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Economic Regulation Authority
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Draft decision on proposed revisions to the access arrangement for the Western Power Network 2022/23 – 2026/27: Decision overview

The Australian Energy Council (the “**AEC**”) welcomes the opportunity to make a submission to the Economic Regulation Authority (the “**ERA**”) on the Draft decision on proposed revisions to the access arrangement for the Western Power Network 2022/23 – 2026/27: Decision overview (the “**Draft Decision**”).

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.

The AEC makes the following comments in relation to the Draft Decision and Western Power’s revised proposed access arrangement information for the fifth access arrangement (“**AA5**”) period (“**Revised Proposal**”).¹

Capital expenditure

Western Power’s initial proposal included investing \$5,376 million of capital during the AA5 period, of which \$4,341 million would be added to the regulated asset base and recovered through reference and non-reference tariffs.

The ERA determined in the Draft Decision that \$3,712 million out of Western Power’s proposed \$4,341 million capital expenditure is reasonably likely to meet the new facilities investment test. This is \$455 million or 14 per cent more than what was approved for AA4, and \$777 million or 26 per cent more than actual net expenditure in AA4.

Western Power’s Revised Proposal includes a proposal for net capex of \$4,210 million, representing a \$465.4 million increase on the Draft Decision. Western Power says that this increase is required for:

- \$115.6 million to address key recommendations from the Shepherd Report;
- \$182.0 million to deliver targeted improvements to rural long customers where the performance on their feeder is identified to be significantly below the average performance for the rural long region;

¹ See [Revised AA5 proposal: Response to the ERA's draft decision](#)

- \$69.0 million to address cyber security risks;
- \$83.4 million to support the accelerated decarbonisation pathway outlined by the Western Australian Government to achieve decarbonisation by 2030; and
- \$31.3 million to capitalise costs associated with decommissioning lines following the installation of SPS.²

The AEC queries the late inclusion of these expenditure amounts. These costs should have been reasonably foreseen at the time of Western Power's initial proposal and the AEC questions what has materially changed since then to warrant such a large capital expenditure increase.

The Draft Decision notes that the scale of Western Power's capital expenditure introduces substantial delivery and efficiency risks. The AEC shares this concern. A significant increase in the target revenue could potentially result in consumers paying more for electricity during a period of economic pressure, while not receiving the benefits of forecast network investment if the projects are not delivered or implemented efficiently during AA5. The AEC suggests that the investment adjustment mechanism should apply to the increased capital expenditure to ensure any unspent capital expenditure in AA5 is deducted from AA6.

In any case, the capex proposed by Western Power is substantial. The ERA is encouraged to:

1. Thoroughly review the capital expenditure items to determine if they are warranted;
2. Evaluate the efficiency of Western Power's proposal for an additional \$69.0 million to address cyber security risks, particularly given that:
 - *"Engevity notes there is limited evidence of business case/investment evaluation plans for the total AA5 SCADA and ICT investment program.*
 - *Engevity's benchmarking study shows that Western Power's forecast is significantly higher than other regulated networks.*
 - *Engevity has found systemic issues with Western Power's approach to asset and risk management."*³

Western Power claims that the additional \$69.0 million is necessary to address the increasing threat of cyber security risks following other high-profile cyber security issues at major Australian organisations. The AEC considers that Western Power should have already had a comprehensive cyber security business case irrespective of what has subsequently happened at other organisations. The ERA is asked to carefully review the justification for the proposed additional cyber security expenditure and consider if it is fit for purpose;

3. Ensure that Western Power quantifies and demonstrates the benefit of the metering acceleration during AA5, and that it has removed any contingency allowance and demonstrated that it will be able to deliver the program in AA5;
4. Assess if the capital expenditure items can be deferred to a later period;

² See p6 and p7, [Revised AA5 proposal: Response to the ERA's draft decision](#)

