

# Community Electricity

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## Response to ERA Public Consultation

### Proposed Revisions to the Western Power Network Access Arrangement - AA4

#### Standing

Community Electricity is:

- a a licensed Electricity Retailer and provider of Electricity Retail Services and Market Consultancy;
- b a member of the originating Access Code Development Committee (2003 to 2004)
- c a member of the Rule Change Panel's Market Advisory Committee;
- d a member of the Economic Regulation Authority's Technical Rules Committees from time to time;

Further information is available at: [www.communityelectricity.net.au](http://www.communityelectricity.net.au)

#### Response

Community Electricity establishes the context and responds to the specific issues requested by the ERA as follows.

#### Context

1. We congratulate Western Power on its proposal to reduce operating costs by \$695 million compared to those approved under AA3.
2. We congratulate Western Power on its connection of some 700MW of rooftop PV over the period of AA3 across around a fifth of residences.
3. We congratulate Western Power on the cultural adjustment that underpins its Generator Interim Access regime and its industry leadership in one of the most important energy opportunities of recent time - capturing the benefits of the Clean Energy Regulations.
4. We support Western Power's proposal of a new force majeure event of "government energy reforms" and sympathise with its regulatory predicament. Following the old joke, the development of AA4 "shouldn't have to start from here." The state government's original planning was for regulation of the network to be transferred to the AER by JUL-18. This was then abandoned as a final act of the outgoing government after having passed the point of 'no practicable return'. Western Power was then required to urgently adapt having dismantled its resources in anticipation of a new paradigm. Further, the incoming government has announced that it intends to pursue major reform within the existing framework, but hasn't provided any detail as a basis for planning.

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5. We support Western Power's statements in its Access Arrangement Information to the effect that it expects the electricity grid will play a pivotal role in enabling customers to adopt new technologies such as peer to peer trading, micro grids, distributed generation and grid scale battery storage systems.
6. We support Western Power's statements that:
  - it has changed its thinking around peak demand and the way customers might use the network in the future;
  - it is seeking to structure tariffs in a way that optimises the use of the network;
  - it "must" (Western Power's term) evolve and keep pace with changes to customer preferences and advancements in technology to ensure the network remains relevant...";
  - it aims to provide incentive for customers to leverage the grid for their business models;
  - it aims to understand and shape end user perceptions and behaviour;
  - it aims to help customers understand how the grid can benefit them;
  - it recognises the importance of fully understand how technology will impact network assets and the energy solutions it offers;
7. We consider that such cultural innovations are a mandatory response to customer choice; for the first time, customers may choose between 'grid' and 'non-grid' solutions. Previously, customers have had no choice but to accept Western Power's policy and fund its right to raise revenue to provide a return on investment and cover operational costs.
8. Customer choice is the driver of the 'networks death spiral' whereby fixed network revenues are proportioned to decreasing consumption.
9. Although Western Power makes these wise statements recognising the challenges it faces, we perceive very little in the proposal that seeks to adapt in a material way. Rather, the proposal is for incremental stasis in the guise of evolution.
10. Western Power's Price List now constitutes the principal price signal for adopting alternative, non-network, solutions. Other signals include the Technical Rules and the ease of doing business with Western Power. It is imperative that Western Power aligns its charges with the decisions and behaviours it wishes to promote, and adapts to the different revenues that these prices will cause. In particular, user ("customer") investments cannot be undone; these consequences will have to born long term by both user and network regardless of whether mal-investment took place due to inappropriate price signals.
11. Designing network tariffs to promote the required customer behaviour is a complex matter because only very sophisticated customers know that they exist, let alone actively respond to them. The network charge is approximately one third of the total retail charge and customers perceive the holistic retail price signal rather than the structure of its individual components. In particular, the network signal competes with the Generating Capacity signal, which is also a third of the total. The Generation Capacity charge is concentrated on demand

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during the '6 hours of the system peak'. To the extent that that the capacity signal is congruent with the behaviour that Western Power wishes to promote, there is diminished need for network signals. To the extent that the capacity signal conflicts with the network signal, capacity wins.

