



29 May 2012

Tyson Self  
Manager Projects Access  
Economic Regulation Authority  
PO Box 8469, PERTH BC WA 6849  
PERTH BC WA 6849

Dear Mr Self

**DRAFT DECISION ON THE PROPOSED REVISIONS TO THE ACCESS ARRANGEMENT FOR THE WESTERN POWER NETWORK**

Alinta Energy (Alinta) appreciates the opportunity to comment upon the Economic Regulation Authority's (the Authority) Draft Decision on the Proposed Revisions to the Access Arrangement for the Western Power Network.

Alinta makes these comments in its own capacity and on behalf of its wholly owned subsidiaries Alinta Sales Pty Ltd, Alinta Cogeneration (Pinjarra) Pty Ltd and Alinta Cogeneration (Wagerup) Pty Ltd, which are either users of Western Power's network or have network connection agreements with Western Power.

Alinta currently retails electricity to approximately 2,500 contestable electricity customers in the South-West Interconnected System, in addition to 630,000 gas retail customers in the Western Australia market. Alinta is actively expanding its electricity retail customer base in the National Electricity Market (NEM), and currently retails to over 80,000 small use electricity customers in South Australia and Victoria. In addition Alinta currently owns over 2,500MW of installed generation capacity through Australia and New Zealand.

The Authority has required 80 amendments to Western Power's Proposed Revised Access Arrangement, and has reduced Western Power's revenue requirement over the access arrangement period by 34%. Alinta previously submitted that it was of the view that a number of components, and the respective reasoning, of Western Power's original proposal were unlikely to reflect that of an efficient benchmark network service provider. Alinta is generally supportive of the Authority's amendments, and believes that they provide better outcomes for users of the network. Alinta does however make some high level points in its submission.

Alinta's major points for discussion in relation to the draft decision focus on three key issues:

- The incentives upon Western power to act as a commercial benchmark Network Service Provider;



- That external factors warrant a cautious approach to network expenditure throughout the access arrangement period, and that the regulatory framework allows flexibility for Western Power to respond to market conditions; and
- The Access Queuing Policy.

### **Incentives on Western Power to Act Commercially**

The parameters used to determine a Weighted Average Cost of Capital (WACC) are generally a contentious when it comes to regulatory determinations for Network Service Providers. It is not Alinta's intention to debate the specific merits of the methodology or values of specific parameters from the Authority's decision, however Alinta does have some high level observations in relation to the effective rate of return and the incentives the Authority's decision are likely to have upon Western Power acting as a commercial independent corporation.

In order to ensure that the foundation for further reform in the electricity industry in Western Australia is possible, Alinta believes that an efficient and commercially driven Western Power is the best outcome to ensure that the electricity network backbone in Western Australia is best able to support a competitive and dynamic electricity industry, both downstream and upstream. Alinta is firmly of the view that competition in markets delivers the best outcome for all consumers, and that decisions based upon shorter term perspectives are likely to lead to sub-optimal outcomes for consumers over the longer term.

Alinta believes that a key consideration should be that the true costs of building and maintaining the transmission and distribution network should be reflected in the tariffs paid by end users. In order to ensure commercial discipline in the way Western Power owns and operates its network, Western Power should plan and undertake investment in a manner reflective of an efficiently benchmarked commercial entity. Therefore the rate of return (as estimated through the WACC) should incentivise Western Power to move towards what would be considered an "efficiency frontier" for Network Service Providers. A WACC specifically targeted at Western Power's ownership structure and its actual access to financing is a short term solution and is likely to result in detrimental outcomes for Western Australia consumers of electricity in the longer term.

Alinta encourages the Authority to ensure these objectives are met in setting an appropriate WACC for Western Power.

### **Network Expenditure throughout the AA3 Period**

Alinta does believe that the Authority has made reasonable decisions surrounding the past and future capital expenditure of Western Power. In particular, Alinta notes that Western Power has previously underspent capital expenditure relative to the allowed revenue, and thus the Authority has recognised that in reducing its capital expenditure from that in Western Power's proposed AA3 submission is likely to ensure that users and consumers of electricity do not pay for excessive capital expenditure not warranted by demand at the current point of time. There is a direct benefit to users from the deferral of capital expenditure (where warranted), particularly in an environment of rising electricity prices.



Alinta also makes an observation from the National Electricity Market (NEM) throughout the last two years; in particular that overall demand has dropped. This is an unusual phenomenon when compared to historical outcomes, in that a year-on-year fall in wholesale demand has not coincided with a large economic shock. While factors such as the increase in solar PV systems (in which WA has a very high penetration rate) and higher retail prices are no doubt having an influence, a question remains as to the overall impact this will have on future peak demand and thus the need for expenditure on the network to meet peak growth. Alinta believes that the current Access Code and regulatory framework allows for the Authority and Western Power to take a cautious approach, given that should demand warrant expenditure to be brought forward Western Power can utilise the New Facilities Investment Test (NFIT) provisions within the Access Code. Therefore Alinta reiterates its support for a capital expenditure program broadly in line with Western Power's actual capital expenditure throughout AA2, noting the potential for Western Power to utilise the NFIT provisions contained within the Code to obtain pre-approval for additional expenditure above the capital allowance approved by the Authority.

Alinta also supports the Authority's 2.0% reduction in operating expenditure on Western Power's Proposed Access Arrangement, and does believe that the Authority should make the determined level of an operating expenditure efficiency target independent of any Government decision to impose a larger efficiency target.

### **Access Queuing Policy**

Alinta is generally supportive of the amendments required by the Authority to the proposed Access Queuing Policy (AQP), and believes that they are likely to lead to superior outcomes than achieved through the current policy.

Alinta does however note that that Authority has declined to require Western Power to include more prescriptive criteria to determine whether a project is ready to proceed, concluding that the access application form should be sufficient for it to make such an assessment. This approach would appear to risk a continuation of the potential problem that projects that are conceptual, rather than ready to commence construction, may be prioritised into the same applications queue. At the least, this would appear to create a further administrative burden on Western Power, with the possibility that projects ready to proceed sit grouped with projects that are only in an early planning stage. Grouping a ready to proceed project with other projects that are only in the planning stages is likely to result in those less advanced groups exiting from a 'competing applications' group. This would require the ready to proceed projects to start again and negotiate an individual solution with Western Power. In the second case, Alinta believes that this is one of the major problems with the current operation of the AQP and we are eager to see the detail behind the new AQP to ensure this issue is appropriately dealt with.

Should you have any queries in relation to Alinta's submission please do not hesitate to contact Adam Lourey on 08 9486 3406.

Yours sincerely



**Michelle Shepherd**  
**General Manager Regulatory Affairs**