Proposed Revisions to the Western Power Network Access Arrangement

Alinta Energy Submission

11 December 2017

Table of Contents

1. Introduction

Alinta Energy (**Alinta**) is pleased to provide comment on both Western Power's *Access Arrangement revisions for the fourth access arrangement period* (**AA4**) submitted to the Economic Regulation Authority (**ERA**) in October 2017 and the ERA's *Issues Paper on Proposed Revisions to the Western Power Access Arrangement (2017/18 to 2021/22 – AA4)* (**Issues Paper**).

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 is an active investor in the energy retail, wholesale and generation markets across Australia. Alinta has an owned and contracted generation portfolio of nearly 2000MW through Australia and New Zealand, including nearly 800MW of gas-fired generation facilities and contracted renewable facilities in the South West interconnected system (**SWIS**). Alinta has a strong renewable investment strategy across Australia. With regards to renewables investment in the SWIS, Alinta has entered into a long-term (12 year) offtake agreement with APA Group that will underpin the construction of the 130MW Badgingarra Wind Farm and has entered into a binding agreement for the rights to develop up to 300MW at the Yandin Wind Farm.

Alinta currently retails electricity to approximately 4000 contestable electricity sites in the SWIS, in addition to approximately 520,000 customers in the Western Australian gas retail market. Alinta is actively expanding its retail customer base in the National Electricity Market (**NEM**), currently retailing to over 300,000 customers.

The diversity of Alinta's portfolio, its investment strategy, product offerings, and first hand experiences across multiple jurisdictions has allowed it to develop a detailed understanding of the risks and opportunities presented by Western Power's AA4. Alinta is therefore well placed to provide informed comment to the ERA.

AA4 is Western Power's five year strategic network investment plan. Western Power is seeking to recover approximately $7.8 billion in network revenue from 1 July 2018 to 30 June 2022. While AA4 will affect every existing and proposed network user within the SWIS during that period, Alinta has limited its submission to addressing a number of important issues which directly affect its Western Australian business. In summary:

- There is a very real need to ensure that new generation, particularly renewables, can connect to the Western Power network in a timely and efficient manner. Alinta considers that an efficient and appropriate network investment plan for Western Power will provide the basis for this next wave of generation development in the SWIS.
- Alinta supports changes that will improve the Applications and Queuing Policy (**AQP**) and the ability for new generators to connect to the network in a timely and efficient manner, in particular we would recommend that connections should be undertaken based on readiness to connect rather than first-on-the-queue.
- The rate of return applied in AA4 should incentivise Western Power to act in a commercial manner when making investment decisions.
- Western Power's proposed capital expenditure should be scrutinised thoroughly by the ERA and its consultants, particularly in regards to whether the expenditure is efficient as the

SWIS heads towards a constrained network access model and whether or not Western Power has the internal resources to meet the capital expenditure it has proposed in its submission.

- Alinta supports efforts to avoid price shock for all network users.
- Detailed consideration of Western Power's proposed Advanced Meter rollout is required, noting that it's important that any decision by network operators today regarding the bulk replacement of meters does not preclude contestable metering from being introduced in the future by making the network operator the only obvious owner of the meters going forward.
- It is imperative that existing rights agreed under a customer's existing contract be retained, and if, in the move to a security constrained network design, new connection agreements must be entered into, these existing rights should be grandfathered.
- The ERA should satisfy itself that Wester Power's proposal to mandate time of use reference services for any customer of a retailer who receives a type 4 meter is consistent with the Access Code objectives.
- Detailed consideration of Western Power's proposed amendments to the force majeure and trigger events is required. Alinta is concerned with the increased uncertainty arising from the broad and largely undefined proposal to include "any government energy reforms".
- Given the industry is moving into a period of significant regulatory uncertainty, particularly regarding what the regulatory framework will look like under a constrained network model for AA5, Alinta considers that it would be prudent to allow a longer than usual period to conduct the AA5 review processes and suggests at least 18 months should be allowed. This additional time will be required in order to allow current users, prospective access seekers, Western Power, and the ERA sufficient time to consider the implications appropriately.

Alinta's detailed comments on each of these issues are contained in the remainder of this submission.

2. *The ability for customers to connect to the network*

The Access Code requires Western Power to:

- use all reasonable endeavours to accommodate an applicant's requirement to connect to the network;
- expeditiously and diligently process access applications; and
- negotiate in good faith with applicants regarding the terms for an access contract.

