

11 December 2017

Economic Regulation Authority
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By email: publicsubmissions@erawa.com.au

To whom it may concern

Issues Paper on Proposed Revisions to the Western Power Network Access Arrangement (2017/18 to 2021/22 – AA4)

Kleenheat is grateful for the opportunity to make a submission to the ERA's Issues Paper on Proposed Revisions to the Western Power Network Access Arrangement.

Kleenheat would like to make the following comments and observations regarding the Issues associated with Western Power's Network Access Arrangement (AA4).

Issue 4

Advanced Metering Infrastructure

Kleenheat supports Western Power in its roll out of advanced metering infrastructure (AMI) as set out in AA4.

Using technology such as advanced meters will help enable new energy solutions and energy products, supporting the increasing expectations of customers to have more choice, control, and information regarding their energy needs. Advanced meter infrastructure will enable customers to save money at times of peak demand and reduce peak demand on the electricity grid.

Need for implementation plan and consultation

Kleenheat considers it crucial for a defined implementation plan to be set out and consultation entered into by Western Power. Kleenheat considers that working groups with interested stakeholders, namely retailers and relevant customer advocacy groups be set up to facilitate this.

After assessing Western Power's response to Synergy's submission on Western Power's Model Service Level Agreement, as published by the Economic Regulation Authority

(ERA) recently¹, Western Power has indicated that it is aware of the absence of retailer consultation on AMI and will endeavour to set up working groups to ensure effective industry engagement is achieved. Kleenheat welcomes the opportunity to participate in this process.

Specifics of technology

Kleenheat encourages the ERA to seek further detail concerning Western Power's data infrastructure for the AMI initiative, in particular, details of the security of the communications platform for current and future smart grid technologies. This information will enable retailers to respond effectively to concerns around cybersecurity, privacy and the use of data.

Additionally, in order to facilitate the development of new, potentially, parallel energy products, a mechanism by which multiple parties have access to advanced meter data for each meter should be implemented. This would involve changes to Western Power's Application and Queuing Policy, namely sections 3.8 and 14.2, which currently restrict Western Power allocating a connection point to more than one user (retailer). Such an amendment would be pertinent to offer customers' innovative choice by diversifying energy products that could potentially be offered by multiple different retailers to a single customer at a single connection point.

In the absence of such technical information on Western Power's AMI implementation, Kleenheat is concerned about the adaptability of the technology platform to future changes in technology.

Costs to be passed onto customers

Kleenheat would like to understand whether the revenue approved by the ERA for advanced metering infrastructure from Western Power's previous Access Arrangement (AA3) (in the order of \$91 million) will be carried over to AA4 as outlined², as this approved capital expenditure was not spent during AA3 but the AA3 tariffs were set based on the expenditure of this capital. It is our understanding that Western Power has not confirmed that this will occur under AA4. It is understood that the Access Code provides for the ERA to account for the target revenue 'true up' between AA3 and AA4.

¹ See Western Power's comments on page 42 in Synergy's submission, accessed at <https://www.erawa.com.au/cproot/18456/2/20171124.D181712%20-%20PubSub%20-%202017%20WP%20model%20service%20level%20agreement%20review%20-%20Synergy.pdf>

² See Section 7.2.2 Smart Grid on page 177, accessed at <http://www.erawa.com.au/cproot/9959/2/20111007%20-%20D76333%20-%20Access%20Arrangement%20Information%20-%20Appendix%20A%20-%20AA3%20Capex%20and%20Opex%20Report.pdf>

Issue 4 and 12

New tariffs

Kleenheat is supportive in principle of Western Power's AA4 to introduce new time of use and demand-based tariffs, to continue the market evolution towards a more dynamic industry. However, Kleenheat questions whether Western Power sufficiently appreciates the ever-changing patterns of customer demand and technologies to design suitable tariffs and the implications for competitive neutrality between retailers.

Mandated Approach

Kleenheat believes that new tariffs should be on a voluntary opt-in basis, as pursued in the National Electricity Market when advanced meters were installed as needed, rather than the mandated requirement that Western Power is proposing under AA4.

New tariffs will be mandated on retailers when a new meter is required in a new connection, for the functionality of a bi-directional flow meter or the optional choice for when a meter fails.