12. The development of price signals is also complicated by the need to maintain the proper revenue to operate the network. A proper response to a price signal is equally a revenue reduction, and that revenue reduction has to be underwritten by a commensurate cost reduction or avoided cost. Network price signals therefore need to prioritise shaping marginal behaviour rather than average.
13. While it is uncertain how the new energy paradigm will evolve and on what time scale, it is very likely that the leading edge of battery penetration will occur during AA4 and that batteries will promote flattening of the system load. We suggest that a central issue will be whether batteries are decentralised, owned by users behind the meter, or centralised and owned by the network. Fundamentally, we speculate that utility scale batteries should be more cost effective than household batteries, and the challenge is for Western Power to leverage that fact. We speculate that centralised batteries will extend the life of baseload generation whether behind the meter at the generator or as part of the network and enhance the utility of the network, especially the transmission network.

## Technical Rules

14. The Technical Rules are central to the future development of the network. Amongst other things, inverter technology and bidirectional load flows will be a key feature of developments.
15. We note that the Technical Rules were not properly refreshed during AA3 despite 700MW of rooftop PV being installed. We suggest that the Technical Rules are in need of a full review. We support an initiative informally floated by Western Power a few years ago to move to a regulatory model akin to that used by the then IMO (replaced by the Rules Change Panel) to assess Rule Change Proposals.
16. It is important that the Technical Rules adapt to circumstances and care be taken to ensure that they are not abused to create a barrier to entry as a proxy for a genuine price signal. Such a barrier could prove to be the trigger of mass disconnection.

## The Regulatory Fiction

17. The Access Arrangement seeks to raise the proper amount of revenue for the effective & efficient operation and development of the network. This is achieved through application of a fictional structure which pretends that Western Power is a captain of industry that has identified a commercial opportunity, marshalled institutional capital and deployed it sparingly according to cost-benefit analyses designed to optimise commercial risk & return. The fiction runs that this captain of industry has a duty to its hosting society to facilitate 3rd party ancillary ventures even if in competition with it. It is therefore required to make available

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necessary portions of the assets to 3rd parties that have not participated in the risk or administration of the undertaking. However, limits are placed on the infringement of its property rights by compensating it through receipt of a proper return on capital for the assets in question plus reimbursement of operating costs.

18. Equally, access seekers are fictionalised as users who seek use of only limited aspects of the asset, and should pay only on a fitness-for-purpose basis. The fiction runs that these users have a perception of "value for money" from their use of the asset which is central to the terms of access.
19. This regulatory fiction in combination with Western Power's culture promotes the perception that end-users are free-riders making a nuisance of themselves rather than Western Power's reason for existing. Insofar as Western power is compelled to suffer the rascals, it is incentivised to invest capital as an end in itself in order to earn the regulated return regardless of its relevance to the service it provides.
20. In reality, Western Power is the steward of an asset largely funded by and vested in the state government on behalf of the community. Insofar as Western Power over-recovers its actual costs of capital and operating expenses, it pays to government a dividend. In this case, network users may be said to have provided a return to taxpayers through reduced taxes and borrowings. Insofar as Western power under-recovers, the government funds the shortfall and the taxpayer may be said to have subsidised network users. Of course, there is a large degree of commonality between taxpayers and network users.
21. In reality, users have no conception of 'value for money of a reference service.' Customers generally perceive the retail charges (not the network charges) and desire that 'their lights stay on'. Governments fear that they will lose office if sufficient lights go out for sufficient time. For some reason a loss of power due to extreme weather is acceptable, but loss due to a generation shortfall on a hot day (outside Western Power's control) is not. Vehicles hitting power poles sits somewhere in between. If reliability of supply is bad enough, commercial and industrial users install diesel back up. As the death spiral progresses, that backup is as much a commercial threat to the network as the technology of the new energy paradigm.

