <ul style="list-style-type: none"> ▪ to the transmission network; OR ▪ to the distribution network for 10MVA or above. 	Small and mid-sized applications should be processed relatively quickly and involve fewer and less expensive studies due to the less onerous technical requirements. The Technical Rules contain additional requirements for transmission connections and connections above 10MVA, which introduce additional complexity into connection assessment processes.
Preliminary assessment	For eligible connection applications, the connection assessment will have a preliminary assessment phase, during which Horizon Power will assess the ability of the shared network to provide the service required. This will identify which shared assets are overloaded and the extent of the overloading based on: <ul style="list-style-type: none"> ▪ defined contingency events; and ▪ a forecast of network demand reflecting: <ul style="list-style-type: none"> ▪ the customer’s required capacity; ▪ annual growth of smaller loads⁴, ▪ currently contracted discrete loads and ▪ demand relating to any applications that have “reserved” capacity in accordance with the queuing policy. 	The preliminary assessment can be completed quicker than the full connection assessment and will be sufficient to support an informed “capacity reservation” process.
Applicant receives steady state study report	Based on the preliminary assessment, Horizon Power will provide the applicant with a steady state study report that documents the input assumptions and the findings in terms of asset overloading. The steady state study may include multiple scenarios if requested by the applicant, but the scope of the study will not extend to defining or costing solutions.	An applicant can use the steady state study report to get its own preliminary advice on the approximate cost of addressing any constraints. The applicant can then evaluate whether the existing network conditions are sufficiently favourable that preserving these input assumptions justifies paying a deposit.
A deposit based on expected access charges	Horizon Power will calculate the access charges payable over a prescribed period of service (e.g. 18 months). This calculation will be based on the maximum demand nominated in the application, the applicable network tariff and the prescribed period of service. This figure will be the deposit amount.	The deposit should reflect the opportunity cost of setting capacity aside and potentially delaying alternative projects. A significant deposit ensures a meaningful test of the applicant’s commitment to proceed.
Deposit amount capped	The maximum deposit amount Horizon Power will charge is \$5 million.	Based on current standard tariffs the proposed cap would be reached:

⁴ Horizon Power forecasts residential and “rest of system” loads (being non-residential loads other than discrete loads) using annual growth factors derived from relevant drivers in accordance with a documented demand forecasting methodology.

FEATURE	DETAIL	RATIONALE
		<ul style="list-style-type: none"> ▪ for a Distribution HV application, by any project above 16MVA; and ▪ for a Transmission application, by any project above 25MVA.
Deposit payment optional	Horizon Power will provide the applicant with the option to pay the deposit amount to lock-in the demand assumptions used in the steady state study. This option amounts to a form of “capacity reservation”, noting that locking in the demand assumptions does not necessarily imply that the shared network has, at that time, sufficient capacity to accommodate the applicant’s requirements. The ultimate connection solution may still include upgrades to the shared network. However, by paying the deposit, the applicant will avoid being “gazumped” by a competing applicant for the existing spare capacity and hence the extent of network upgrades required may be lower.	By providing the deposit mechanism, Horizon Power can assist applicants with complex projects to manage some of their project uncertainties. By making the deposit optional, Horizon Power will avoid establishing an excessive barrier to making a connection application.
Without deposit, “reserve” capacity on connection agreement	If the applicant declines to pay the deposit, all studies carried out will reflect the most up-to-date demand forecasts, which will include any new committed loads or generation. Horizon Power will only provide an offer based on up-to-date demand assumptions. The applicant bears the risk that some studies may need to be repeated, involving additional cost and delay. Horizon Power will take all reasonable measures to minimise the cost and delay associated with these changes.	Applicants that do not “reserve” capacity have not demonstrated any special commitment to proceed. This design element will maintain beneficial incentives for these applicants to support a timely and efficient process and the disruption of other competing applicants should be minimised.
Applicant must provide dynamic model at or before time of deposit	In addition to locking-in the inputs noted in the steady state study report, payment of the deposit entitles the applicant to have subsequent dynamic studies based on the loads and generation connected or committed at that time. For this to work smoothly, the applicant must provide a satisfactory dynamic model of its project at or before the time of deposit. While the dynamic model is likely to change over the course of the application, the applicant must provide a workable and reasonable dynamic model based on the best information available at the time.	Providing dynamic models early will allow dynamic studies for other applications to take the deposit-paying applicant’s project into account. In turn allowing Horizon Power to appropriately allocate the cost of mitigating system or network interactions between the projects. Horizon Power anticipates, particularly in the case of loads, that the dynamic model originally specified by the applicant should be sufficiently accurate in most cases to allow dynamic studies for other applications to adequately capture interactions with the deposit-paying applicant’s project.
Reservation time-limited	With a deposit, Horizon Power will “reserve” capacity for up to a defined maximum period – for instance 18 months – subject to the application proceeding in accordance with a published connection application process. By agreement between Horizon Power and the applicant, the reservation period could be extended for some defined maximum period – for instance, for a further 6 months – to accommodate applications that take an unusually long time yet continue to progress in good faith.	Capacity should not be “reserved” indefinitely, but a reasonably generous reservation period should be allowed in view of the fact that the applicant is risking deposit forfeiture and hence is likely to be progressing the application in good faith.