The access arrangement sets out how Western Power ensures these requirements are met. Specifically, the AQP sets out the network connection process for new (or changed) connections and the Technical Rules govern the standards, procedures and planning criteria for the construction and operation of the electricity network.

Western Australia is an attractive market for renewables investment given the availability of natural resources and the design characteristics. The current Wholesale Electricity Market arrangements are

premised on an unconstrained network access design[1]. This has restricted Western Power's ability to connect any large scale new entrant generators to its network because of the cost and timeframes associated with reinforcing its network under the unconstrained access model. As a consequence there has been limited investment in any generation in the SWIS in recent years.

It is understood that to solve this issue for the long term, a change to network legislation is expected to be progressed in 2018. However, to allow new generators to connect to the network immediately on a constrained basis, during 2017 the Western Australian Government, the Australian Energy Market Operator (**AEMO**), Western Power and the Public Utilities Office (**PUO**) worked with the industry to develop the Generator Interim Access (**GIA**) solution (including the requisite amendments to the Reserve Capacity Mechanism (**RCM**) rules to allow certification on a constrained basis). The GIA solution will facilitate network connections before the implementation of a fully constrained network access model, without impacting on the rights of existing generators currently connected on an "unconstrained" basis.

This industry leadership, including the development of the GIA solution and amendments to the RCM, was required to urgently facilitate the changes necessary to ensure renewable investment continued to occur in the South West of Western Australia, which will in turn assist with the State's ability to meet its national Renewable Energy Target obligations in coming years.

The continued facilitation of connecting new generation, particularly renewables, to the Western Power network in a timely and efficient manner is vital. Alinta considers that an efficient and appropriate network investment plan for Western Power will provide the basis for this next wave of generation development in the SWIS.

To that end, Alinta considers that the current AQP and its 'first come, first served' nature does not adequately facilitate the connection of new generators or access seekers and that connections should be undertaken based on readiness to connect rather than first-on-the-queue. We therefore support changes that will improve the AQP and the ability for new generators to connect to the network in a timely and efficient manner. For additional detail on Alinta's position in relation to the AQP see section 3 below.

3. Applications and Queuing policy

The AQP details the processes, procedures and requirements for customers seeking and obtaining access to the Western Power network. The AQP is aimed at helping Western Power manage customer access applications in an orderly, transparent and fair manner, especially where network capacity is scarce.

Alinta considers that transparency, simplicity and timeliness are the key elements in relation to connecting equipment and gaining access to the network efficiently and effectively. This is very important to ensure network barriers to entry are minimised.

[1] The market design assumes that electricity flows from generators to loads are unrestricted, with each generator able to output to its maximum capacity without threatening system security under normal network operating circumstances (i.e. with no major transmission lines out of service).

3.1 Treatment of dormant applications

Currently the AQP has a clause outlining that applications do not expire due to the passage of time, and there are no provisions regarding the termination of dormant applications. As a result, applicants can remain in the process indefinitely although no action is being taken to progress their connection applications.

Western Power is proposing to amend the AQP to include the concept of a 'dormant application' to set out a process and criteria for Western Power to determine that an application is dormant and should be progressed or be taken to have been withdrawn.

Under the proposed amendments, a 'dormant application' is one that no processing work has been undertaken or agreed to be undertaken for 12 continuous months. If this is the case, Western Power may give written notice to an applicant to assess whether there is any intention to progress the dormant application. This notice period will give the applicant the ability to give reasons why the application should continue. If an applicant provides sufficient information to keep the application processing, but an access contract is not entered into within a further 12 months then Western Power can terminate the application.

Alinta is highly supportive of the proposal to include the concept of a dormant application in the AQP given inactive applications impact the priority date mechanism and the release of spare capacity to applicants ready, willing and able to proceed to a connection but whose applications have a later priority date.

In noting this support, Alinta urges consideration of whether a 12 month plus 12 month dormant application process is too long, and whether a shorter period would better meet the Access Code objectives.

3.2 Change to fees

Western Power is proposing an amendment to clause 24.3(a) regarding the payment of the preliminary offer processing fee following acceptance of a preliminary access offer (**PAO**). Specifically, Western Power:

- considers that the contributions policy regulates the manner in which contributions are calculated and this does not need to be dealt with in the AQP in any detail; and
- notes that the contributions policy deals with the situation of an applicant paying an amount greater than its contribution determined in accordance with that policy.

