



PUBLICATION

Proposed Variations to Western Power's Access Arrangement for 2012/13 to 2016/17: Price Control

FINAL DECISION

The Economic Regulation Authority has released its [final decision on its proposal to vary Western Power's price control](#) in its approved access arrangement for the third access arrangement period (**AA3**). The proposal was made under section 4.38 of the *Electricity Networks Access Code 2004 (Access Code)*.

The allowable revenue approved by the Authority for AA3 included \$53 million to be recovered for the transmission system and \$398 million for the distribution system (real dollar values at 30 June 2012) in relation to revenue deferred during the previous access arrangement period. As set out in the Final Decision, the Authority had been of the view that the deferred revenue should be recovered over the life of the assets to which it related. However, modelling and forecasts at the time of the decision showed that reducing the recovery period to ten years resulted in average tariffs increasing broadly in line with CPI. On this basis the Authority, in its Final Decision, approved a recovery period of ten years as it could be accommodated without a price shock to customers.

At the time of receiving a proposed price list for 2013/14 from Western Power on 26 April 2013, the Authority became aware the amount to be recovered from Western Power's customers in relation to the Tariff Equalisation Contribution (**TEC**)¹ had been increased by \$169 million (or 27 per cent) from \$628 million over the four years from 2013/14. In addition, the proposed price list showed Western Power was forecasting further significant reductions in revenues, in addition to those already taken account of for 2011/12, much of which is attributable to the impact of lower energy demand as a result of domestic photovoltaic systems, revenue which must now be recovered from all users. Under a revenue cap form of regulation, Western Power's revenue is fixed and demand risk is faced by the users of the network. The impact of these changes caused Western Power's proposed price list for 2013/14 to result in a 20 per cent increase in charges rather than in line with CPI as was forecast in the Final Decision for AA3.

If the circumstances giving rise to the substantial forecast reduction in revenue and increase in costs had been foreseeable at the time of the decision, the Authority would not have shortened the period over which the deferred revenue was to be recovered on the basis that it would have resulted in a price shock to customers.

The Authority has therefore decided to vary the price control in Western Power's Access Arrangement such that the deferred revenue continues to be recovered over the life of the assets to which it relates, rather than the shorter period of 10 years. Taking account of views put forward in its public consultation, the Authority has decided to smooth the revised target revenue over the four years from 1 July 2013. Based on the demand forecasts provided by Western Power, this will result in the average network charge increasing by around 2 per cent above CPI over each of the next four years. This is still higher than the amount forecast at the time of the final decision, due to the increased TEC costs and

¹ An amount levied on users of the Western Power distribution network which is provided to Horizon Power to provide electricity services at a uniform tariff across the State

reduced revenue, but is significantly less than the 20 per cent increase included in Western Power's proposed Price List for 2013/14.

The Authority notes that the Western Australian Government has already announced its decision to increase retail electricity prices by 4 per cent for residential customers for 2013/14. While the Authority's proposed decision to amend Western Power's price control will not affect this price increase, it will immediately impact all generators and around 21,000 contestable customers which together make up an estimated 40 per cent to 60 per cent of the total market by volume.

The varied access arrangement amends the revenue caps for the four years commencing 1 July 2013 and takes effect immediately.

Background

Under section 4.38 of the Access Code, the Authority may, by notice to a service provider, vary the price control or pricing methods in an access arrangement before the next revisions commencement date for a number of reasons including, if it determines that significant unforeseen developments have occurred that are outside the control of the service provider and not something that it should have been able to overcome, and the impact of the unforeseen development is so substantial that the Authority considers the advantages of making the variation before the end of the access arrangement period outweigh the disadvantages, having regard to the impact of the variation on regulatory certainty.

The Authority published its proposal on 17 May 2013. Public consultation closed on 31 May 2013. Twelve submissions were received and have been published on the Authority's [website](#).

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