

# Decision on Electricity Generation Licence Application – Merredin Energy Pty Ltd

21 June 2012

Economic Regulation Authority

 WESTERN AUSTRALIA

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## DECISION

1. Pursuant to sections 9 and 19 of the *Electricity Industry Act 2004 (Act)*, the Authority approves the grant of a generation licence to Merredin Energy Pty Ltd (**Applicant**) to generate electricity, subject to, and in accordance with, the terms set out in the generation licence for a period of 30 years.
2. As required by section 23(1) of the Act, the Authority will publish a notice of the grant of licence in the Government Gazette as soon as practicable.

## REASONS

3. On 17 April 2012, the Applicant submitted a licence application to the Authority to obtain an electricity generation licence for two diesel fuelled open cycle gas turbines with a combined output of 82 MW at Merredin. The station will be adjacent to Western Power's Merredin Terminal Station and will be connected to the South West Interconnected System at that location through a short transmission line.
4. The Applicant is not an existing operator, but has a close relationship with Perth Energy who has provided day to day management and administration for the project. It is intended that Perth Energy will also be contracted to provide services to support the Applicant's participation in the Wholesale Electricity Market. The dispatch of the generation plant will be remotely controlled by Western Power System Management.
5. The Authority engaged Quantum Assurance (**Quantum**) to examine the financial capacity of the Applicant to undertake the activities authorised by the generation licence. Following the assessment, Quantum concluded that the Applicant has and will likely retain the financial resources to undertake the activities authorised by the licence.
6. The Authority engaged Qualeng to examine the technical capacity of the Applicant to undertake the activities authorised by the generation licence. Following the assessment, Qualeng concluded that the Applicant has and is likely to retain the technical resources to undertake the activities authorised by the licence.
7. The Authority has considered the generation licence application including the consultants' assessments conducted for the purpose of the generation licence application and is satisfied that the Applicant meets the requirements of section 19(1) of the Act.
8. Section 9 of the Act, amongst other matters, requires that the Authority must not grant an electricity licence unless it is satisfied that it would not be contrary to the public interest to do so. Section 8(5) of the Act, without limitation, specifies the matters to be considered by the Authority in this regard.
9. A notice seeking public submissions was published on 18 April 2012 and the submission period closed on Friday 11 May 2012.
10. The Authority received one submission from Synergy. Synergy submits that granting the generation licence to the Applicant is contrary to the public interest, citing a number of factors that mostly deal with the current oversupply of capacity to

the Wholesale Electricity Market (**WEM**) and the costs associated with the payment of reserve capacity credits to the Applicant under the Reserve Capacity Mechanism (**RCM**) if the licence is granted.

11. The Authority considers that it is not appropriate for the licensing scheme under the Act to be used as a mechanism to address any potential problems with the design of the WEM.
12. In relation to Synergy's assertion that there would be a negative environmental impact due to the Applicant burning diesel fuel, the Authority notes that the Applicant has obtained the necessary environmental approvals for the operation of the generation plant, and that the Applicant will be subject to Federal Government's *National Greenhouse and Energy Reporting System*.
13. In relation to Synergy's assertion that granting the generation licence to the Applicant will not result in economic and regional development benefits to the region where the generation plant will be sited, the Authority does not agree. The Authority is of the view that, regardless of the level of benefits to the Merredin area from the generation plant, this in itself does not constitute a matter that is contrary to the public interest.
14. In its consideration of the Application, the Authority considered the public interest, including all of the matters set out in section 8(5) of the Act as required by section 9(2) and the Applicant's capacity to undertake the activities authorised by the licence as required by section 19 of the Act. The Authority is satisfied that approval of a generation licence to the Applicant would not be contrary to the public interest.