While Alinta agrees in principle that this scenario should be dealt with in the correct policy, and on face value, the contributions policy appears the most appropriate place for it, Alinta considers that it is not immediately clear how an applicant paying an amount greater than its contribution will be dealt with in the contributions policy as it currently stands.

As such, Alinta considers that greater clarity is required in the contributions policy as to how it deals with any PAO fee exceeding any contribution payable under the contributions policy, and whether any excess payments will be offset against amounts payable under an access contract.

3.3 Determination of a contestable customer

Western Power is proposing to replace the current definitions of "contestable" and "contestability threshold" with a new definition for "contestable customer" to read:

> "contestable customer" means a *customer* to whom the supply of electricity is not restricted under section 54 of the *Electricity Corporations Act 2005* or under another enactment dealing with the progressive introduction of *customer* contestability.
>
> {Note: At the time this applications and queuing policy comes into effect, the relevant instrument under section 54 of the *Electricity Corporations Act 2005* was the *Electricity Corporations (Prescribed Customers) Order 2007*, gazetted 29 June 2007.}

Further to this, clause 13.1 is being amended so that when Western Power receives a transfer application, connection application or transfer request, it must determine if that application or request is being made for the purpose of supplying electricity to a contestable customer at that exit point.

Finally, Western Power is proposing that the contents of clause 13.2 (rules for contestability) are deleted in their entirety as it considers that the criteria for whether an application or request relates to a "contestable customer" is now set out in the new definition of "contestable customer". At present, if a customer meets the contestability threshold and are then determined to be contestable, they stay contestable under clause 13.2(a) of the current AQP.

Alinta acknowledges that it is desirable to amend the relevant provisions of the AQP (i.e. clauses 2.1, 13, 9.1 and 14.4(c)) so that they more closely align the contestability test with section 54 of the *Electricity Corporations Act 2005* (WA) and *Electricity Corporations (Prescribed Customers) Order 2007* (WA). However, a retailer - other than Synergy, which is not exposed to full competition - needs to have confidence and certainty that:

- a customer it proposes to supply is in fact "contestable" under the new definition in clause 2.1 well before it makes any offer to that customer and certainly before it makes an access application to Western Power, and
- once it enters into an access contract with Western Power (or adds a connection point under an existing access contract) in relation to the supply of electricity to a customer who is assessed by Western Power as being "contestable", the contract will continue for its full term even if that person's electricity consumption subsequently declines.

Alinta is concerned that the proposed amendments may increase the risks faced by electricity retailers who compete to supply electricity to contestable customers, which ultimately leads to the creation of uncertainty for customers. That is because the amended provisions reduce, perhaps inadvertently, the level of confidence that retailers may have in relation to the two points outlined above. Alinta therefore requests that the ERA carefully consider Western Power's proposed changes to ensure that retailers are not faced with unreasonable levels of risk in relation to the assessment of customer contestability, and that the proposed amendments do not lead to undue levels of uncertainty for the customer.

4. Incentives on Western Power to act commercially

Alinta notes that there is always considerable debate regarding the appropriate parameters used to establish a Weighted Average Cost of Capital (**WACC**) in regulatory decisions.

Alinta strongly believes that the regulated rate of return should incentivise service providers to act in a commercial manner when making efficient investment decisions. 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 should incentivise Western Power to move towards what would be considered as an "efficiency frontier" for Network Service Providers. Further, the costs of capital for a service provider must reflect the level of risk involved in operating the service.

While the rate of return allowed for Western Power is a major driver of both the regulated revenue and the level of tariffs, Alinta does not intend commenting directly on this issue at this point in time, although it reserves the right to provide commentary to the ERA after the release of its draft decision.

5. Network expenditure through the AA4 period

Western Power has proposed total capital expenditure for the AA3 period in excess of $3.7 billion with net capital expenditure in excess of $2.9 billion to be added to the Regulatory Asset Base (**RAB**).

This increased capital expenditure is a significant driver of increased tariffs for the AA4 period, and will continue to be in subsequent access arrangement periods.

