



CONSULTATION

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

ISSUES PAPER

The Economic Regulation Authority is seeking public comment on a proposed variation to Western Power's Access Arrangement for the third access arrangement period (2012/13 to 2016/17) (**AA3**).

Western Power has submitted a proposed 2013/14 Price List to the Authority for approval, as required by the *Electricity Networks Access Code 2004* (**Access Code**). If approved, the Price List would result in average network prices (transmission and distribution combined) increasing by over 20 per cent¹. This is significantly higher than the prices forecast at the time of the Authority's final decision on AA3 last year.

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.

Subsequent to the final decision, the amount to be recovered from Western Power's customers in relation to the Tariff Equalisation Contribution (**TEC**) (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) has been increased by \$169 million (or 27 per cent) from \$628 million over the four years from 2013/14. In addition, Western Power is 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. If the size of the forecast reduction in revenue and increase in costs had been known at the time of the decision, the Authority would not have shortened the period over which the deferred revenue was to be recovered.

The Authority is proposing to vary the price control in Western Power's Access Arrangement such that the deferred revenue is to be recovered over the life of the assets to which it relates. In relation to Western Power's proposed 2013/14 Price List submitted on 26 April 2013, further information required to support forecast revenues was provided on 13 May 2013. In accordance with section 8.6 of the Access Code, the Authority is required to finalise its decision by 4 June 2013. However, as the Authority intends to vary the price

¹ The impact on individual tariffs ranges from an increase of 28 per cent (business time of use) to a reduction of 5 per cent (large transmission only customers).

control, it does not intend to approve Western Power's proposed 2013/14 Price List as it will not comply with the amended price control.

The proposed revision to the recovery period of deferred revenue will reduce the average price increase in 2013/14 from the 20 per cent (including CPI) proposed by Western Power in its 2013/14 Price List. The Authority is considering two options. The first would result in an average increase of 10.3 per cent (including CPI) in 2013/14 followed by increases around 1 per cent below CPI in the following three years. The second option would result in prices increasing around 2 per cent above CPI over each of the next four years.

Network charges are approximately 40 per cent of regulated retail tariffs. If these charge increases were passed through to regulated retail tariffs, Option 1 would increase regulated retail tariffs by around 3 per cent plus CPI in 2013/14 and minus 0.5 per cent plus CPI in the following three years. Option 2 would increase regulated retail tariffs by around 1 per cent plus CPI per annum for the four years from 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 customers² which together make up an estimated 40 per cent to 60 per cent of the total market by volume.

The Authority has published an Issues Paper to assist interested parties to make a submission on the proposed variation to the price control. The Issues Paper provides a list of the revisions to the access arrangement which are required as a result of the proposed change to the recovery of deferred revenue.

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 received Western Power's 2013/14 Price List and Price List Information on 26 April 2013, as required by the approved access arrangement.

Interested parties are invited to make submissions in response to the [Issues Paper on proposed revisions to the Access Arrangement for the Western Power Network for the third access arrangement](#) period by **4:00 pm (WST) on Friday, 31 May 2013**.

Submissions should be marked to the attention of Tyson Self, Manager Projects.

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² A customer is contestable if it can choose its electricity retailer. In Western Australia, a customer can choose its retailer if it consumes more than 50 MWh per year. All other customers are non-contestable.

CONFIDENTIALITY

In general, all submissions from interested parties will be treated as being in the public domain and placed on the Authority's website. Where an interested party wishes to make a submission in confidence, it should clearly indicate the parts of the submission for which confidentiality is claimed, and specify in reasonable detail the basis for the claim. Any claim of confidentiality will be considered in accordance with the provisions of sections 14.12 to 14.15 of the Access Code.

The publication of a submission on the Authority's website shall not be taken as indicating that the Authority has knowledge either actual or constructive of the contents of a particular submission and, in particular, whether the submission in whole or part contains information of a confidential nature and no duty of confidence will arise for the Authority.

For further information contact:

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LYNDON ROWE
CHAIRMAN

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