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Access Arrangement Review
Electricity Access
Economic Regulation Authority
PO Box 8469
PERTH BC WA 6849

Attention: Tyson Self
Manager Projects
Access

also by email to: publicsubmissions@erawa.com.au

Dear Sir

CALL FOR SUBMISSIONS ON WESTERN POWER'S PROPOSED REVISIONS TO THE ACCESS ARRANGEMENT FOR THE WESTERN POWER NETWORK (AA3)

Thank you for the opportunity to comment on Western Power's proposed Access Arrangement revisions. The Issues Paper produced by the ERA has been particularly helpful in identifying the key elements. In addition, Western Power is to be commended for the level of stakeholder engagement it has undertaken in the construction and dissemination of the proposed revisions.

The proposal to expend significantly more operating and capital expenditure on the Western Power Network comes at a time when end users will be exposed to substantially higher costs emanating from retail tariff increases aimed at achieving generation cost reflectivity and the advent of the forthcoming Carbon Tax. While the need to upgrade and expand the network is recognised, it is paramount that expenditure to achieve the desired capacity and reliability is optimised. ERA has a vital role in pursuing that objective.

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Verve Energy recognises that continued significant expenditure is required to ensure network capability and reliability following an extended period of expenditure restraint prior to the AA2 reset. In relation to the proposed capital expenditure, it is vital that the New Facilities Investment Test is rigorously applied and that the ERA satisfies itself that the actual and proposed expenditure has been/is prudent and can be incorporated in the capital base as proposed by Western Power.

Specifically in relation to the issues on which ERA seeks comment:

4.1 Recovery of Deferred Revenue from AA2

The deferral of expenditure from AA2 to AA3 to avoid price shock during the AA2 period was an appropriate outcome. Western Power proposes to recover all of the deferred revenue over the five year period covered by AA3. A primary argument for this is that future users should not be paying for assets used by current users. To some extent this rationale has merit although it could also be argued that future users will also accrue the benefit from expenditure now to upgrade the reliability of the network. The alternative proposal to recover deferred revenue over the life of the asset is possibly too slow a recovery. ERA should maybe find a 'middle-ground' solution that allows recovery over a defined period (eg 10 years) that allows a reasonable recovery rate while ensuring the avoidance of price shock.

4.3 Investment from Prior Periods

It is reasonable for network users to assume that expenditure previously rejected would not reappear and inflate the opening capital base for the AA3 period. ERA should very carefully scrutinise Western Power's argument for its reinclusion and should only allow expenditure that now clearly meets the NFIT.

4.5 Applications and Queuing Policy

Verve Energy supported the proposed mid AA2 revisions to the AQP, subject to satisfactory resolution of a number of issues raised in its submission. Western Power has addressed the issues raised, mostly satisfactorily via Access Arrangement Information Appendix J.

To the extent that the key issues are resolved, Verve Energy reiterates its support for the AQP proposed in this Access Arrangement reset. Notwithstanding, before accepting the AQP, ERA should satisfy itself that Western Power has satisfactorily responded to the issues raised by users during the AQP mid AA2 review consultation.

5.1.2.6 Return on Regulated Capital Base

The proposed real pre-tax weighted average cost of capital ("WACC") of 8.82% may be excessive given the recent change in the state of the global economy. ERA is asked to review the basis for the proposed WACC in the context of those changed circumstances and also the recent WACC determination in relation to the DBNGP Access Arrangement.

5.2 Reference Services

Verve Energy unsuccessfully argued at previous Access Arrangement resets for the incorporation of a Connection Access Contract ("**CAC**") as a Reference Service. It is noted that Western Power has now suggested a connection service as part of 'revenue cap services', although 'connection service' appears to be undefined. If it is intended that the connection service gives rise to a Connection Access Contract, Verve Energy supports its introduction. If not, the argument for the need for a CAC is re-presented for consideration at this Access Arrangement reset.