Alinta notes that Western Power has underspent its capital allowance in both AA2 and AA3. Alinta's principal concern relates to Western Power's internal resources to meet the capital expenditure it has proposed in its submission, specifically its ability to spend the capital in its regulatory proposal.

While there are major distinctions between the current Western Australian regulatory regime under the Electricity Networks Access Code and the NEL and NER, Alinta notes that in regulatory decisions under the NER, the AER has taken into consideration the underspend/overspend of capex in previous regulatory decisions when approving capital expenditure for that particular regulatory period. Alinta considers that the Authority should assess Western Power's forward proposed capital program, in particular it should assess whether or not Western Power will have the resources to meet its capital program.

Further to this, Alinta consider that in relation to the proposed capital expenditure, it is vital that the New Facilities Investment Test (**NFIT**) is rigorously applied and that the ERA satisfies itself that the actual and proposed expenditure has been/is prudent (particularly with the imminent move to a constrained network access design[2]) and can be incorporated in the capital base as proposed by Western Power.

Finally, we are continuing to see a decline in peak demand due to factors such as the increase in solar PV systems (in which Western Australia has a very high penetration rate), as such, a question

[2] In this regard, Alinta was surprised that forecast transmission capital expenditure was essentially flat against AA3 actuals. Alinta would have expected transmission capital expenditure to be reducing given the imminent move to a constrained network access design.

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 ERA and Western Power to take a cautious approach, given that should demand warrant expenditure to be bought forward, Western Power can utilise the NFIT provisions within the Access Code.

The decline in peak demand could see an under-utilisation of particular assets across the SWIS. We would question whether some of the existing asset base should include write downs in value as a direct consequence of this.

6. Price path and network tariffs

Prices set to recover target revenue are calculated by revenue building blocks. The timing of expenditure varies during an access arrangement period. Therefore the building block revenue required each year can vary. To minimise price volatility, it is normal to smooth the recovery of revenue over the five years to minimise variances year on year.

Alinta understands that, as a result of the revenue smoothing process in the previous access arrangement period the transmission revenue path is substantially lower than what it would have been under the building block revenue approach at the end of AA3. While target revenue for the AA4 and AA3 is similar, Western Power considers that the prices at end of AA3 are so far below the revenue building blocks that there must be a sharp price increase (even with a smooth price path) to recover the transmission target revenue for AA4 (this issue is exacerbated by the fact that the AA4 network tariffs do not come into effect until 1 July 2018).

If there is no price shock mitigation and Western Power recovers its forecast transmission target revenue over AA4 then the transmission tariffs will need to increase by 18.2 per cent year on year (**option one**). This significantly increases the cost of generation and represents a significant and ongoing price shock for both transmission connected customers and generation connected to the grid via their entry point charges.

Western Power quite rightly recognised the price shock that option one could have on transmission customers and presented the ERA with a number of alternatives. The recommended option (**option four**) was to defer $234 million of transmission revenue (and bring forward the recovery of previously deferred distribution revenue) noting that this has the effect of limiting the transmission price increase to 10 per cent per year.

Western Power considers that this option reduces the price shock for transmission customers, while ensuring Western Power remains revenue neutral, and goes some way to ensuring a similar issue does not occur in the AA5 period. There would also be a minor impact on distribution customers, as bundled tariffs would be 0.02 per cent higher.

Alinta considers that every effort should be made to minimise price shock to any network customer and to ensure that the cost of generation is not unduly impacted, which will ultimately be passed on to end consumers. It should be noted that option 4 also increases the cost of generation and still represents a significant and ongoing price shock.

Alinta understands that the ERA could consider option four to be a form of cross subsidisation by increasing the tariffs paid by one type of network user to subsidise the tariffs for another type of network user. Alinta does not consider this to be the case given option four is not decreasing what it recovers from transmission tariffs at the expense of what it recovers from distribution tariffs in the longer term. It is merely changing when it recovers revenue (from distribution expenditure that has already been incurred and previously deferred – presumably to avoid a price shock of its own) in order to minimise the effects across all customers in the longer term. Subject to the ERA's assessment of whether the proposed target revenue represents an efficient and prudent level, Alinta would support option four as a pragmatic solution which balances the impacts of all customers over the longer term, while ensuring Western Power remains revenue neutral.

