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Economic Regulation Authority
Albert Facey House
Level 4, 469 Wellington Street
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Submitted via the portal on the ERA's website

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

NewGen Neerabup Partnership welcomes the opportunity to respond to the Economic Regulation Authority's Issues Paper on Proposed Revisions to Western Power Network Access Arrangement for (2017/18 to 2021/22 - AA4).

NewGen Neerabup Partnership (NNP) is a joint venture partnership between ERM Power (50%) and Infrastructure Capital Group (50%). NNP is the owner of Neerabup Power Station which is a 330MW low emission gas-fired peaking power station located in Neerabup. This peaking power station supplies electricity to one major counterparty and participates in the Western Australian Wholesale Electricity Market (WEM).

General Comments

There is significant uncertainty in the AA4 period with the possibility of a transition from an unconstrained network access environment to a constrained network access environment, possibly in the AA5 period. For market participants this uncertainty represents a considerable risk as there are significant unknowns as to how the regulatory environment will change, what this means and what the transition process is. The Economic Regulation Authority (ERA) in making its determination for this period needs to bear in mind the possibility for significant shift for the next period. This means that for this period, the ERA has to ensure that it makes the appropriate assessment and that any capital investment proposed by Western Power is appropriate and is not to bolster the grid just before it transitions to a constrained network access environment.

The ERA in making its assessment needs to look at what really is deemed efficient investment and should also look at whether there are assets that can be written off. Although assets may have a technical use by date, there is the view that if an asset is simply not used and not required, it can be written off. A significant driver for Western Power's revenue stream is the value of the RAB. This drives the costs for the market and ultimately the cost to the end consumer.

The following section provides some comment on some matters identified from the ERA's Issues paper.

Network Charges and Metering

Western Power's proposal to introduce advanced metering infrastructure as part of the standard meter replacement program appears to be driven by a need to reduce network and metering costs over time through efficiency measures that smart metering is able to provide. Smart metering will provide a number of benefits, but the question has to be asked as to whether it is the right time and also whether it is necessary for Western Power to own the meter.

Over in the NEM, the Power of Choice reforms will allow the customer to choose its meter provider. Most customers are already able to choose their own retailer. This is in most instances a result of full retail contestability. If Western Power is given approval to embark on this programme of works, it will be entrenching itself to provide metering services well in advance of full retail contestability in the WEM and could in effect stymie competition in this space.

Further to this, while Western Power is proposing differing tariff structures, Western Power does not bill the end use customer, Synergy does. Unless residential tariffs are restructured in such a manner that will allow the benefits of smart meters to flow through, is it too early for Western Power to embark on this measure?

Date of Next Review

If the network access regulatory environment does not change, Western Power's proposed date of 1 March 2021 may be sufficient time for the commencement of the assessment of the next access arrangement determination for a commencement date of 1 July 2022. However, given that there may be the possibility of a new regulatory environment, it might be appropriate for the first submissions to be made earlier. How early will depend on how prepared will the ERA be in making a determination in that changed environment. Without an understanding of the undertaking, it is difficult to comment on a timeframe other than a possible commencement before the end of 2020, but certainly no shorter than at least eighteen months. This timeframe is required to allow the market sufficient time to digest the implications of a potential new regulatory environment, the assessment criteria and process.

Regulated Asset Base (RAB)

It is interesting to note that in the AA3 period demand and utilisation of the network decreased over the period while there has been significant growth in the installation of solar PVs on rooftops. The installation of solar PVs and changed customer habits has led to a corresponding decrease in demand seen in the system.

With a decrease in demand in the system, there must be a corresponding decrease in the utilisation of the network over the period. This has however coincided with an increase in the value of the RAB over the same period. The question that has to be asked is why there was an overall increase in the value of the RAB even though there was a decrease in utilisation of the network? This then raises the question as to whether the capex spent by Western Power has been efficient. The ERA needs to look at whether there are assets in the RAB which may not have reached its technical use by date but is no longer required, is redundant and therefore should be written off and excluded from the RAB. The opening value of the RAB for the AA4 period should be as efficient as it could possibly be.

In the AA4 period, it is noted that the value of the RAB as proposed by Western Power is expected to continue to increase and again the question has to be asked, is the capex spend efficient and appropriate and is it required in the network when there is supposedly going to be continued increase in the installation of solar PVs on roof tops leading to a decrease in network utilisation? That is, there appears to be a significant increase in the value of the RAB over the AA4 period while utilisation of the network is decreasing. It is anticipated that the ERA will clearly investigate whether the capital expansion programme proposed by Western Power is efficient and or required and is not to shore up the network prior to the transition to a constrained network regulatory environment.