³ See p32, [Draft decision on proposed revisions to the access arrangement for the Western Power network 2022/23 – 2026/27 – Attachment 3B: AA5 Capital expenditure](#)

5. Consider whether alternative options can reduce the capital expenditure. Western Power's initial proposal and Revised Proposal did not address if alternative options had been considered to reduce capital expenditure. This was noted in the Draft Decision.⁴ It is a requirement for Western Power to test the market for an alternative option service each time it seeks to make an investment in its network.⁵ The network operator should be required to provide details of whether it has tested the market, the outcome of the process, and if any alternative options will be used in AA5; and
6. Subject the additional costs identified in Revised Proposal to the investment adjustment mechanism.

Operating expenditure

The Draft Decision included \$2,032 million for operating costs over AA5. In turn, the Revised Proposal has forecast operating expenditure of \$2,250 million, which is 11 percent higher than the Draft Decision.

The Revised Proposal indicates that the increase in operating costs relates to:

- \$72.8 million to update the base year to include actual inflation of 6.10 per cent compared to the AA4 approved forecast inflation of 1.84 per cent; and
- \$214.3 million for step changes to the base year.⁶

Western Power has proposed a significant increase in operating costs. The AEC asks that the ERA:

1. Thoroughly review the operating expenditure to determine if they are warranted;
2. Confirm that Western Power has provided evidence that the proposed reactive replacement of streetlights with light-emitting diode (LED) globes will meet current streetlighting standards and has the lowest lifecycle cost⁷;
3. Ensure that Attachment 6 – Operating Expenditure: Required Amendment 7, to “amend the productivity factor to two per cent per annum”⁸ is, at a minimum, incorporated in the final decision rather than Western Power's proposed 0.5 per cent;
4. Consider whether the productivity factor should be higher than two per cent per annum, given the considerable size of Western Power's proposed capital expenditure and lack of innovation in the provision of covered services and tariffs. It is reasonable for network users to expect that the additional operating expenditure request will deliver additional efficiency benefits.
5. Include the decommissioning costs, in Required Amendment 6 of Attachment 6, for the removal of overhead lines in the investment adjustment mechanism; and
6. Confirm that the labour escalation factor has been updated to reflect the latest forecast data.⁹

⁴ See p20, [Draft decision on proposed revisions to the access arrangement for the Western Power network 2022/23 – 2026/27 – Attachment 3B: AA5 Capital expenditure](#)

⁵ See page 3, [Energy Transformation Strategy: Proposed changes to the Electricity Networks Access Code 2004](#)

⁶ See p7 and p8, [Revised AA5 proposal: Response to the ERA's draft decision](#)

⁷ See p12, [Draft decision on proposed revisions to the access arrangement for the Western Power network 2022/23 – 2026/27 – Attachment 6: Operating Expenditure](#)

⁸ See p16, [Draft decision on proposed revisions to the access arrangement for the Western Power network 2022/23 – 2026/27 – Attachment 6: Operating Expenditure](#)

⁹ See p20, [Draft decision on proposed revisions to the access arrangement for the Western Power network 2022/23 – 2026/27 – Attachment 6: Operating Expenditure](#)

Attachment 1: Price control and target revenue – Required Amendment 1

Required Amendment 1 in Attachment 1 states that:

“Clause 5.7.3 must be amended to remove the proposed adjustment for under/over recovery of revenue for the 2022/23 financial year.”¹⁰

The AEC notes that Western Power has not implemented this amendment in accordance with the ERA's requirements. The AEC supports this amendment and asks the ERA to ensure the amendment is implemented as part of its final decision.

Attachment 3A: AA4 Capital Expenditure – Required amendment 2

Required Amendment 2 in Attachment 3A states that:

“Western Power must provide evidence that efficiency savings equal to the expenditure of \$24.9 million on the Customer Management System have been incorporated in the proposed efficient base operating expenditure or forecast operating expenditure.”¹¹

The AEC asks the ERA to validate and confirm the efficiency savings claimed by Western Power in relation to its Customer Management System.