7. Western Power's Proposed Advanced Meter rollout

Recent network determinations in the NEM have seen costs related to meters and metering installations removed from the RAB and reclassified as alternative control services (which have capped prices). This has resulted in customers paying upfront for metering equipment to be installed at new connections and when a replacement meter is requested. This change was made to remove the capital obligations from the networks and position the market for the introduction of competitive metering under the Power of Choice reforms.

Western Power proposes to install advanced meters for new and replacement meters and forecasts an anticipated 355,000 advanced meter installations during the AA4 period.

While Alinta considers that the benefits from advanced meters would be better realised in a competitive environment whereby the market drives the delivery of retail product offerings and services to consumers via different and innovative technologies, in principle, Alinta does not object to Western Power's proposal to install advanced meters for new and replacement meters. Alinta understands the deployment should enable retailers to develop and offer new products and services currently unavailable to the majority of customers. However, to ensure that these benefits are achieved, consultation with retailers on the appropriate technology to be rolled out, including the communications technology, should be frequent and ongoing.

While Alinta does not object to the proposed advanced meter rollout per se, it's important that any decision by Western Power today regarding the bulk replacement of meters does not preclude contestable metering from being introduced in the future by making the network operator the only obvious owner of the meters going forward. Alinta is concerned that, under Western Power's proposed plan, it could introduce a significant barrier to the introduction of competition in metering and related services in Western Australia (now or at a later date).

The previous government's Energy Market Review (**EMR**) recognised that providing a competitive framework for competition in the provision of metering services has the potential to facilitate higher service quality and greater accountability, in addition to providing metering services more cost

efficiently[3]. Alinta is broadly concerned that Western Power's proposed approach is the opposite to this intent and that there is a risk that it does not sufficiently focus on, or unlock the primary benefits of advanced meters that are available to consumers.

Alinta considers that Western Australia can learn from the mistakes of other States, notably Victoria, which followed a process very similar to that proposed by Western Power. See section 7.1 for a summary of the Victorian Smart meter rollout.

Western Power's AA4 information summary document refers to its AMI Business Case, which "*outlines the incremental deployment of advanced meters and associated communications infrastructure over the next 15 years*". This business case is not available to all stakeholders therefore it is difficult to assess the proposal in its entirety from the information that has been released publically. Given this, Alinta is interested in acquiring further information around:

- How Western Power has taken the key learnings from the Victorian AMI experience into account to ensure similar outcomes are not repeated in Western Australia;
- Will Western Power be able to source its requisite number of meters given the very real concern of a world-wide shortage of advanced meters;
- What meter technology is Western Power going to use and will the meters be fully functioning (i.e. communications enabled) meters;
- What will Western Power do if there is no sim card coverage;
- How is Western Power handling asbestos and other hazards for example fatigue , bees, wasp, snakes, syringes;
- What will be the customer experience and what is Western Power's approach for dealing with the customers that don't want an advanced meter;
- Will Western Power require the customer to be home; and
- What is Western Power's complaint handling and escalation processes.

Finally, Alinta recommends that the ERA benchmarks Western Power's proposed advanced meter capital expenditure and operational expenditure against competitive meter service providers in the NEM.

[3] Alinta recognises that a move to contestable metering is a significant undertaking, one which we don't yet have a policy position on in Western Australia under the current Government.

7.1 Case study - Smart Meter Rollout – the Victorian Experience

In 2006, the Victorian Government approved the Advanced Metering Infrastructure (AMI) program. It aimed to replace accumulation meters in Victorian homes and small businesses with smart meters between 2009 and 2013. The program mandated that every Victorian household would have to have, and pay for, a smart meter, whether it wanted it or not and that each household would have the same type of meter, whether it suited their needs or not. The meter continued to be owned by the distributor, even though the consumer has to pay for it.

In 2009 the Victorian Auditor General's Office (VAGO) tabled the report *"Towards a 'smart grid'—the roll-out of Advanced Metering Infrastructure"* which found significant deficiencies in the AMI program in relation to governance, risk management, consumer education and engagement with the relevant regulator for the purpose of monitoring and overseeing the transfer of expected benefits to consumers.

Since the program reset in 2011, governance structures were put in place to strengthen the oversight and management of program risks. This included improved communications and actions to address delays to the smart meter rollout and the scrutiny of costs.