Further to the above comments on AA3, it was noted that Western Power had consistently underspent its capex programme during the AA3 period. Is this behaviour likely to continue in the AA4 period and will this lead to erroneous outcome again, particularly in the determination of the transmission price path? Is the forecast expenditure proposed by Western Power for AA4 realistic and what impact does underspend on capex mean for the determination of the price path? Underspending capex, while recovering the associated revenue based on it being incurred, is behaviour utility regulators must clamp down on.

Rate of Return

It is anticipated that the ERA will thoroughly examine the components that make up the rate of return. It is noted from Western Power's proposal that there seems to generally be an overall increase in the equity and debt components that contribute to the WACC. This has a significant impact on the determination of the required revenue and therefore expectations are such that the ERA will thoroughly examine the components of the WACC and make the appropriate assessment.

Gain Sharing Mechanism

The current gain sharing mechanism allows Western Power to keep 100% of the benefit of this mechanism for a five year period before the benefits are passed back to customers. While there should be sufficient incentives in place to encourage efficiency gains, five years seems like a long period of time before customers receive any benefit. A possible modification of this mechanism would be for Western Power to keep a percentage of the benefit for 5 years but return the remaining percentage to customers the following year.

Trigger Events

Government energy reforms are a big part of the risk every market participant faces in a changing regulatory environment and each market participant generally bears its own cost. Western Power is aware and has been aware for some time now of the Government's desire to move to a constrained network access environment. Western Power would have determined as part of its operating cost, the cost of having a regulatory team working on regulatory reforms as part of its business. Therefore, given that Western Power has a team of regulatory specialists already, it is not appropriate for "government energy reforms" to be deemed a trigger event.

Western Power has previously worked on the processes, systems and contracts that would need to change in such an environment. Should the Government trigger these reforms again, Western Power would not need to start from scratch. The costs should not be exorbitant and the risk

premium that Western Power receives should be sufficient for Western Power to cover its costs of a changing regulatory environment.

In addition to this, Western Power has access to funds from the gain sharing mechanism that it can utilise for such purposes if need be. The costs associated with the regulatory reforms or changes should therefore not be deemed a trigger event.

Electricity Transfer Access Contract

The proposed change to clause 3.1(c) of the Electricity Transfer Access Contract (ETAC) that require the User to ensure that it does not exceed its contracted capacity is not workable, especially for generators.

Currently generators have capacity contracted at the connection point which it knows if it exceeds it has to pay excess network usage charges (ENUC) but if it has to under a dispatch instruction, it will do so as the system operator must have deemed it to be safe. Generators generally endeavour to not exceed its contracted capacity as it is subject to the penalty of paying the ENUC and will not exceed contracted capacity unless it is required to do so, and in most instances this is to provide support to the system. In these instances it is usually to return the grid to a stable, safe and secure operating state after an incident on the system. In such circumstances, the system operator may require these generators to export its maximum capacity, which depending on weather conditions may exceed its contracted capacity at the connection point. The system operator would have deemed it safe for the generator to exceed its capacity at the connection point; otherwise it would have instructed a generator to return to a level where it does not pose a risk to the system.

The proposed change would disrupt this mode of operation and may limit the system operator's ability to return a stressed system to system normal condition in a timely manner. The proposed change is counterproductive as Western Power who may be the counterparty to the ETAC and which wants the grid to be maintained in a stable operating state could actually be contributing to putting the grid at risk under abnormal conditions.

Further to the above, the threat of ENUC charges is sufficient incentive for generators to not exceed their contracted capacity at the connection point.

Clause 3.1(c) should not be modified as it does not contribute to strengthening and ensuring the safe and reliable operation of the grid but could in fact do the opposite. The magnitude of ENUC charges is currently working to ensure generators do not exceed its contracted capacity under system normal conditions but it still allows generators to provide assistance to the grid when it has to.

Transmission Price Path

Western Power has proposed four possible options for the transmission price path based on its assumptions used in the forecast of its required revenue. It is anticipated that the ERA will thoroughly examine all the components of the building blocks and make its own determination of what is deemed to be efficient spend and what isn't, which will lead to a determination of its view of the revenue requirement. In making that determination, it is expected that the ERA considers the potential for price shock to transmission customers. If the price path that the ERA has made a determination on does not lead to price shock for transmission customers, then there is no need

to consider other mechanisms to handle the recovery of the required revenue. However, should the resulting price path lead to price shock for transmission customers, it is incumbent on the ERA to consider mechanisms to prevent this. While it might not be palatable to the ERA to potentially bring forward the recovery of distribution revenue and defer transmission revenue to a later date as proposed by Western Power, this swapping mechanism does have the benefit of reducing the potential for price shock to transmission customers.

If you have any queries in relation to this submission, please do not hesitate to contact me on 08 6318 6416.

Yours Sincerely

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