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Proposed Revisions to the Western Power Network Access Arrangement

Please accept this submission on matters identified in the Issues paper pertaining to the above and Western Power's Access arrangement information.

Key points

- Delivering value to customers requires the pursuit of **allocative efficiency** and not just technical efficiency
- Failing to focus on **outcomes** and remaining output focused may be jeopardising Western Power's (WP) ability to take a **systems** and not siloed approach to delivering **customer value**
- An '**out of sight, out of mind**' **customer billing system** may limit opportunities for **education and information sharing** critical to the acceptance of new tariffs
- The desire to classify **Government energy reforms as force majeure or trigger events** are symptomatic of a more **reactive stance in the public service** over the past decade in response to the rise of **Ministerial innovation**. The latter really needs addressing to avoid the former.
- **Advanced metering infrastructure is generally not supported in the investment adjustment mechanism** because it delivers efficiencies in terms of meter reading, re-energisation, replacement and refurbishment of meters. It is not just about responding to factors outside WP control like demand for energy.

Issue 1: Does Western Power's approach to its Network Investment Plan for AA4 meet the Access Code objectives and new facilities investment test?

Western Power (WP) has taken a narrow view of its role in servicing customer's energy needs in its approach to the Network Investment Plan for AA4. Arguably their approach does not promote the economically efficient investment in and operation of, and use of networks and services of networks.

Old and new technology – overhead vs underground

While WP appears to consider the impact of emerging technology on its business, forecasting that planned capex on capacity expansion is expected to be 72% lower in the AA4 period than that forecast in the AA3, it fails to recognise in the Perth Metropolitan Area the broad, long term benefits and costs of converting overhead (old technology) to underground (new technology). It's a missed opportunity that this issue was not considered in the context of the massive investment in the delivery of the wood pole management program in Perth in the AA3 period.

The popularity of the State Underground Power Program (SUPP)¹ sends a strong signal to WP that its customers value underground power. The SUPP is unnecessarily dividing local communities given councils must lodge bids for funding 800 lots at a time.

If WP is committed to driving investment based on customer preferences it needs to consider how it can proactively work with customers and local governments to convert overhead to underground based on who benefits, and hence who should pay. The ERA's inquiry into the costs and benefits of the SUPP (2011)² outlines such an approach. Importantly with an increase in extreme events forecast due to climate change, pressure on overhead is only going to get worse e.g. recent severe storm cell in Kalgoorlie forcing down powerlines and leaving 16,000 customers without power.

Issue 4: New tariffs and balance of fixed and variable charges

Time of use tariffs

While WP customers have responded positively to potential time of use tariffs it is understood this is more favourable among younger customers, and is predicated on customers being well informed of the benefits. How therefore, will WP ensure that time of use tariffs do not impact on an aging population (particularly lower socio-economic households) vulnerable to heat stress exacerbated by climate change. Research by the RMIT University has found older, less financially secure households are generally more likely to ration cooling device use during a heatwave particularly if public messaging urges conservation³. RMIT also found that electronic billing and direct debit arrangements may undermine energy literacy aims⁴.

Fixed and variable charges

While cost-reflective pricing is supported it should be implemented with due regard to the broader regulatory and technological context particularly concerning rooftop solar, battery backup and feed in tariffs.

Issue 5: Dates for next review

The dates proposed are inappropriate given the:

- pace of technological disruption
- current National Electricity Market crisis and its potential flow on effects to WA's electricity market and regulatory reform environment.

Issue 6: Proposed price control

Innovation

The application of Western Power's proposed approach may limit innovation. In the UK recent major reforms to electricity, gas and water sectors identified how building blocks in particular focused companies on cost cutting generally reducing innovation in service delivery, limiting customer input on service needs and provided little incentive to improve customer service⁵. The introduction of RIIO (Revenue=Incentives+Innovation+Outputs)

¹ 62 applications received for the recent Round 6 of SUPP with only 17 projects awarded funding.

² ERA (2011) *Inquiry into State Underground Power Program Cost Benefit Study*

³ Nicholls L., McCann H., Strengers Y. & Bosomworth K. 2017. Heatwaves, Homes & Health: Why household vulnerability to extreme heat is an electricity policy issue, Centre for Urban Research, RMIT University, Melbourne.

