

Economic Regulation Authority
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To Senéad Mangan

Subject: Proposed Revisions to the Western Power Network Access Arrangement -AA4

Thank you for the opportunity to comment.

Reference is made to columns “Transmission” and “Distribution”, Table 2 on page 33 of the Issues Paper below:

Table 2 AA3 annual average increase in charges including CPI (nominal)⁴⁶

	Total	Transmission	Distribution	CPI
2012/13	3.7%	-8.7%	7.2%	2.25%
2013/14	4.0%	-12.0%	5.3%	2.0%
2014/15	4.8%	-0.8%	6.9%	2.75%
2015/16	5.1%	-10.2%	10.3%	2.5%
2016/17	1.7% ⁴⁶	-9.4%	4.8%	2.5%

Of concern is divergence of electricity prices for transmission and distribution customers over the last AA Period 3 (**AA3**). The table shows rapid rise of the prices of electricity for distribution users totaling near 40% (39.5%) and even greater decline in prices to large transmission users, totaling 40% (39.87%) over the AA3 period.

The price of electricity for transmission users twice fell by more than 10% (in 2013/14 2015/16) for transmission users, while it rose by more than 10% (in 2015/2016) for distribution users (residential, small business and small commercial).

So, I find Western Power’s **AA4** proposal to shift part of the cost for transmission users to distribution users in order to limit the price rise to transmission customers to that of below 10% (and recoup it later) as not genuine concern and unfair to distribution users, including residential, small commercial and small industrial.

(Western Power did not express similar compassion to distribution users when twice raising their costs by more than 10% and, simultaneously, reducing prices to transmission users by more than 10%).

The diverging trends in changes for transmission and distribution customers results in the transfer of wealth from small residential customers to large transmission users and regulated entities, for example, to Western Power.

That transfer of wealth is compounded by the similar trend during the previous **AA2** period, in which the prices of electricity for residential customers rose by 78% (according to the 2012 WACOSS submission to the Authority).

Will this trend abate or further invigorate in the next AA4 period?

If these diverging trends, observed during the AA2 and AA3 periods, continue during the next AA4 period, domestic users will pay progressively more and more for the electricity than their transmission counterparts. In other words domestic users will continue to effectively cross-subsidise transmission users and maintain their obviously disproportionate contribution to the regulated income of the regulated entities.

Was that the intention?

The first logical question is: was the above the intention of the reforms of the electricity industry, in 2004 (and in 1996) or not? Did our political parties and the industry anticipate these outcomes then and would have WA people voted for these outcomes at the time? In my opinion, the answer is negative to both questions.

How did that happen?

How it is that these apparently perverse outcomes continue to occur?
Was that intended in the original design? I do not believe so, according to the publicly stated objectives of the Access Code 2004 (**Code**), which I fully support.
Was that somehow embedded unnoticed in the design? It probably was, in my opinion.

Is each party doing what they are supposed to be doing? If not, then what drives that behaviour and how is it conducted? Is there vagueness that allows for different interpretations leading to different outcomes?

Is the regulation focused too much on the 'big end of the town'? I was unable to find a clause in the current legislation that expressly binds parties to protect interest of small users, and it seems that it was 'implicitly assumed' that these interests will be automatically protected. If so, then the remedy would be to expressly qualify obligation of Western Power (and all other regulated entities) to protect the interests of small users (third parties to access contracts) when conducting business, including when exercising own discretion granted to it under the Technical Rules and other regulation/legislation.

I am aware that no comprehensive analysis could be carried out within the limited time available for this submission, however, I trust that, at least some of, these causes must be shown in the proposed AA4 access arrangement.

The objective of my comments is to minimise the cost of electricity to the large and small consumers, regardless where these cost savings fall. My focus is on elements of the proposed AA4 design and behaviour, that would, in my opinion, lead to the quickest reduction of the price of electricity to WA consumers and a fairer allocation of costs to causers, decision makers and beneficiaries of these decisions.

The above generally applies to the price rises over AA3 (and probably AA2 and AA1 periods) and closely relates to the AA4 Issue 6 of the Issues Paper.

My comment to Issue 15 of the Issues Paper is attached to this submission.

Yours faithfully,

Continued on Attachment.

Attachment: Stephen Davidson's Comments on Issue 15

Issue 15

Submissions are invited from interest parties on the proposed amendments to the Technical Rules adjustment clause 7.2.1 of the access arrangement, to only report on material changes in costs.

Issue 15

Of key concern is proposal that would allow Western Power (WP) to change Technical Rules (TR) for the South West Interconnected Network (SWIN) without public notification *"if it considers not to have the cost impact"*.

I categorically state that there is no clause of the Technical Rules that has no cost implications (it may not have cost implications on Western Power, but has to customers who will ultimately pay for it).

I therefore strongly object to Western Power reporting only on Technical Rules changes that Western Power considers not to have the impact on costs.

IEAust discussion

Of concern is this, in my opinion, repeated attempts to remove the requirement for IEAust CPEng with the NER standing (the 1st attempt in November 2015 proposed changes to the Technical Rules failed after two IEAust submissions at the time). Since the certification would not materially impact on Western Power's costs, it is likely to be one of the first clauses to be changed, if the proposal is successful.

Other arguments (in support of retention of the requirement for the IEAust CPEng NER certification of data submitted to Western Power) include:

1. Maintaining the level of professional conduct (rather than reducing it)
2. Too high a cost of the power system (impact on the industry competitiveness and living standards)
3. It is illogical that plumbers/gas-fitters and surveyors are licensed, but not engineers (in all states and territories, except in Queensland). Losing a license is a strong deterrent against unprofessional conduct.
4. Engineers should have technical say on complex engineering matters (not economists, accountants and financial experts). Engineers are subject to a code of conduct and ethics. Licensing engineers should be the next level up. Other professions are licensed, for example medical doctors, etc.
5. Obligation for the IEAust CPEng NER certification of data and technical arguments submitted to access applicants, general public and the Authority should be placed on Western Power too.
6. For example, in the service standard benchmarks for transmission services (Section 4.3 of the proposed AA4) there are inconsistencies and fundamental errors (for example, the frequency is not measured in minutes) that are not likely to be approved by a chartered professional engineer.
7. I would appreciate the Authority's opinion on the suggestion No. 5 here, so it could be used as a reference in future submissions.