However, despite considerable improvement in the relevant program areas, significant challenges to consumers' understanding of the benefit of smart meters remained. In 2015, VAGO undertook an audit which examined whether the AMI program is delivering expected consumer benefits and is set up to maximise longer-term benefits. It concluded that:

"while VAGO's 2009 recommendations have been substantially addressed, these changes have not been sufficient to overcome manifest problems with the program's design…Approximately only 80 per cent of original benefits are forecast to be realised, and consumers may experience a higher net cost than the most recent $319 million estimate."

Smart meters giving Victorian consumers 'no benefit' on electricity bills, auditor-general says

By Jean Edwards

Updated 16 Sep 2015, 3:52pm

Victorians have paid more than $2 billion for the roll out of electricity smart meters but have received few benefits, an auditor-general's report has found.

The report said the greatest benefit from smart meters over the life of the program related to avoiding the costs of installing and manually reading older meters.

"When the rollout was announced, the benefits were promoted widely," the report, which was tabled in State Parliament, said.

"However, when the Government reviewed the program in 2011 it was clear there would be no overall benefit to consumers, but instead a likely cost of $319 million."

Image source: http://www.abc.net.au/news/2015-09-16/smart-meters-giving-victorian-consumers-no-benefits/6780566, accessed 11 December 2017.

8. Revisions to the Model Electricity Transfer Access Contract

The standard Electricity Transfer Access Contract (**ETAC**) is the model transport access contract approved by the ERA. Network users are free to negotiate an alternative ETAC.

Under the Western Australian regulatory framework the standard ETAC must be reasonable, sufficiently detailed and complete to form the basis of a commercially workable contract. The model ETAC must also be consistent with Access Code objective of promoting economically efficient investment in, and operation and use of, the network and services of networks in order to promote competition in upstream and downstream markets.

Alinta is not convinced that Western Power's proposal to:

- impose a strict obligation to ensure contracted capacity in respect of a connection point is not exceeded;
- give itself the right (and not the retailer) to determine the transport service a retailer's customer must receive; and
- amend network liability and insurance requirements in favour of itself,

is consistent with the Access Code objective, and recommends that the ERA focuses on these issues in particular in its assessment of the ETAC. Alinta addresses each of these issues below.

8.1 Limits on exceeding contracted capacity

Alinta does not agree with the proposed amendments to clause 3.1(c) of the ETAC to strengthen the provisions requiring users to keep within their contracted capacity (from a reasonable endeavour to an absolute obligation). Alinta does not consider that this meets the reasonableness test to form the basis of a commercially workable contract and objects to this change in its entirety.

Alinta notes that the Excess Networks Usage Charges (**ENUCs**) framework provides sufficient incentive for a generation facility to not exceed its contracted capacity in the majority of circumstances.

Noting this, Alinta considers that there are scenarios where a user should be able to exceed their contracted capacity. For example, under system abnormal conditions System Management should be able to, and has requested in the past, a generation facility to generate higher than its contracted capacity in order to assist with maintaining power system frequency and security. Alinta notes that Western Power's current ENUCs document allows a generation facility to operate above its contracted capacity twice a year (without incurring ENUCs) for the purposes of Reserve Capacity Testing, this arrangement should continue.

8.2 Unilateral right to determine a transport service

Western Power is proposing to insert a new clause 3.2(c) which gives it a unilateral right to select the reference service for a customer or could even select a non-reference service. The reasoning is that this is more efficient for it in the era of rapid technological change.

Alinta does not consider that this meets the reasonableness test to form the basis of a commercially workable contract and objects to this change in its entirety. Alinta strongly considers that the

customer is best placed to select the retail tariff they want and the retailer should select the appropriate network/ transport tariff.

8.3 Amendments to liability arrangements

Alinta is broadly concerned with Western Power's suite of changes amending the network liability frameworks in favour of itself. Alinta is concerned that the proposed liability regime is increasing a retailer's exposure unreasonably and as such, is not consistent with the Access Code objectives.

8.4 Requiring generators to give advance notice of material changes to their plant

Alinta notes that proposed clause 13(c) requires generators (other than small customers operating small scale generators) to give advance notice to Western Power of material changes to their plant. While Alinta does not disagree with the sentiment of this amendment, we do question whether this requirement is already adequately catered for under the Technical Rules and AQP processes.

9. Reference services

Reference services are standard services specified in the access arrangement with a published tariff, standard access contract and service standards. It is a service that would typically be sought by a third party seeking access to the network and can be used as the benchmark for negotiations for access seekers connecting under a non-reference service.