⁴ Ibid 3

⁵ KPMG (2015) *Application of the UK's RIIO reforms to the Victorian Water Sector*. Report prepared for the Essential Services Commission.

included a focus on totex (not capex and opex), incentives for companies to deliver better customer services, and making companies responsible for their business plans and performance⁶.

Technical vs allocative efficiency

While WP has informed its AA4 proposal on customer consultation it appears their approach may not clearly move the business away from defining processes to express entire proposals in terms of the outcomes that they will deliver to their customers. Such an approach is featured in the recent Water Pricing Framework and Approach established by the ESC with its focus on engagement, incentives and accountability⁷. Dr Ron Ben-David Chair of the ESC says “For too long, economic regulation has been focused on the pursuit of technical efficiency. Allocative efficiency is rarely mentioned, and we believe a greater focus here is warranted⁸.”

Western Power needs to inform all planning by engaging early and on an ongoing basis with their customers. It seems WP failure to focus in the Metropolitan Area on asking customers what they want in the context of the wood pole management program has resulted in a missed opportunity to create long term benefits and enduring customer value through potentially upgrading to underground power.

Issue 10: Building blocks

Unforeseen events

Western Power’s claim that the EMR is a force majeure event as per the Access Code is tenuous. In the Auditor General’s overview of *Western Power’s Management of its Wood Pole Assets* (2013) it was stated that ‘Western Power’s failure to respond adequately to an Order from EnergySafety in 2009 was a key driver of an inquiry by the Public Administration Committee which was reported in 2012. The inquiry highlighted an increasing loss of confidence in Western Power’s management of its assets and growing concern over the safety and reliability of the wood pole network⁹.’ Given poles and wires is the bedrock of WP business it should have foreseen the EMR and acted to prevent it.

Issue 14: Force majeure events

Government energy reforms

The inclusion of ‘government energy reforms’ as a force majeure event is not supported, and WP desire to include it is symptomatic of the power imbalance between heads of government departments/GTEs and Ministers. Research by Drs Robert Kay and Chris Goldpsink identified a shift towards a more reactive stance in the public service over the past decade in response to the rise of Ministerial innovation. Unfortunately with the public service adopting a more passive or delivery focused stance on this instead of a co-development position the level of failure is massively increased¹⁰. Western Power should turn this trend around by adopting a policy maker, not policy taker approach through understanding and delivering what their customers want and advocating for regulatory frameworks based on delivering customer value.

Issue 16: Investment adjustment mechanism

Advanced metering

Including advanced metering infrastructure in the above mechanism is not supported because it delivers efficiencies in terms of meter reading, re-energisation, replacement and refurbishment of meters. These are not

⁶ Ibid 4

⁷ Essential Services Commission (2016) *Water Pricing Framework and Approach: Implementing PREMO from 2018*, October.

⁸ Ibid 7.

⁹ Western Australian Auditor General’s Report (2013) *Western Power’s Management of its Wood Pole Assets*

¹⁰ Dr Robert Kay & Dr Chris Goldpsink (2012) *What public sector leaders mean when they say they want to innovate*. Produced by Incept Labs Pty Ltd.

factors outside WP control such as demand for energy and the relationship between the new metering technology and new tariff regime.

Issue 21: Trigger events

As per issue 14 the inclusion of 'government energy reforms' as a trigger event is not supported.

Issue 25: Contributions policy

How does the following statement on page 182 of Western Power's Access Arrangement Information report correlate with the changes in criteria for Round 6 of the SUPP whereby a larger percentage of contributions (above 50%) from local councils (and their ratepayers) was considered for the first time in project selection?

Western Power assumes a 54 per cent contribution rate for distribution customer driven works. This reflects the AA3 average recovery rate for contributions for the SUPP program¹¹.

How does it also reflect the findings by the ERA in 2011 that 'Western Power should contribute an amount equal to its avoided costs when a particular project area is undergrounded (on average between 15 and 35 per cent but could be more or less than this)¹².'

Sincerely,

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¹¹ Western Power (2017) *Access Arrangement information*.

¹² Ibid 2.