Attachment 4: Depreciation – Required Amendment 2

The AEC previously expressed concern that Western Power proposed an economic life of 15 years for standalone power systems in its initial proposal.¹² The Draft Decision subsequently required that Western Power:

“Amend the proposed depreciation lives for AA5 capital expenditure for distribution underground cables, distribution switchgear, stand-alone power systems and storage to 60, 35, 20 and 20 years respectively.”¹³

The AEC supports this amendment and asks the ERA to confirm that Western Power has implemented Required Amendment 2 in accordance with the Draft Decision.

Attachment 8: Services

Requirement Amendment 5 and Requirement Amendment 10 in Attachment 8 says that Western Power must resolve the matters raised by users.¹⁴ The AEC supports these required amendments and asks the ERA to evidence that Western Power has resolved the service issues raised by users.

¹⁰ See p8, [Draft decision on proposed revisions to the access arrangement for the Western Power network 2022/23 – 2026/27 – Attachment 1: Price control and target revenue](#)

¹¹ See p12, [Draft decision on proposed revisions to the access arrangement for the Western Power network 2022/23 – 2026/27 – Attachment 3A: AA4 Capital expenditure](#)

¹² See [AEC submission on the Western Power Network 2022/23 – 2026/27 issues paper](#)

¹³ See p11, [Draft decision on proposed revisions to the access arrangement for the Western Power network 2022/23 – 2026/27 – Attachment 4: Depreciation](#)

¹⁴ See p10 and p15, [Draft decision on proposed revisions to the access arrangement for the Western Power network 2022/23 – 2026/27 – Attachment 8: Services](#)

Required Amendment 7 in Attachment 8 required Western Power to:

“Amend the service description for all business energy-based reference services as follows:

An [x] service combined with a connection service and a reference service (metering) at an exit point on the ~~low voltage (415 volts or less)~~ distribution system.”

The AEC supports this amendment and notes that Western Power has not implemented the required amendment. The ERA is asked to implement Required Amendment 7 in full as part of its final decision, specifically in relation to network services that can be used to assist users to reduce their network costs such as the B3/C15 reference services (distributed generation or other non-network solution) or D2 reference service (capacity swaps).

Attachment 9: Service standard benchmarks and adjustment mechanism – Required amendment 5

Required Amendment 5 in Attachment 9 notes that:

“The service standard targets in the service standard adjustment mechanism must be removed and replaced with the service standard benchmarks (as amended in this draft decision). The call centre performance measure should be retained in the service standard adjustment mechanism.”¹⁵

The AEC supports this amendment and requests that the service standard benchmarks be implemented in the ERA’s final decision.

Attachment 10: Expenditure incentives and other adjustment mechanisms – Required amendment 1

Required Amendment 1 in Attachment 10 states that Western Power must:

“Amend the investment adjustment mechanism to include investment on the Network Renewal Undergrounding Program and standalone power systems.”¹⁶

The AEC supports this approach and requests that the ERA amend the investment adjustment mechanism to include investment on the Network Renewal Undergrounding Program and standalone power systems in accordance with the Draft Decision.

Additionally, the AEC asks that the ERA closely monitor the standalone power system program so that:

- Standalone power systems are only installed in parts of the network where it is cheaper than maintaining the existing network;
- Standalone power systems are not installed if the assets they replace have not been fully depreciated and need to be written down;
- The additional \$31.3 million for decommission lines related to standalone power systems is included in the investment adjustment mechanism; and
- Competition is encouraged in the provision of stand-alone power systems and Western Power undertakes a competitive tendering processes to select vendors.¹⁷

¹⁵ See 21, [Draft decision on proposed revisions to the access arrangement for the Western Power network 2022/23 – 2026/27 – Attachment 9: Service standard benchmarks and adjustment mechanism](#)