FEATURE	DETAIL	RATIONALE
Forfeited deposits to benefit tariff customers	To the extent that deposits are forfeited by applicants, Horizon Power is investigating applying this money as revenue that will offset the amount to be recovered through tariffs. Implementing this outcome will depend on the extent to which the PNAC permits certain adjustment (true-up) mechanisms to be included in Horizon Power's pricing methodology.	The deposit mechanism is intended as a measure to enhance process efficiency not a potential source of profit for Horizon Power. Further, by allowing the benefit of forfeited deposits flows to customers, any deposit paid by Horizon Power Retail will be at risk of forfeiture by Horizon Power's business as a whole, rather than representing an internal financial transfer. Horizon Power considers that its internal accounting controls means such an internal transfer would still impose a discipline on the retail business, but recognises that the approach proposed here would provide additional assurance to external observers.
Treatment of the deposit where connection agreement executed	Where an application proceeds to completion, the deposit will be superseded by any financial guarantees or security specified in the connection agreement. Horizon Power will either refund the deposit in full or apply the deposit (or part thereof) to meet any security requirements specified in the connection agreement, with any amount left over to be refunded to the applicant.	Following connection, the deposit has served its purpose.
Deposit partially refundable where applicants withdraw	Horizon Power will provide partial refunds to applicants who pay the deposit but subsequently withdraw their application. The refundable amount will be determined by the following formula: For X > 548 days: R = 0, For X < 548 days: $R = D \frac{2}{3} \left(1 - \frac{X}{548}\right)$ Where: R = the refundable amount D = the original deposit amount X = the time elapsed between the date withdrawal is notified and the date of reservation.	Provision for a partial refund will provide an incentive for the applicant to continuously reassess its commitment to proceed and to actively withdraw before the procedural limits are reached. The 2/3 term in the refundable amount formula reflects the intention to make some proportion of the deposit non-refundable even if the application is withdrawn shortly after the deposit is paid. The intention is to increase the cost of engaging in undesirable strategic behaviour.
Deposit does not fund studies	The money provided to fund studies represents a fee for service paid in advance. It will be retained by Horizon Power in a special account and any unspent portion will be returned to the applicant. The deposit contemplated by this queuing policy can be thought of as security, demonstrating the applicant's high level of commitment, for which the applicant receives in return a higher level of confidence regarding the basis on which access will be provided.	Keeping the deposit separate from the moneys provided to fund studies reinforces the distinct function of each mechanism.