Under Western Australia's arrangements, a retailer is able to request the network operator to provide the services a retailer requires, provided the services are likely to be in sufficient demand in the regulated network. At present, the retailer determines and nominates the transport service on behalf of its customers, not the network operator.

Alinta considers that the ERA should satisfy itself that Wester Power's proposal to mandate time of use reference services for any customer of a retailer who receives a type 4 meter is consistent with the Access Code objectives. Alinta notes that in the NEM it is standard for customers to be able to opt in or opt out of time of use transport charges, and that at times the take up of time of use reference services is less than expected.

Alinta also suggests that the ERA benchmarks Western Power's reference services against those offered by network operators in the NEM to determine reasonableness of choice for SWIS consumers.

Alinta makes reference to the proposed time of use and demand reference services which introduce a shoulder time class[4] but at this stage will have the same price for each of the proposed three time bands for 2018/19 (i.e. no different to the current anytime tariff). Of concern, there is no disclosure as to what the price path will be beyond that year. This makes comparison with existing tariffs problematic.

Finally, Alinta notes that Western Power proposes to amend the existing metered demand tariffs (HVMD and LVMD) whereby the definition of peak is being amended from the current 8:00am-10:00pm to the proposed peak period of 3:00pm-9:00pm, with the inclusion of Saturday and Sunday

[4] This will impact retailers billing and pricing activities that will necessitate modifications to existing systems and approaches.

peak times on the LVMD tariff[5]. Alinta notes that this is the first change to the structure of existing metered demand tariffs for some time and acknowledges that tariff structures need to evolve over time to meet changing needs. Noting this, many of the customers on these tariffs are likely to be on pass-through contracts. As such, these changes will affect them directly and Alinta considers Western Power will have a vital role to play in communicating these amendments.

10.Model service level agreement

The Model Service Level Agreement (**MSLA**) sets out the base terms and conditions that metering services will be provided by the network operator to a retailer.

Given Western Australia has yet to adopt the NEM's 'power of choice' approach and meter service provision is still a monopoly service, it is very important the proposed MSLA (as required by the Metering Code) reflects the requirements of retailers and also delivers the Metering Code objectives.

Alinta is concerned that Western Power's proposed advanced meter deployment arrangements are not fully disclosed to the industry (and reflected in the MSLA as required). For example, Alinta notes that Western Power has yet to release its full advanced meter specification, nor its proposed communications technology to the market.

Alinta recommends that the ERA benchmarks Western Power's proposed service standard benchmarks against competitive meter service providers and comparable distributors in the NEM.

11. Transfer and Relocation policy

The Transfer and Relocation Policy (**TaRP**) is an Access Code requirement that gives customers with existing contracts the right to transfer their access (transport) rights to another person and to relocate their contracted network capacity at a connection point to another connection point, in doing so minimising the costs of augmenting the network.

Western Power has proposed a number of amendments to the TaRP. Alinta does not intend to specifically comment on the proposed amendments noting that in its regulatory determination the ERA will assess whether Western Power's TaRP meets the Access Code's objectives, specifically whether:

- the proposed changes are a reasonable apportionment of risk between the customer and network operator;
- the amendments provide the network operator with excessive discretion in determining the extent to which a customer may be permitted to exercise its transfer and relocation rights; and
- the requirement for the TaRP to be subservient to the AQP is consistent with the Access Code.

[5] This will impact retailers billing and pricing activities that will necessitate modifications to existing systems and approaches.

While the TaRP is changing, Alinta strongly considers that any existing rights agreed under a customer's existing contracts should be retained, and if, in the move to a security constrained network design, new connections agreements need to be entered into, these existing rights should be grandfathered.

12. Force Majeure and Trigger Events

The Access Code provides that costs incurred during an access arrangement period as the result of an unforeseen event can be recovered via an adjustment to target revenue in the next period. Specifically, Western Power is able to:

- recover prudent and efficient capital and operational expenditure incurred during a previous access arrangement period as a result of a force majeure event that was unable to be recovered under Western Power's insurance policies; and
- specify one or more trigger events in the access arrangement, after which have occurred, require Western Power to submit proposed revisions to its access arrangement.

Before determining whether a trigger event is consistent with the Code objective the ERA must consider whether the advantages of including the trigger event outweigh the disadvantages of doing so, in particular the disadvantages associated with decreased regulatory certainty.