## The WACC

22. While the practical reality is that Western Power has an actual cost of capital and its asset base has an economic life of many decades, one of the core aspects of the regulatory process is determination of a permitted WACC to apply over the 5 year term.
23. Western Power is therefore incentivised to employ consultants to game it as high as possible. We suggest that this is the motivation behind the several nuanced enhancements to the process of determining the WACC.
24. In reality, the WACC is a consequence of prevailing investment conditions. Insofar as the cost of capital is high at a reset, Western Power is perceived as

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hero. Insofar as it is low, Western Power is perceived as villain. Meanwhile, the actual capital costs are largely legacy and largely follow the fortunes of the state's credit rating.

## Investment decisions

25. The WACC pertaining to the next 5 years sets the hurdle for new investment initiatives and to some extent constrains the "life" of the investment. We generally consider that the appropriateness of an investment should be assessed on the costs and revenues accruing from a whole of life basis and not limited by the end of an Access Arrangement period. Insofar as revenues and costs transcend one or more Access Arrangements, then proper provision should be made to provide for it.

## Electricity Corporations (Prescribed Customers) Order 2007

26. We note Western Power's acceptance that it has for a decade denied access to a class of customers through an incorrect interpretation of the above order. This action has benefited Synergy, as the monopoly supplier of non contestable customers, and impeded competition and development of the market.
27. We suggest that compliance with the Order is not at the pleasure of Western Power, the ERA, the Access Code, or an Access Arrangement. Rather, Western Power has breached the law for which Western Power should be held to account. Western Power should expeditiously remedy the breach and make proper atonement. Insofar as it delays remedy, we suggest that it is committing an additional breach. The fact that Western Power has made a proposal under the Access Code should not be permitted to obfuscate the matter.

## Contribution policy - revenue offset for residential customers

28. We note that in assessing the initial capital contributions payable by commercial users for connecting to the network, Western Power offsets 15 years' of usage payments to reduce the amount. Western Power is now proposing to apply that same discount to residential customers in order to make the initial cost of connection "...more affordable for more people".
29. We support this initiative as being self-evident. We welcome that Western Power has eventually been compelled to this realisation and note that they successfully resisted it for a decade. We cite this as evidence of Western Power's culture that end-users are parasites to be deterred from accessing the network. We suggest that the motive behind their new insight is the realisation that customers now how the choice of whether to connect and can no longer be sustainably gouged.

## Gain sharing mechanism

30. The tone of the gain sharing mechanism is that Western Power and the customers it serves are separate from each other and in zero-sum conflict in which a 'win' for the one is a 'loss' for the 'other'. Western Power speaks of customers receiving the majority of the benefits through reduced future opex

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costs and wishes to retain the benefits for a full 5 years.

31. The notion of Western Power keeping a portion of a gain shouldn't arise; investment should be efficient and it's people should be properly paid and facilitated to do a proper job - no more and no less. Insofar as gain sharing is permitted, Western Power is incentivised to game the mechanism to have standards set as low as possible. The notion of Western Power being incentivised to improve service standards where they are not valued by customers is plainly absurd. The fact that this issue arises is symptomatic of dysfunction in the regulatory fiction and Western Power's culture.
32. The question also arises as to the use to which Western Power's gain-share is to be put. If it is merely to properly account for the appropriateness of investments, that should be done expressly. It should not be allowed to provide Western Power with discretionary funds from which to fund frolics, executive bonuses and business inefficiency.
33. We note that Western Power is proposing to receive a "reward" of \$13.4 million while also proposing that the transmission system needs is to be subsidised by \$210 million from the distribution system. We are happy to propose a means of reducing the proposed subsidy to \$196.6 million. Western Power is also proposing to separately assess its rewards in respect of the transmission and distribution systems. We suggest that the assessment should remain holistic so as prevent gaming through cross-subsidy.

