

11 December 2017

Ms Nicky Cusworth
Chairman
WA Economic Regulation Authority
PO Box 8469, PERTH BC WA 6849

Email address: publicsubmissions@erawa.com.au

Issues Paper on Proposed Revisions to the Western Power Network Access Arrangement (2017/18 to 2021/22) – Energy Networks Australia’s comments

Dear Ms Cusworth,

Energy Networks Australia welcomes the opportunity to comment on the Economic Regulation Authority’s (ERA’s) Issues Paper on Proposed Revisions to the Western Power Network Access Arrangement (2017/18 to 2021/22 - AA4).

Energy Networks Australia is the national industry body representing businesses operating Australia’s electricity transmission and distribution and gas distribution networks. Member businesses provide energy to virtually every household and business in Australia.

Energy Networks Australia provides comments on the key issues raised in the Issues Paper below.

Comments on the Issues Paper

Incentives and benefits to customers

Energy Networks Australia notes that the ERA seeks views in relation to the effectiveness of incentive mechanisms in encouraging Western Power to become more efficient during the current access arrangement period. We note that the rewards earned by Western Power under the incentive scheme and proposed to be recovered are likely to indicate that the regulatory framework is working effectively because the regulated business is responding to efficiency and service quality incentives.

Members of Energy Networks Australia support the use of incentive-based mechanisms to promote continuous, effective and stable financial incentives for efficient expenditure. This is because incentives included in the price control mechanism encourage efficiency of networks’ spending and enable the sharing of benefits with consumers.

Once the regulator has set the revenue allowances, businesses have an incentive to improve efficiency to outperform regulatory benchmarks. If a business is successful in spending less than the efficient expenditure assumed by the regulator, the businesses may keep these savings for a time. However, the short-term rewards that businesses obtain from making such savings are ultimately translated into long-term benefits to consumers. This is because the businesses reveal the true scope for efficiencies to the

regulator. In subsequent periods, the regulator can use this information to set more challenging targets, thereby passing on savings permanently to customers.¹

Investment in new technologies

Western Power's access arrangement proposal includes the consideration of uncertainties and the possible effects of new technologies on service delivery methods over the next access arrangement period. The goal is to adopt innovative network solutions where they can be demonstrated as efficient.

Advances in technology are fundamentally redefining the way in which energy services can be provided. Continuing improvements in the capability and efficiency of distributed energy resources provide new opportunities for increasing the efficiency of electricity supply through micro-grids and stand-alone power systems.

Energy Networks Australia considers that the innovative approaches proposed by Western Power for its next access arrangement require proper consideration and the regulator adopting a pragmatic approach. In particular, we note the following initiatives:

- » the introduction of advanced meters and smarter and fairer tariffs that will give customers greater control over their electricity use; and
- » the proposed alternatives to traditional poles and wires solutions such as Western Power's proposed \$9.5 million investment to trial a microgrid in the tourist town of Kalbarri.²

Advanced metering infrastructure

Western Power is proposing to introduce advanced metering infrastructure across its network as part of the standard meter replacement program. This approach ensures a gradual increase in the number of advanced meters over time as opposed to a blanket roll-out.

There are significant network-related benefits of advanced meters. These benefits include (but are not limited to) reduced network costs, service quality improvement (for example, by management of power quality and voltage fluctuations to safeguard customer appliances as well as network equipment) and improved safety and reliability of supply. These benefits will in turn flow to customers through reduced cost and better service outcomes, as well as being a platform for further innovation.

Advanced metering infrastructure has a vital role to play in achieving the timely uptake of fair and efficient electricity prices. The Energy Networks Australia-CSIRO Electricity Networks Transformation Roadmap (the Roadmap) identified the lack of meter technology currently installed in some jurisdictions as the key barrier to widespread adoption of smarter network tariffs and retail pricing. Near universal

¹ Frontier Economics, Once Bitten Twice Shy, The basics of incentive regulation, March 2016, p.6.

² Western Power, Access arrangement revisions for the fourth access arrangement period, October 2017, p.99.

adoption of remotely-communicating advanced meters by 2021 is required for the efficient transition to better network tariffs which will enable substantial economic benefits and also remove cross subsidies. The Roadmap also emphasised the importance of closing the gap in tariff assignment policies in those network areas where smart meters are available for use.³

Network tariff reform

Energy Networks Australia supports the introduction of more cost-reflective network tariffs, in order to send appropriate price signals to customers and encourage more efficient use of the network. In this context, Western Power's proposal to introduce time of use energy tariffs for all new residential and small use customers who connect to the network deserves full consideration.

The Roadmap analysis estimates that a tariff framework where all customers in the National Electricity Market are assigned to cost reflective network tariffs will achieve up to \$1.4 billion in reduced network investment by 2026 compared to current arrangements, which is equivalent to a 10% saving on average network bills. Up to \$1.4 billion of cross subsidies from customers without distributed energy resources to customers who have distributed energy resources is also avoided.⁴ While the benefits quoted relate to National Electricity Market jurisdictions, similar opportunities exist in Western Australia.

Energy Networks Australia appreciates the opportunity to participate in the ERA's consultation process. If you have any questions please contact Garth Crawford, Executive Director Economic Regulation, on 02 6272 1507.

Yours sincerely,

Andrew Dillon
Chief Executive Officer

³ CSIRO and the Energy Networks Association, Electricity Network Transformation Roadmap, Final Report, p.40.

⁴ Ibid, p.43.