

Our ref: DM#11771677
Contact: Noel Ryan

5 March 2014

Mr Robert Pullella
Executive Director Access
Economic Regulation Authority
PO Box 8469
PERTH BC WA 6849

Dear Robert

Proposed modifications to Western Power's Access Arrangement

Western Power is seeking to modify its Access Arrangement under section 4.41A of the Electricity Networks Access Code 2004 (Access Code). The proposed modifications aim to better meet the price control objectives of the Access Code. The proposed modifications will assist Western Power in managing price shocks within the access arrangement period.

The price control objectives are detailed in section 6.4 of the Access Code which include providing Western Power with the opportunity to earn revenue for the provision of covered services, enabling users to predict the likely changes in target revenue and avoiding price shock. Western Power's current approved Access Arrangement addresses the price control objective by:

1. Specifying the revenue cap form of price control in sections 5.6 and 5.7.
2. Including a side-constraint to limit annual changes to individual reference tariffs during the AA3 period in sections 6.5.11 to 6.5.14. The purpose of the side-constraint is to mitigate the effects of price shock on individual customers during AA3.

Section 6.5.3 of the Access Arrangement requires Western Power to set the reference tariffs in the price list so that the forecast revenue is equal to the calculated revenue cap for the year. Western Power is proposing minor changes to this section of the Access Arrangement to allow some flexibility in price setting so that price shock can be managed, if it were to arise, without the need to vary the Access Arrangement.

Western Power's proposed modifications will remove the requirement for Western Power to set the reference tariffs in the price list so that the forecast revenue is equal to the calculated revenue cap for the year. Instead, it is proposed that reference tariffs in the price list be set so that the forecast revenue can be less than or equal to the calculated revenue cap for the year.

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Table 1 provides an illustrative example of how the proposed modifications may be utilised to avoid price shock.

Table 1 - Illustrative example

	YEAR 1	YEAR 2
Revenue cap (TR)	500	500
plus k-factor (TK)	0	100
		The difference between Year 1 MTR and Actual revenue
Calculated revenue cap (MTR)	500	600
Forecast revenue at the time of setting the price list	500	550
	Prices set to match the calculated revenue cap	Prices set to less than the calculated revenue cap to avoid price shock. Any under-recovery against the calculated revenue cap will be carried forward to be recovered in later years via the k-factor.
Actual revenue	400	
	Actual revenue was 100 less than what was expected	

This proposal will enable Western Power to manage annual price movements to avoid sudden material tariff adjustments, if they were to arise, by managing the timing of the collection of the revenue cap over the access arrangement period.

The proposed modifications are minor as they are limited to clause 6.5.3 of the current approved Access Arrangement. A marked up version of clause 6.5.3 is attached along with a "clean" version of the Access Arrangement.

Any queries in relation to this proposal should be addressed to Noel Ryan on 9326 4083.

Yours sincerely

Stewart Hart
Chief Financial Officer