## Tariff equalisation contribution

34. We note that Western Power is proposing to apply the TEC as a fixed charge instead of a variable charge. This would entail residential customers being charged 24.1c/day (\$87 per year) instead of the current 1.3c/kWh.
35. We suggest that this is inconsistent with the Access Code clause 7.12b which requires the TEC to be allocated equitably between users; specifically, the proposal is that the most vulnerable members of society will unavoidably bear the charge of subsidising affluent users benefiting from the subsidy. Further, this cost would be born by Synergy, who could only pass it through to customers at the direction of government, which controls retail tariffs.
36. We support fixed charges insofar as they properly reflect costs, but we suggest that Western Power's proposal is an indirect method of increasing the fixed component of the network tariffs to mitigate the effects of competition.

## Advanced meters and time-of-use-and-demand tariffs

37. We acknowledge the importance of price signals in influencing customer behaviour and the potential for reducing future capital expenditure by flattening the system peaks. We also acknowledge that suitable metering is required to facilitate the price signals; there is no point in delivering a price signal that cannot be responded to. We note that Western Power proposes to spend \$209 million on advanced metering and intends to liaise with Synergy, as the monopoly retailer

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to residences, to jointly develop price signals based around a proposed set of time of use & demand tariffs.

38. We consider that the proposed initiative - metering & tariffs - is inappropriate because its effectiveness is contingent on the introduction of retail price signals, which is a government decision outside the authority of Western Power and Synergy. Network design also needs to recognise that bi-directional flows are of increasing importance while the proposed signals are uni-directional only.
39. The practical reality is that the structure of the existing retail tariffs has remained the same over the last 20+ years and the government has recently committed to price increases under the existing structures as a means of budget repair. Further, insofar as time of use tariffs were to be introduced, customers would respond to the holistic price signal without perceiving the network structure that contributes to it. In particular, the wholesale market capacity charge would dominate the price signal, making the impact of customer response to Western Power's cashflows unpredictable and likely to spawn unintended consequences through unbalancing revenues and costs.
40. While we support initiatives to flatten the system load, we suggest there are alternative and more effective means of improving the capital efficiency of the network, such as the strategic deployment of utility scale batteries. Given Western Power's recognition of the centrality of the network in future business models, we are surprised that it is proposing a decentralised uncontrollable solution, rather than a centralised targeted solution that would better serve it institutionally. Fundamentally, we suggest that utility scale batteries should be more cost effective than household batteries and the challenge is for Western Power to leverage that fact.
41. In addition to this initiative being a misallocation of capital, we consider that it will impair competition in a future contestable residential market and deter entry of Meter Data Agents wishing to compete with Western Power in the provision of that service. Given that the structure would be established under Synergy's monopoly, there is a risk that future competition could be impeded.

## Customer consultation

42. We note that of its million customers, Western Power conducted a phone survey of 3,500 customers (2,500 residential and 1,000 SME) and held nine workshops with 94 customers (64 residential and 30 SME).
43. We quote from Western Power's Customer Insights Report:

"Although customers were aware of Western Power, the vast majority were unable to describe the company's role. Customers knew that Western Power operated in the energy industry but did not know the company's responsibilities as the electricity distribution and transmission service provider. Only one in five residential customers (21%) and one in four SME customers (25%) are able to correctly identify Western Power's role. Only 10% of customers were able to correctly identify that Western Power's services contribute to approximately 20 to

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40% of an average electricity bill. The large majority of customers were either unsure or thought that Western Power's contribution to their electricity bill was greater than 41%."

44. We suggest that the majority of customers consulted actually thought they were talking to Synergy, their retailer. We suggest that the Western Power side of the conversation did not know that there are other retailers in competition to Synergy and which have to be treated equitably to Synergy. We question the probity of loosing Western Power on customers (with whom they have no ETAC) without a retailer chaperone. We were not informed if Western Power interfered with any of our customers.
45. We suggest that network tariff and their price signals are irrelevant to the mass of customers. In addition to Western power's "insights", customers are not informed of what the tariffs actually are (for example on a retailer bill) and do not know where to look for them; and good luck to them if they do find the actual document that contains them.
46. Insofar as we were consulted as a retailer, our advice has been entirely ignored.