FEATURE	DETAIL	RATIONALE
Applicants can request higher competing demand assumptions	An applicant that declines to pay a deposit has the option to request that Horizon Power adopt higher demand assumptions than Horizon Power's demand forecasting policy requires. For instance, where an applicant has, independently of Horizon Power, formed the view that another uncommitted project is likely to proceed prior to the applicant's project, the applicant may prefer Horizon Power to include the associated demand in its connection studies for the applicant.	This option provides applicants with a means of using their own market intelligence to guard against the cost and delay involved in repeating studies.
Information sharing and confidentiality	Horizon Power will not include identifying information about other applications in the steady state study report. Horizon Power will notify applicants where competing or potentially competing applications exist and will indicate where potential constraints may emerge if those other applications emerge. Where Horizon Power considers that two applicants might benefit from a shared solution, it may recommend that the parties enter discussions, but will only provide identifying information about each party with each party's written consent.	Some applicants will be commercial competitors and hence may wish to minimise the disclosure of information regarding their projects. Horizon Power considers that it has an obligation to provide basic information to applicants about the existence of potentially competing applications since this helps an applicant decide whether to pay a deposit and assess the need for quick action.
Application register	Horizon Power will maintain a confidential register of connection applications recording the capacity sought, connection location and other relevant technical details. Horizon Power's demand forecasting policy will require Horizon Power to maintain internal processes to ensure the register is kept up-to-date and that new connections (either committed or "reserved") are reflected in demand forecasts in a manner consistent with this queuing policy.	A register is necessary to track applications and quickly identify changes to project status. Horizon Power already maintains a confidential project register for this purpose.

6. Competitive Neutrality

Some users may have concerns that the queuing policy will be applied to advantage Horizon Power's retail and generation business. To mitigate these concerns, Horizon Power will adopt procedures within its connection application processes to ensure that network access is not used by retailers as a means of securing competitive advantage downstream. Additionally, Horizon Power will comply with the Ring Fencing Policy to be approved by the ERA.

6.1 NETWORK ACCESS SHOULD NOT DRIVE COMPETITIVE SUPPLY TENDER PROCESSES

The circumstance in which competitive neutrality is most likely to become a concern is where competing applications relate to the same commercial opportunity. Concurrent connection applicants may be competing for the same capacity to pursue commercial opportunities that are mutually exclusive, for example:

- Multiple retailers may have concurrent applications for different solutions to supply the same end-use customer. The customer will ultimately select only one supply option and the unsuccessful competing option(s) will definitely not proceed.
- Multiple end-use customers may be competing for the same scarce resource, for example port capacity or a power purchase agreement on offer by a large retailer. Only one of the potential customers will be successful in securing that scarce resource and the other potential customers will no longer require the particular network access applied for.

In these circumstances, the queuing policy could materially impact the downstream competitive processes by allocating network capacity to one applicant and thereby making other applicants' proposals (whether to purchase or sell the related downstream service) uncompetitive.

Horizon Power will take steps to avoid situations in which the terms of access to network services becomes a factor that changes the relative competitiveness of mutually exclusive proposals in downstream markets.

6.2 IDENTIFYING MUTUALLY EXCLUSIVE COMPETING APPLICATIONS

To address the circumstance of multiple competing applications for the same commercial opportunity Horizon Power will seek to identify applications of this type as *mutually exclusive competing applications*.

Horizon Power will ask applicants to disclose where they believe their application is likely to be a *mutually exclusive competing application*. However, Horizon Power will also take active steps to identify where two or more applications target the same commercial opportunity. Among other things, Horizon Power will consider the following to be evidence of *mutually exclusive competing applications*:

- Where multiple applications seek a connection solution to the same lot;
- Where multiple retailers apply for a connection solution of a similar capacity to a similar location; or
- Where Horizon Power has market intelligence suggesting a competitive process or a scarce resource to which multiple applications appear likely to relate.

Where it forms the view that two or more *mutually exclusive competing applications* may have been submitted, Horizon Power will record this in its application register. Where one or more of the applications in question is eligible to use the deposit mechanism, Horizon Power will write to the applicants advising each that its application may be a *mutually exclusive competing application*. The applicants will be given a short opportunity to provide evidence if they disagree with this view. Horizon Power will make a final determination and advise the relevant applicants of its decision.

6.3 RULES FOR MUTUALLY EXCLUSIVE COMPETING APPLICATIONS

Applications identified as *mutually exclusive competing applications* will always be assessed (and connection offers prepared) on the basis that other *mutually exclusive competing applications* do not also proceed. Thus, even if one applicant seeks competitive advantage by paying a deposit to lock in demand assumptions, the competing applicants would receive a similar benefit, even without paying a deposit, simply by virtue of all the applications being classified as *mutually exclusive competing applications*.