Western Power proposes three changes to unforeseen and trigger events for the AA4 period to:

- include a new unforeseen and trigger event relating to 'Government energy reforms';
- remove the mandated roll out of advanced interval meters as a trigger event (instead treating this under the Investment Adjustment Mechanism (**IAM**); and
- remove the redundant reference to the carbon pricing mechanism announced in 2011.

Western Power considers that *"any Government-led reform, such as those proposed under the Electricity Market Review (**EMR**) some of which have recently been reaffirmed by the Minister for Energy, could have a significant impact on Western Power's expenditure. As these would be mandated and largely outside of Western Power's control, we should be provided with the opportunity to recover these costs either:*

- *in-period using the trigger event provision to re-open the access arrangement*
- *in the following access arrangement period using the unforeseen event provision."*

[Alinta emphasis added]

Alinta notes that the Government energy reforms recently reaffirmed by the Minister for Energy are not an unforseen event. Given this, we do not consider that it is appropriate to include a new unforeseen and trigger event relating to the 'Government energy reforms' already announced by the Minister for Energy and that any over or under recovery of revenue in this area would be more appropriately dealt with under the IAM. Alternatively Western Power could utilise the revenue received from the gain sharing mechanism for this purpose.

Clause 8.1.1 of the Access Code defines a trigger event *"as any significant unforeseen event which has a materially adverse financial impact on Western Power and which is…so substantial that the advantages of making a variation to this access arrangement before the end of this access*

arrangement period outweigh the disadvantages, having regard to the impact of the variation on regulatory certainty".

Western Power has proposed to include any government energy reforms (Alinta emphasis) as a new unforeseen and trigger event. Alinta's understanding is that these trigger events define when Western Power has to reopen an access arrangement. There could be any number of government energy reforms (i.e. a change to the metering code for example) that could in no way be defined as "*so substantial that the advantages of making a variation to this access arrangement before the end of this access arrangement period outweigh the disadvantages".* The proposal that any government energy reform could reopen an access arrangement for reconsideration gives rise to significant and untenable regulatory uncertainty. Alinta values certainty, and as such, we advise caution against including such a broad and undefined trigger event.

In addition to this, Western Power proposes to amend the "full retail contestability" trigger event to simply refer to "contestability". Alinta agrees that a move to FRC could have a material financial impact on Western Power, specifically in regards to the development of IT systems to facilitate FRC (assuming that Western Power retains its role as Retail Market Operator). However, Alinta would question whether a reduction in the contestability threshold would be deemed to be a significant enough event to warrant reopening of the Access Arrangement.

13. Timing for the next review of the Access Arrangement

Western Power has proposed that revisions for the next access arrangement period (AA5) should be submitted to the ERA by 1 March 2021 with a commencement date of 1 July 2022. It notes this will allow a 15-month period to conduct the access arrangement review process.

Alinta notes that the Minister for Energy has announced several electricity sector reform initiatives involving work to be completed by the PUO. One of these areas of reform is to improve access to Western Power's electricity network by implementing a constrained network access model in the SWIS. Alinta understands that the intention is to introduce legislative amendments to Parliament by mid-2018 to support completion of the required regulatory changes by mid-2020.

It is therefore likely that we will be in an entirely new regulatory environment with regards to a constrained network access model for the SWIS for AA5. At this stage there is significant uncertainty as to what this means in practice – particularly with regards to current access rights and what a future connection contract may look like. As such, Alinta considers that it would be prudent to allow a longer than usual period to conduct the AA5 review processes and suggests at least 18 months should be allowed. This additional time will be required in order to allow current users, prospective access seekers, Western Power, and the ERA sufficient time to understand the implications appropriately.

14.Further engagement

Alinta trusts the information contained in its submission will assist the ERA in making a regulatory determination to ensure AA4 meets the needs of its current and future uses, promotes economically efficient investment in, and operation and use of, the network and network services and does not act as a barrier to competition in markets upstream and downstream of the transmission and distribution network.

Alinta welcomes the opportunity to continue to engage with the ERA on this submission. If you require any further clarification on any of the matters raised please directly contact Jacinda Papps, Manager, National Wholesale Regulation, on 08 9486 3009 or alternatively **jacinda.papps@alintaenergy.com.au**