## Tariff developments

47. We note that Western Power's tariff reform is targeted at reference tariffs that comprise some 50% of the Any Time Maximum Demand (ATMD). The other 50% is left unchanged except for harmonising the high-end tariffs to facilitate PV export.
48. We commented previously that there is no point in delivering a price signal that cannot be responded to. Equally, there is no point developing new tariff options that contain identical prices to existing tariffs but with more time structure, which is effectively of null effect.
49. Western Power has proposed new tariffs RT17 to RT20. However, with the proposed price settings, RT17 is identical to the RT1 and RT18 is identical to RT2.
50. The proposed tariffs RT19 and RT20 are different from existing tariffs and contain an important feature of defining a new Peak period. However, these tariffs are the same style as the S1 and T1 retail tariffs recently degazetted after 20 years of use which included a decade of obsolescence. This tariff style suffers the inefficiency that its maximum demand component is reset monthly and has no regard to system conditions; all months are of equal importance where in actuality only one or two drive network investment. Equally, users are penalised for behaviours that are immaterial. While these two new tariffs do create different cost outcomes, they are set to return higher revenue than their counterparts in all practical cases.
51. We challenge Western Power to demonstrate by application to sample load profiles that any of the new tariffs have any practical utility whatsoever.



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52. We consider that the proposed changes to the contestable RT5 and RT6 tariffs are dysfunctional in that the changes focus on bulk energy rather than instantaneous demand. Furthermore, there is structural conflict between this tariff style and the proposed tariffs RT19 & RT20. We challenge why two notionally similar tariff types would have conflicting structures; RT5&6 are annual anytime maximum demand with no energy charges, while RT19&20 are monthly peak period maximum demand with peak and off peak energy charges. We suggest that both styles are dysfunctional.
53. The RT5&6 tariff structures have remained unchanged since their inception nearly 20 years ago. While they have always been based on the importance of the maximum annual kVA demand, for a given load profile they charge the same for a load that peaks overnight on a mild autumn day as for a load that peaks in line with the system peak on a hot summer afternoon. Both tariffs apply a 'discount' factor calculated according to the proportion of Peak time consumption (bulk energy opposed to instantaneous demand) and the proposal is to change the Peak period to better represent the summer time load profile. However, this takes no account that PV penetration is depressing the middle-day consumption and that some geographical areas are winter peaking. More importantly, the proposal to redefine the Peak period fails to adopt the innovation contained in RT19&20 of confining the maximum demand to the Peak (new or current) period.
54. We further note that no reform is proposed in respect of the RT4 tariff (22% of ATMD) or the RT7&RT8 (17%). The RT4 tariff makes no reference to maximum demand, while the RT7&RT8 are driven entirely by maximum demand and make no reference to the timing of that demand or its relevance to network conditions. Further, RT7&RT8 incur penalties if the CMD is exceeded, regardless of its impact on the system. Similarly to the RT5 & RT6, overnight peaking is classed as the same as summer time. Generators operating under the equivalent tariffs are potentially penalised when called to support the system to their fullest capability.
55. We consider that the proposed tariff reforms are a missed opportunity that do nothing to mitigate the death spiral, and guarantee mal-investment and an eventual price dislocation when the system is forced to reset. We suggest it is preposterous to base a programme of investment in advanced meters on such insubstantial fine-tuning and customer inability to understand or respond to the price signals.

## Trigger events and annual review

56. The tone of the assessment of the Access Arrangement is incremental, largely in response to the unexpected regulatory dislocation. Western Power and its regulator immediately 'rolled over' AA3 for a gap-year, including the extension of the Price List prevailing in the final year of AA3. We support this action as being reasonable, simple and quick. We would also have supported incrementing prices by CPI for the gap year, but no matter; customers benefited.
57. We caution against locking in incremental adjustment for the next arrangement period. If incorrect price signals are locked in place now, society could be steered

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into mal-investment to the detriment of everybody, including the network operator, network owner and users. We note that Western Power proposes that some aspects of the arrangement be trued-up annually, and we suggest that this style of approach should be generalised to provide more time for contemplation of the future arrangement. This is especially relevant as the new government may (and presumably must) trigger Western Power's Force Majeure proposal.

