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Economic Regulation Authority
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Submitted via email by graham.pearson@energycouncil.com.au to publicsubmissions@erawa.com.au

Western Power’s fifth access arrangement review: additional information

The Australian Energy Council (the “**AEC**”) welcomes the opportunity to make a submission to the Economic Regulation Authority (the “**ERA**”) on the additional information received from Western Power in relation to the fifth access arrangement (“**AA5**”), including the submission of further access arrangement information (the “**Submission**”)¹ and the additional information on tariff structure and reference services (the “**Additional Information**”)².

The AEC is the peak industry body for electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. Our members collectively generate the overwhelming majority of electricity in Australia, sell gas and electricity to millions of homes and businesses, and are major investors in renewable energy generation. The AEC supports reaching net-zero by 2050 as well as a 55 percent emissions reduction target by 2035, and is part of the Australian Climate Roundtable promoting climate ambition.

To assist the ERA, the AEC has reviewed the Submission and Additional Information against our submission lodged on 21 April 2022³ and our supplementary submission lodged on 10 May 2022⁴. A summary of that comparison is below:

Issue	Summary of AEC’s comments	Response from Western Power in the Submission and Additional Information
<p>1. Is the network strategy Western Power has proposed to reconfigure and modernise the network, and the associated investment for AA5, reasonable, properly timed and based on sound cost estimates?</p> <p>AND</p> <p>2. Are uncertainties about the future of the electricity system giving rise to a risk that Western Power’s network strategy and transformation initiatives could result in</p>	<ul style="list-style-type: none"> • It is appropriate for Western Power to move away from a fully integrated grid to a more flexible network with a meshed central grid, and hybrid and autonomous networks elsewhere. • Uncertainty could result in incorrect forecasts by Western Power and lead to investment in long-term assets that may not be required, not required for their full technical life, or replacing existing assets earlier than necessary. 	<p>Nil.</p> <p>The AEC does not support Western Power’s proposed tariff structure for electric vehicle and charging being the only tariff structure. The AEC considers that users and customers should be given a choice of electric vehicle charging and storage structures to choose from aligned with their needs and service requirements. That is, the design of these services should be customer centric and not network centric. The</p>

¹ See [Submission of further access arrangement information](#)

² See [Additional information on tariff structure and reference services](#)

³ See [AEC’s original submission](#)

⁴ See [AEC’s supplementary submission](#)

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expenditure/assets that are not required or not fit for purpose?	<ul style="list-style-type: none"> AEC suggests that revenue targets should not include speculative investment unless Western Power takes the risk of asset write downs. If the capital expenditure program is implemented, Western Power should take all of the stranded asset risk associated with the program and all of the risk associated with putting assets in place earlier than necessary. 	AEC considers this is also what is required by clause 5.2 of the Access Code.
3. The ERA is seeking stakeholder views on Western Power's proposed approaches to addressing climate change during AA5.	<ul style="list-style-type: none"> The AEC considers that many of Western Power's programs are proposed to improve system reliability rather than address climate change, and the lack of transmission network planning limits the connection of new large-scale renewable generation. 	Nil.
4. The ERA is interested in stakeholder views on Western Power's approach to safety, including any work practices it has adopted to ensure the safety of its workforce and the community.	<ul style="list-style-type: none"> All costs attributable to safety should be justified and based on a need to address real issues and comply with legislation. Safety should not be used to explain any over-expenditure. 	Nil.
5. The ERA is interested in stakeholder feedback on whether the revised access arrangement should incorporate measures focussed on reliability performance in specific areas of the network where reliability is below or tracking below the benchmark.	<ul style="list-style-type: none"> The AEC supports having transmission outages included in the performance data. The AEC encourages the ERA to monitor Western Power's review of its fire risk management approach and the recommendations from the inquiry into the outages experienced in the Perth metropolitan area over the Christmas 2021 period. It may be appropriate that service standards are amended to reflect this recommendation. 	<p>The Submission notes that Western Power is proposing to undertake stakeholder engagement prior to the ERA's draft decision and will test "how Western Power can improve information on its reliability performance to make it easily understood by its customers."⁵</p> <p>Western Power is encouraged to consult with a wider group of stakeholders, including market participants, and incorporate transmission outages in the performance data.</p> <p>The ERA should consider the appropriateness of amending service standards following the recommendations from the inquiry into the outages experienced in the Perth metropolitan area over the Christmas 2021 period.</p>
8. The ERA is interested in stakeholder views and experience of how well Western Power communicates with customers and	<ul style="list-style-type: none"> A recommendation in the Independent Review of Christmas 2021 Power Outages is for Western Power to consult 	The Submission notes that Western Power is proposing to undertake stakeholder engagement prior to the ERA's draft decision.