The mandating of new tariffs seems inconsistent with the Access Code objective of promoting competition. Kleenheat considers an involuntary introduction of new tariffs inconsistent with 'certain matters' the ERA must consider as principles under section 26 of *Economic Regulation Authority Act 2003*, to ensure that regulatory outcomes are in the public interest as well as the regard for the long-term interests of consumers, in relation to the price, and quality of services provided in the relevant markets for which the ERA has oversight. Kleenheat would question whether the new tariffs pass such objectives.

Competition and Cost Recovery

Mandated tariffs will make it increasingly difficult for retailers to design and innovate with their own retail tariffs, due to the requirement to charge Time of Use tariffs for customers on advanced meters. Time of use tariffs are likely to impact the bundled electricity contracts that non-Synergy retailers have traditionally offered to contestable customers. This could thwart full retail contestability and retailers' ability to differentiate product offerings to win customers when competition is introduced.

Kleenheat contends it is difficult to assess the options retailers have to ensure cost recovery with the mandated approach of the proposed tariffs and their associated design of time of use periods. It is understood that in 2018/19, Western Power will charge users a uniform price across the three time of use periods, however there is no price visibility for the remaining four years under AA4. Kleenheat requests that the ERA seek further information in its review and approval of Western Power's AA4 to ensure retailers can

fully inform themselves of how its customers and their consumption may be modelled to ensure cost recovery is viable under the proposed new tariffs.

Disadvantage for Retailers

The mandated Time of Use tariffs and the mandatory new meter change over to advanced meters (known as Type Four meters) for contestable customers who churn away from Synergy, means that non-Synergy retailers are at a competitive disadvantage relative to Synergy. Synergy's position as the incumbent retailer to contestable customers (since market disaggregation) means that these customers can remain on the 'anytime' network tariff. As a consequence, if these customers are to churn away from Synergy they, or the retailer, will be required to incur the cost of a new meter. If these customers remain with Synergy they will not incur the cost of a new meter. Competing retailers will either need to absorb this cost disadvantage or pass this cost of a new mandated meter onto their new customer. This policy of mandating the new tariffs with a compulsory replacement of the meter is not competitively neutral to non-Synergy retailers and will frustrate competition. As a consequence, this issue is a major concern.

Unless other competition protections, such as mandating Synergy only offer customers electricity in line with regulated tariffs, are implemented with FRC, Kleenheat does not believe that the mandatory approach is fair and reasonable or appropriate to foster effective competition.

Issue 9

The applicability of the Dampier to Bunbury Natural Gas Pipeline ("DBP") (privately owned by Australian Gas Infrastructure Group) risk premium comparison to Western Power is not adequately explained. DBP is privately owned, while Western Power is government owned. It would seem likely that a government owned entity would have a lower risk of default than a privately-owned entity. This suggests that the DBP is not an appropriate proxy for the Weighted Average Cost of Capital (WACC) of Western Power.

Western Power proposes an increase in its nominal after tax return on equity from 6.42 per cent to 7.24 per cent³, or an increase of 0.82 per cent at a time of historically low interest rates.

There appears to be little justification for the increased risk premium and/or the increased nominal after tax return on equity. When applied to WP's asset base, this increase results in higher costs to consumers which Kleenheat believes is unwarranted.

³ Page 49 of the ERA's Issues Paper on Proposed Revisions to the Western Power Network Access Arrangement (2017/18 to 2021/22 – AA4).

Issue 15

Kleenheat has concern about the Technical Rules governance and with approval and oversight by Western Power itself, Kleenheat would consider that an independent oversight body would be more appropriate.

Kleenheat considers the lack of independent oversight over the Technical Rules to be a concern at a time when non-network solutions and fringe of grid solutions are becoming more prevalent by evolving on from the traditional distributed model of retailers and network operator, and as such the governance and framework should also become more robust and modernised by removing such governance oversight from the network operator whom enforces the Technical Rules. It is noted that the recent energy market reforms to governance and separation of the rule change function were implemented due to a perceived conflict of interest in the governance of market operations and the rule change body.

A rule change panel should be implemented for independent oversight, with the potential to incorporate this responsibility into the existing Rule Change Panel under the Economic Regulation Authority's remit.

Should you have any questions or wish to discuss this submission further, please contact Simon Middleton, Manager – Electricity on 08 9312 9619 or smiddleton@kleenheat.com.au.

Yours sincerely,

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