58. We consider that the new energy paradigm is developing so rapidly that annual true-ups and resets should be programmed into the Access Arrangement rather than be subject to structured trigger events. We suggest that to structure around triggers potentially excludes the potential for developments to counteract each other, such as an increase in capital costs being compensating for by consumption exceeding forecast. This would provide for an incremental approach to tariff reform and provide opportunity to contain and adapt to unforeseen and unknowable consequences.
59. Annual review would also remove the bureaucratic burden of urgently assembling an Access Arrangement that honours the ritual of the Access Code rather than its spirit. We support Western Power's proposal to the effect that, (our words) government policy is a wildcard that must be implemented and could reasonably be expected to conflict with the Access Arrangement. Clearly the government should not permit delay of its policies while we await termination of a 5 year access arrangement.
60. On this basis, we support the principle that network users should properly fund the network through timely usage charges, and we support fine-tuning the charges annually. However, this support is conditional on the assessment being conducted holistically whereby all relevant matters are taken into account. We do not support the proposed quarantined approach whereby Western Power is permitted to game the system by nominating only issues that it expects to increase its revenues. In particular, regarding the annual review of debt premiums, we note that the debt risk premium is generally expected to regress to the mean (increase) over the term of AA4 and thereby increase Western Power's revenues while all else remains equal.

## Price Shock

61. The Access Code seeks amongst other things to prevent price shock. We suggest that the meaning of this has to be carefully considered. The majority (by value) of the current network Reference Tariffs contain price structures that were developed some 20 years ago and have not been materially revised throughout that time. Insofar as price incentives have to be changed, shock will inevitably occur and those shocks will be incorporated into broader retail tariffs along with other price signals. It is to be expected that such shocks would be mitigated by phase-in over time and we suggest that this supports the notion of incremental tweaking of price signals and close monitoring of their consequences by means of an annualised true-up and reset.
62. Another important distinction in mitigating price shock is whether the mitigation is to apply within an Access Arrangement period or between Access

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Arrangements.

63. We acknowledge that transmission users face a potential increase of 18% per year and that the Access Code has as one of its objectives the avoidance of price shock between succeeding years.
64. Mitigation of a price shock constitutes a subsidy and blunts price signals; one class of consumers benefits while another class is disadvantaged.
65. Western Power proposes to subsidise transmission users at the expense of distribution users in order to avoid a shock that is due to the fact that the transmission users were subsidised throughout AA3 because of diminishing energy volumes. The logic seems to be that the existing unauthorised subsidy must be extended because to remove it would constitute shock. Noting that the crux of the emerging energy paradigm is the decentralisation of energy production and its interconnection through the distribution network, the proposal is to some extent for clean energy to subsidise coal. Further, we suggest that this isn't a 'shock' per se; it is an unstoppable trend towards reducing transmission volumes - the essence of the death spiral. We suggest that the anti-shock measure of the Code is intended to apply to price changes within an Access Arrangement; it is not intended to confounding trends and their price consequences. We suggest that the full price signal should be passed through without subsidy. To force distribution users to pay a subsidy is to cascade the need for it.
66. Insofar as forecasts go awry because of normal inaccuracy and threaten subsequent price shock, we support performing an annual true-up as part of the annual general adjustment conditional in it being broadened to include all the issues that bear on the prices.