¹⁶ See p9, [Draft decision on proposed revisions to the access arrangement for the Western Power network 2022/23 – 2026/27 – Attachment 10: Expenditure incentives and other adjustment mechanisms](#)

¹⁷ See page 201, [Access Arrangement Information: Access Arrangement revisions for the fifth access arrangement period](#)

Attachment 11: Network tariffs

Required Amendment 1 in Attachment 11 requires Western Power to:

“...Provide at least the same level of information on the cost allocation, charging structures and indicative prices that was included in the price list information and price list provided for previous access arrangement reviews.”¹⁸

The AEC supports this amendment and notes that Western Power still has not provided the same level of information in the price list and price list information included in previous access arrangement reviews. The ERA is asked to ensure that this information is provided in full on or before the final decision.

Required Amendment 4 and Requirement Amendment 5 requires Western Power to address the tariff matters raised by stakeholders in relation to EV charging and storage tariffs. The AEC supports these amendments and considers they are a key element of decarbonisation. The ERA is asked to resolve the tariff issues raised by stakeholders as part of its final decision.

Western Power is seeking to recover \$9 billion from network users over the life of AA5. The AA5 changes are substantial both in terms of network costs and service delivery. It is important that network users are given a reasonable period of time to communicate and implement the AA5 reference service changes (including tariffs) with their customers. AEC members have indicated they need a minimum of three months to implement system changes, issue customer notifications, pass network tariff changes to bundled and unbundled retail contracts. However, the AEC understands that the final approved price list will not be published until May 2023. It is unreasonable that network users should bear the financial risk of not being able to pass through the changed tariffs if they have been given insufficient time to implement the changes. Accordingly, the AEC requests that the ERA require the final 2023/24 price list to be published no later than April 2023 or alternatively for AA5 to commence three months after the approved 2023/24 price list has been published.

Transmission

The AEC is concerned that there is a disconnect between the amount of generation that Western Power forecasts being required by 2030 and the absence of transmission projects in AA5.

The AEC considered the issue of revenue sufficiency and investor signalling in 2021 and engaged Marsden Jacob Associates (“**MJA**”) to prepare a report that assessed whether the WEM provides revenue adequacy for generators and to recommend measures to minimise investor uncertainty and promote new investment. MJA identified the lack of transmission planning and investment as one of the key reasons for investor uncertainty. As highlighted by the Australian Energy Regulator:

“Transmission investment tends to lag behind generation investment, often resulting in delays between the completion of a generation project and the network being ready for the plant to connect. These lags create uncertainty for generation proponents and may delay efficient investment.”¹⁹

In their report, MJA also forecast an additional 1100 MW of wind farms, 1000 MW of solar farms and 1150 MW of storage will be built in the South West Interconnected System by 2035.²⁰ This modelling was undertaken before it was announced that Synergy would close its coal plants and invest in 800 MW of new wind generation and 4400 MWh of storage, and prior to the State Government committing to a Renewable Hydrogen Target that would divert renewable projects from the grid. In various forums, Western Power has also presented information which shows that up to 30GW to 43GW of additional renewable generation may be needed by 2030.

¹⁸ See p7, [Draft decision on proposed revisions to the access arrangement for the Western Power network 2022/23 – 2026/27 – Attachment 11: Network Tariffs](#)

¹⁹ See p58, [State of the energy market 2021](#)

²⁰ See p87, [Revenue Adequacy for Generators in the WEM](#)

A significant amount of transmission investment is needed to accommodate these new projects and relieve network constraints. Despite this, the Whole of System Plan released in 2020 proposed negligible amounts of new transmission – largely because of the assumptions used in the modelling – and, as a result, Western Power has not identified any major transmission upgrades in AA5. This is in stark contrast to AEMO’s Integrated System Plan developed for the National Electricity Market which identifies 10,000 km of new transmission over the next 20 years.²¹ But most importantly, a lack of transmission investment threatens the WEM objective of providing a reliable supply of electricity at the lowest sustainable cost to consumers.