The queuing policy will prescribe that the deposit mechanism must not be used in the case of *mutually exclusive competing applications*. Given that two such applications may propose quite different connection solutions, including different offtake points from the shared network, it would be premature to make the load associated with any of these applications form part of the load assumptions of other projects. Once the outcome of the competition between these *mutually exclusive competing applicants* is known, the unsuccessful applicants will withdraw, and the successful applicant's application can then proceed as a normal application. It may then be eligible to pay a deposit, subject to satisfying the threshold eligibility criteria.

If Horizon Power accepts a deposit from an applicant, but subsequently determines that the application in question is a *mutually exclusive competing application*, the deposit will be refunded, and the capacity reservation cancelled. In the unlikely event that studies for other applicants (applicants not competing for same commercial opportunity) are affected by this cancellation, Horizon Power will offer those applicants the choice to redo studies based on revised (lower) load assumptions or proceed using the same assumptions. Any rework would be at the customer's expense.

6.4 APPLICATION OF RULES LIKELY TO BE RARE

In practice, Horizon Power foresees very limited circumstances in which the identification of projects as *mutually exclusive competing applications* will be important. It is only the opportunity to "reserve" capacity through the deposit mechanism that has the potential, in theory, to distort competitive processes. However, the deposit mechanism will only apply to applications above the threshold (transmission connections or connections above 10 MVA), which are expected to occur infrequently.

In instances where the deposit mechanism applies and *mutually exclusive competing applications* arise, Horizon Power foresees very limited likelihood of applicants being able to justify the risk of paying the deposit. Any applicant vying for the same commercial opportunity will only be in a position to accept a network offer from Horizon Power if the applicant is successful in the downstream competitive process.

6.5 NETWORK ACCESS OFFERS NEED NOT BE IDENTICAL

In the unlikely event that two *mutually exclusive connection applications* proceed to the offer stage, Horizon Power may offer different terms of access, consistent with its policies. Competitive neutrality does not require that *mutually exclusive connection applications* should always be offered exactly the same terms of network access. Differences between applications may drive differences in the underlying cost of providing network access, such as applicants requiring different network solutions or having different credit risk profiles. To the extent that the relative competitiveness of two electricity suppliers is altered by differences in access costs attributable to valid factors such as these, we consider that this would not constitute a breach of Horizon Power's obligation to remain competitively neutral.

7. Related Policies

Horizon Power expects that the PNAC will require it to publish principles for deriving the capital contribution that may be sought from a customer⁵. Horizon Power notes that its capital contributions policy can have very significant effects on the costs of losing a "race" for existing capacity.

Specifically:

- a contributions policy can reduce the up-front cost to a customer of the augmentations that are required to connect them⁶;
- a refund or rebate policy (sometimes referred to as a "pioneer scheme") offers a customer the prospect that a proportion of connection costs they pay could be refunded as other customers start using the assets the customer's contribution helped fund⁷;
- a headworks scheme changes the treatment of certain types of augmentations such that the order of application (or contracting) becomes less important, since any new connection of the type covered by the scheme will contribute to funding this class of augmentations, whether their specific connection triggers an investment or not⁸.

⁵ Public Utilities Office (2019) *Regulatory framework for the Pilbara electricity networks: Light handed access regime*, page 63.

⁶ For instance, Western Power's Contributions Policy is aligned with the New Facilities Investment Test (**NFIT**), which is the test to determine whether capex can be added to the regulatory asset base (**RAB**). The customer must fund that portion of the cost of works on the shared network that does not meet NFIT. This allows Western Power to deduct from the cost of works any incremental revenue expected from the customer's payment of ongoing access charges – thereby reducing the up-front contribution required.

⁷ For instance, AusNet Services applies a Pioneer Scheme in accordance with the AER's connection charge guideline. Connection applicants can be required to make a reimbursement payment where the proposed connection makes use of a network extension that was initially funded by another customer.

⁸ For instance, Western Power specifies a Distribution Low Voltage Connection Headworks Scheme (**DLVCHS**) as part of its Capital Contributions Policy. Under the DLVCHS, charges apply to new connection applications for the capacity of shared low voltage infrastructure taken up by the new connection. The DLVCHS charges based on the requested capacity (kVA) rather than on whether the current network will have to be expanded as a consequence of the specific connection.