## ETAC

67. We note that the Code requires that a Standard Access Contract must be reasonable, *may* be formulated without any reference to the Model Standard Access Contract, and is not required to reproduce in whole or in part the Model Standard Access Contract.
68. We advise that we have direct experience of applying for a reference service to effect a minor supply and were offered the full Standard Access Contract; the same contract as we signed as a retailer. In our experience, Western Power absolutely refuses to countenance any negotiation of the Model ETAC, even where this is unreasonable or a barrier to entry. Amongst other things, extrapolating our experience to that of a hypothetical householder wishing to engage in Peer-to-Peer Trading, the householder would be required to enter into the standard 62 page highly technical and legalistic Model ETAC.
69. We suggest that the relationship between Western Power and a new-paradigm user is simply one of "connect us, tell us what the charges are, and send us the bill". The contractual complexity is a barrier to entry.

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70. We suggest that the remedy of this issue is to mirror the arrangements of the Wholesale Electricity Market, whereby the Market Rules (and in this case the access contract) attaches to any party that registers as a Market Participant. This has the benefit of users being contractually bound (as they are in any case) but without the legal administration of a formidable technical contract and in the knowledge that the terms are applied equally to all and there's no negotiation (asymmetric benefit) to be had by loosing the lawyers.
71. As matters stand, there are different vintages of Access Contract in use. Indeed, a further vintage is proposed under AA4. This creates competitive advantages and impedes competition through discrimination between users. Further, within a vintage, advantages may be gained by parties possessing substantial legal resources and no time imperative. In practice, Western Power takes full advantage of prospective users' sensitivity to industry time windows and stalls until the user acquiesces through a time out. It also takes advantage of its general intransigent non-negotiable stance to bully into a contract features to which it has no right other than brow-beaten quiescence.

## Liability provisions

72. We note Western Power's concern that the liability provisions should "operate as intended" and are not circumvented by large commercial users utilizing the services but electing not to be party to contractual arrangements with Western Power. No detail of this issue is provided.
73. We sympathise with any user that seeks to avoid contracting with Western Power. The prospect of contracting with Western Power is barrier to entry and a price incentive to select a non-grid alternative.
74. We would emphasise the other side of the scale. The ETAC mandates that the minimum limit of liability available to users is \$1.2 million in respect of a every 100 consuming connection points. [Note: a single household user is presumed to be equivalent to 100 large industrial users]. For the purpose of insurance, it then rounds this up to \$50 million, which amount also accommodates the largest power stations on the system. In effect, 10 PTP traders in a street each have to insure for the same amount as a large power station, and collectively for \$500 million.
75. We acknowledge that this beggars belief. We substantiate the claim by quoting correspondence received on 5-DEC-17(our emphasis added):

User: Could you please confirm whether the insurance requirements are negotiable. This customer's consumption would be charged at around \$70,000 per year at the full retail tariff (in practice, much less) but, as the contract stands, it is treated the same as retailer supplying hundreds of customers and is required to carry insurance to \$50 million.

I haven't yet checked with the customer, but I would suggest that insofar as it already carries public liability insurance, it would be appropriate to look to that for guidance on an appropriate amount.

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Western Power: Western Power has reviewed your request regarding insurance requirements and does not agree to a reduction of the value for Public Liability as set out in the ETAC.

**Regardless of the size of the contract the risk of a connection into the SWIS remains unchanged.**

Under schedule 5 Part 1 (a)(i)(A) the User is required to have PL for not less than \$50M, or the maximum liability under clause 19.5, so it would be advisable for the User to have the amount of insurance that reflects the Limit of Liability.

76. For insurance to have effect, the insured must disclose to the insurer the precise nature of the risk. To perform that obligation, we requested Western Power to provide details of exactly what was to be insured (per their "operate as intended" remark quoted above) and they refused to provide it. AA3 documentation states that "the intention" was developed through workshops, so we lodged a freedom of information application to release the deliberations of those workshops. The response was that Western power has no such records.
77. Retailers raise capital from investors and must disclose to them the nature of the risk they would be taking. The practical reality is that Western Power could at any time proceed against a retailer because a customer supplied by the retailer is deemed by Western Power to have in some abstract manner damaged the network and caused an abstract magnitude of damage. Investors cannot understand that the risk, insofar as it exists at all because it presumes some form of negligence, is massively overstated and concluded that they aren't being provided with full disclosure. This is a barrier to entry.
78. We suggest that the network should be fit-for-purpose insured and the level should be properly determined. Further, Western Power should administer the insurance centrally and pass through the costs to users. We note that Western Power largely chooses to self-insure its liabilities, which are deemed to be at a much lower figure.