⁵ See p8, [Submission of further access arrangement information](#)

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whether current service standards are adequate or any improvements are needed.	<p>with stakeholders on improvements to customer and stakeholder communications in the lead up to and during outage events.</p> <ul style="list-style-type: none"> The AEC encourages the ERA to monitor the progress of this consultation and consider whether improved service standards in this area are needed. 	
<p>Some AEC members have expressed concern about Western Power not being in a position to provide services including:</p> <ul style="list-style-type: none"> D6 – Remote Direct Load Control Service D7 – Remote Direct Load Limitation Service D8 – Remote De-energise Service D9 – Remote Re-energise Service 	<ul style="list-style-type: none"> The AEC encourages the ERA to pursue Western Power and confirm they have resolved their system process issues and will be able to provide these remote load control and energisation services in AA5. 	Nil
<p>The D6 remote load/inverter control service is important to assisting users and customers develop innovative arrangements to use the network more efficiently and reduce the amount of investment needed to augment the network. However, the service being proposed is not simple and it is unclear what the user is paying for and what they will get.</p>	<ul style="list-style-type: none"> The AEC suggests that the ERA consider how this service can be designed to address these issues. 	Nil
<p>Some AEC members have not been able to use the B3/C15 service and it is a concern that the service will not be used in AA5.</p>	<ul style="list-style-type: none"> The AEC encourages the ERA to consider how this service can be designed so that it is simple and clear for users to apply for and receive the benefits of private investment on the network. 	Nil
<p>11. The ERA is interested in stakeholder views on Western Power's proposed operating and indirect expenditure and any information stakeholders may have to inform the ERA's assessment of the efficiency of the proposed expenditure.</p>	<ul style="list-style-type: none"> There is no operating expenditure allocated to alternative options in the AA5 period The AEC encourages the ERA to thoroughly review the proposed operating expenditure to satisfy itself that these costs are warranted. AEC suggests that Western Power should provide evidence that it has considered alternative options and identify operating expenditure that has been allocated to alternative options. 	Nil
<p>12. The ERA is interested in stakeholder views on the proposed</p>	<ul style="list-style-type: none"> Consider whether the full SCADA upgrade is necessary at this time 	The Submission states that "Western Power considers our AA5

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capital expenditure and any information stakeholders may have to inform the ERA's assessment of the efficiency of the proposed expenditure.	<p>or if a portion of the proposed SCADA works can be delayed to limit some of the price increases during the AA5 period</p> <ul style="list-style-type: none"> • Undergrounding of power lines should be justified and the least cost solution, otherwise work should be deferred. • Standalone power systems should be justified and the least cost solution. Competition should be encouraged and a tender process undertaken by Western Power. • Any proposed AMI expenditure after 30 June 2022 should be reviewed to ensure it is efficient and consistent with the Access Code objectives. • Western Power's proposal did not address whether alternative options have been considered to reduce capital expenditure. • Capex items should be reviewed to determine if they are warranted and can be deferred to a later period. 	<p>proposal outlines the need for the forecast investment during AA5".⁶</p> <p>The AEC encourages Western Power to address the issues raised in our submission.</p>
13. The ERA invites submissions on Western Power's proposed alternative cost of debt approach.	<ul style="list-style-type: none"> • The AEC considers that the current approach better serves clauses 6.4(b) and 6.4(c) of the Access Code. It is also consistent with the ERA's existing method for calculating the cost of debt. The ERA is currently proposing this approach for the gas rate of return instrument 	Nil
14. The ERA invites submissions on Western Power's proposed change from a 5-year to a 10-year term for the risk free rate for equity.	<ul style="list-style-type: none"> • The ERA has used a five-year term for the risk free rate for several years. A report produced by Dr Martin Lally supports the ERA's approach. The ERA is also currently proposing a 5-year term for the gas rate of return instrument. The AEC supports the ERA's approach of using a 5-year term for the risk free rate for equity. 	Nil
15. The ERA is seeking stakeholder views on the asset lives proposed by Western Power.	<ul style="list-style-type: none"> • Western Power is incentivised to reduce the life of its assets to bring forward the revenue it can earn. This is not in the long-term interests of network users and their end use customers. The ERA should satisfy itself that the 	Nil