Transmission planning and construction is a lengthy process. It would already be ambitious to connect the required amount of generation over the next seven years, but the lack of planning and funding for transmission in AA5 will make this task harder and is misaligned with industry and State Government decarbonisation targets.

The AEC encourages the ERA to challenge Western Power on the transmission requirements during AA5 and how they will facilitate the amount of generation needed by 2030.

Attachment 12: Policies and contracts – Required amendment 6

Attachment 12 of the Draft Decision outlines some of the challenges that investors face during the application to connect process:

“The ERA notes that some customers are currently experiencing extended waiting periods for applications to connect and this is likely to worsen as increased applications are received in response to decarbonisation initiatives.”²²

The AEC agrees with the ERA’s comments and notes that the extended process and lack of updates from Western Power is a frustration for some members.

The lengthy and uncertain application to connect process creates unnecessary bottlenecks for investors and makes it difficult for the required new generation to enter the grid. Indeed, the 2022 Wholesale Electricity Market Electricity Statement of Opportunities says that capacity shortfalls are expected from 2025-26 and these forecast shortfalls will increase to 303MW by 2030-31. This forecast doesn’t include the consequences of the State Government’s economy-wide goal of net zero by 2050 and Synergy’s plans to close coal-fired power plants by 2030 and build no new natural gas-fired power plants after 2030. The Renewable Hydrogen Target will exacerbate the capacity shortfall even further.

To address the capacity shortfall and facilitate new investment, the market needs an application to connect process that is transparent and has short, defined timeframes. The ERA raises this in the Draft Decision:

“...The timelines set out in the current applications and queuing policy for each stage of the process are generally not well defined. The ERA considers that more prescriptive and, in some cases, shorter timelines would better incentivise Western Power to optimise its operational processes and resources for managing customer applications. The policy should also require Western Power to provide (specified) regular updates to applicants on progress and the likely time to complete.”²³

²¹ See p12, [2022 Integrated System Plan](#)

²² See p17, [Draft decision on proposed revisions to the access arrangement for the Western Power network 2022/23 – 2026/27 – Attachment 12: Policies and contracts](#)

²³ See p17, [Draft decision on proposed revisions to the access arrangement for the Western Power network 2022/23 – 2026/27 – Attachment 12: Policies and contracts](#)

In turn, Attachment 12 in the Draft Decision includes required amendment 6:

“The timelines in the applications and queuing policy must be defined clearly and as short as reasonably possible with requirements to provide updates to applicants on progress and likely time to completion.”²⁴

The AEC strongly supports this required amendment. However, it is noted that the Revised Proposal only includes some modifications that clarify the process and a commitment to publish ‘indicative’ timing on Western Power’s website.²⁵ This does not directly address required amendment 6.

The AEC requests the ERA to implement required amendment 6 in full as part of its final decision.

In addition, the AEC encourages the ERA to consider other ways to improve and fast-track the connection process, including:

- Allowing applicants to engage third-party consultants (for example if network feasibility studies are required) to expedite timeframes and, potentially, reduce costs;
- Strengthening oversight to ensure that if network studies are required then the need for such studies are evidence based, completion timeframes are transparent and the costs charged to applicants and users are efficient; and
- Not mandating an enquiry be lodged prior to an application, noting that some applicants may prefer to immediately proceed to submitting an application.

Conclusion

The AEC sincerely appreciates the consultation process conducted by the ERA, and welcomes the opportunity to provide the above feedback on the Draft Decision.

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,

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²⁴ See p17, [Draft decision on proposed revisions to the access arrangement for the Western Power network 2022/23 – 2026/27 – Attachment 12: Policies and contracts](#)

²⁵ See p39 and p40, [Revised AA5 proposal: Response to the ERA's draft decision](#)