## New Reference Services

79. We note that under the Access Code parties are free to negotiate any service with Western Power, using the reference services in an access arrangement as the benchmark and basis for negotiations. Equally, Western Power exercises its freedom not to negotiate and to adhere rigidly to the one-size-fits-all model-ETAC that it games the ERA into accepting.
80. The access arrangement must also specify at least one reference service which enables a user or applicant to acquire an exit service at a connection point without a need to acquire a corresponding entry service at another connection point.
81. Notwithstanding Western Power's general refusal to negotiate, it is nonetheless proposing that where a customer requests a non-standard service it can develop a customised product as a non-reference service with conditions that vary from reference services, that there are no minimum service standards provided and

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Western Power can set prices without oversight.

82. While we support the notion of flexibly facilitating access to users, this proposal circumvents the reasonableness mandate that Western Power already ignores. We object to Western Power being authorised to capriciously and arbitrarily impose its monopoly power on a developing market. We consider that it will abuse this power to discriminate between users and erect barriers to entry. The extent to which Western Power bullies applicants into accepting onerous terms and conditions should not be underestimated. We suggest that the reasonableness mandate should be enforced and a low cost appeal mechanism where it is perceived not to do so. The alternative is to motivate disconnection from the grid.
83. We note that a recent investment prospectus for an Initial Coin Offering cites Western Power (and Synergy) as a partner to a Peer-to-Peer Trading firm. There is no transparency of this relationship and in particular the network access terms offered. We advise that Community Electricity operates Peer-to-Peer trading and our experience is very different, as outlined above.

## Conclusion

84. We perceive Western Power's proposal for AA4 to be creative stasis that unnecessarily inflates its capital base. While it accurately narrates the impending technology disruption and opportunities, it has proposed nothing substantive to adapt to it or improve its processes. It fails to perceive the death spiral in the transmission system and proposes that the solution to increasing transmission prices is to subsidise from the distribution system, thereby accelerating the cause.
85. We suggest that the principal issue is the impact of battery uptake and whether it is to be distributed, behind the meter, or centralised as part of the network. Centralised batteries have the potential to extend the utility of the network by enabling bi-directional flows and allowing transmission-connected power stations to run baseloaded. In contrast, distributed batteries are one step away from mass grid-disconnection.
86. Fundamentally, the Access Arrangement provides price signals in terms of tariff charges, the cost of connection, and the ease of doing business with Western Power, both contractually and through the Technical Rules. Customers now have the choice of using the grid or not using it.
87. On the face of it, Western Power has proposed tariff reform to customer classes representing half its Any Time Maximum Demand, but in a way that is of null effect and requires an extensive advanced metering programme to facilitate it. We suggest that the tariff reform is a subterfuge to bulk up Western Power's capital base through the metering programme.
88. We recommend review of the Technical Rules and implementation of measures to stop Western Power using them as a barrier to entry - that is, avoid the most likely single step that could cause distributed batteries to disconnect from the

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grid.

89. We recommend compelling Western Power to comply with the mandated reasonableness in access contracts and to cease application of the model-ETAC as one-size-fits-all.
90. We suggest that Western Power should look to its peers Horizon Power and the market operator for inspiration on how to integrate with the market.
91. We suggest that Western Power is not competent to fulfil the duty of developing an Access Arrangement to accommodate the new energy paradigm and we encourage the ERA to intervene and impose its own Access Arrangement. We recommend that the ERA should not simply roll over the existing arrangement for a 5 year term. Rather, the existing arrangement should be incremented by CPI and genuine strategies should be progressively implemented with an annual true-up and reset.

## Contact

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