⁶ See p3, [Submission of further access arrangement information](#)

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	<p>proposed asset lives are realistic and consistent with asset lives used in other jurisdictions.</p>	
Governance	<ul style="list-style-type: none"> The AEC encourages ERA scrutiny of Western Power's governance to assess if Western Power is actively working to control costs related to its AA5 proposal or whether its processes are more focused towards justifying and explaining costs to the ERA The AEC also suggests that the ERA apply similar scrutiny when conducting its ex-post review of Western Power's actual AA4 capital expenditure. 	Nil
AA5 Start Date	<ul style="list-style-type: none"> The AEC suggests that the ERA consider the time required for implementation and to set a start date for AA5 that gives users and customers sufficient time to prepare for and implement the changes in AA5. 	Nil
Tariffs	<ul style="list-style-type: none"> Indicative tariffs would help customers identify whether there are any material changes to the components of the tariffs (for example, to the fixed charges) and whether these changes are cost reflective for each reference tariff. 	<p>The AEC is concerned about the rebalancing between variable and fixed charges outlined in the Additional Information. While the average residential bill is unchanged for 2023-24, there "is a rebalancing between fixed and variable charges which sees an increase to the fixed charge by 8 cents per day."⁷ Western Power is incentivised to increase fixed fees because it reduces their demand risk. The higher fixed fees also reduces the ability for retailers to send price signals to customers.</p> <p>The ERA is encouraged to consider whether the increase in fixed charges supports the Access Code objectives.</p> <p>The AEC also considers that another key issue to be addressed by the ERA is the need for indicative prices for 2023/24 to be based on current forecast demands and not out of date 2020 estimates.</p> <p>Accurate pricing information will provide certainty and confidence to customers when making financial</p>

⁷ See p17, [Additional information on tariff structure and reference services](#)

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		<p>decisions to invest in modern technologies and is a key factor in Western Power being able to successfully transition to a more flexible network supported by customers, business and industry. This has also led to concerns in relation to Western Power's proposal to withdraw or transition current ToU tariffs in AA5 unless it is already in use. These tariffs appear to be more cost effective and aligned with customer requirements. Therefore, the AEC requests the ERA to ensure that on average customers are no worse off if the decision is made to transition current ToU tariffs.</p>
Metering services	<ul style="list-style-type: none"> Western Power should outline how it plans for metering services to change over the period. 	<p>The Additional Information states that "some stakeholders are seeking further information on specific aspects of the TSS such as, the cost allocation methodology for metering reference tariffs and a weighted average tariff change forecast for metering reference tariffs over AA5. Further updates to the TSS are expected to be included in Western Power's revised AA5 proposal, or as part of the pricing proposal submitted to the ERA following its final decision in accordance with Section 8.1 of the Access Code."⁸</p> <p>The AEC encourages Western Power to be transparent and outline how metering costs will change over the period in its revised AA5 proposal.</p>

⁸ See p5, [Additional information on tariff structure and reference services](#)

The AEC appreciates Western Power providing further details in the Submission and Additional Information about their AA5 proposal. These documents focus heavily on the tariff structure and reference services and, as outlined above, they do not address most of the issues raised in the AEC's previous submissions. The ERA is encouraged to make a determination on these issues against the Access Code objectives and pricing principles based on the information provided.

Conclusion

The AEC appreciates this opportunity to provide feedback on the additional information provided by Western Power and encourages the ERA to consider the issues raised above.

Please do not hesitate to contact Graham Pearson, Western Australia Policy Manager by email on graham.pearson@energycouncil.com.au or by telephone on 0466 631 776 should you wish to discuss this further.

Yours sincerely,

Graham Pearson

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Australian Energy Council