The Electricity Networks Access Code ("**ENAC**") expressly anticipates that covered services may include connection services that do not involve the transfer of electricity, with 'connection service' defined as "the right to connect facilities and equipment at a connection point." A note under this definition states: "{Note: A connection service is the right to physically connect to the network, and will regulate technical compliance etc. It is not the same thing as an entry service or exit service, which are the right to transfer electricity.}"

Additionally the Model Standard Access Contract in Appendix 3 to the ENAC ("**MSAC**") allows for two types of contract:

the "capacity contract" in Parts A, B and D, which is a contract for an entry/exit service; and

the "technical compliance contract" in Parts A, C and D which is a contract for a connection service.

In considering why a 'connection service' may be desirable and commonly used, an example is where one entity (eg the generation operator, or the end user) has technical control of the plant and another (eg a retailer) has the commercial responsibility for the transfer of electrons. The retailer may want nothing to do with the technical operation of any entry points or exit points. In addition the generator may want to maintain control over the technical aspects of the connection. This would become particularly relevant where a generator is selling electricity to multiple retailers (say a specific retailer for a specific generating location) and wants to ensure consistent technical compliance at each connection point.

Thus, it may be appropriate for the retailer to be bound only by some types of contractual provisions (eg contracted capacity (CMD, DSOC etc, payment/tariff, liability, customer transfer, curtailment), with the controller of the plant being bound by the technical provisions (eg directions from system operator, technical rules, complying with good electricity industry practice, liability etc).

The MSAC contemplated that a User might have a Capacity Contract which did not contain the technical compliance provisions but Western Power structured its PAA differently - there is a contract which contains both the capacity provisions and the technical compliance provisions, or a contract which contains just the technical compliance provisions. Verve Energy submits that the ERA might wish to consider whether there should be a capacity-only contract available for the situation where a User does not have any hands on technical role but has one or more Designated Controllers instead.

It is likely that Verve Energy will, or might want, a connection contract. We believe therefore that ERA should ensure that a connection service is available:

preferably as a reference service;

but failing that as a non-reference service on specified terms and conditions.

Verve Energy understands that this is permissible under the ENAC.

5.3 Price Control

AA2 saw significant increases in the allowed side constraints (+/- CPI +13% for transmission and +/- CPI +18% for distribution), presumably to accommodate significantly increased expenditure and the need for a significantly wider margin to deal with over and under recovery. The proposal to establish a new methodology which will result in an uncertain and variable value for the side constraint is of concern. ERA is asked to carefully consider the basis for moving to the new methodology and whether this is likely to result in unexpected and/or unwarranted outcomes.

In addition, we make comment on **Access Arrangement Information Clause 8.10.1 – Interval Metering at Verve Energy Sites.**

Western Power has correctly identified that Office of Energy has recommended amendments to the Electricity Industry Metering Code 2005 (Code), one of which is the removal of the exemption afforded by Clause 3.14 of the Code with respect to metering installations. The subject of tariff quality metering for Verve Energy plant has been discussed for some years. The desire to install it has always been supported, the question remains over payment. Review of the relevant legislation, codes and standard Electricity Transfer Access Contract leads to the view that Western Power should procure, install and maintain such metering equipment and recover costs via standard metering charges. In 2008, Office of Energy advised Western Power that it supported this notion. At the time Western Power had indicated that it proposed to incorporate the necessary expenditure in the AA2 Access Arrangement reset but failed to do so.

It is noted that Western Power again acknowledges that the necessary expenditure should be dealt with through the NFIT provisions of the Access Arrangement and proposes that the recovery provisions be used to pass through costs via AA4. Verve Energy strongly supports this position but observes that there has been the lost opportunity to finalise this activity during the AA2 period and roll costs into this current AA3 consideration. ERA is strongly urged to ensure that there is not further delay in resolving this matter.

Thank you again for the opportunity to comment on Western Power's proposed revisions to the Access Arrangement. I am happy to discuss any aspect of Verve Energy's submission and can be contacted on the above numbers or by email andrew.everett@verveenergy.com.au

Yours sincerely



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