



Notice

2 January 2019

Proposed Revisions to the Western Power Network Access Arrangement 2017/18 to 2021/22 Release of further final decision

The Economic Regulation Authority has published its [further final decision](#) on [Western Power's amended proposed access arrangement](#) for 1 July 2017 to 30 June 2022.

The ERA's further final decision is to not approve Western Power's amended proposed access arrangement.

Following a review of Western Power's amended proposal, the ERA has determined that Western Power has complied with 55 of the 66 required amendments in the ERA's [final decision](#). Further work is needed to implement the remaining 11 required amendments.

This includes required amendments to the price control, reference services, tariff structures and the gain share mechanism.

Pursuant to sections 4.24 and 4.25 of the *Electricity Networks Access Code 2004*, if the ERA's further final decision is not to approve a service provider's access arrangement, the ERA must publish its own access arrangement within 20 business days of publishing a further final decision.

To allow the ERA to properly consider all matters, section 4.66(l) of the Access Code permits the ERA to extend the deadline for the publication of its access arrangement by an additional 20 business days.

The ERA has decided to extend the deadline and will publish its access arrangement by 28 February 2019. It is anticipated the revised access arrangement and new price list will come into effect on 1 July 2019.

Further information on the further final decision is provided in the explanatory statement at the end of this notice.

Further information

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EXPLANATORY STATEMENT

This explanatory statement provides interested parties with a summary of the ERA's further final decision on proposed revisions to the fourth access arrangement for Western Power's network (AA4). This summary does not form part of the ERA's further final decision or the reasons for the further final decision.

The further final decision

The further final decision is to not approve Western Power's amended proposed access arrangement. The ERA has determined that Western Power has not adequately complied with 11 of the 66 required amendments in the ERA's final decision.

Detailed reasons for the required amendments are outlined in the [further final decision](#) document.

A comparison of Western Power's proposals and the ERA's decisions is set out in Table 1.

Table 1 Comparison of Western Power's proposals and the ERA's decisions¹

	Western Power original proposal	ERA draft decision	Western Power revised proposal	ERA final decision	Western Power amended proposal
Target revenue	\$7,817 million	\$7,380 million	\$7,861.8 million	\$7,333.3 million	\$7,374.7 million
Weighted Average Cost of Capital	6.09%	6.00%	6.12%	5.87%	5.87%
Capital base at the beginning of AA4	\$8,967 million	\$8,917 million	\$8,940.9 million	\$8,907.0 million	\$8,907.0 million
Forecast capital base at the end of AA4	\$10,414 million	\$9,962 million	\$10,260.0 million	\$9,954.3 million	\$9,917.7 million
Capital expenditure	\$3,515 million	\$3,048 million	\$3,388.4 million	\$3,014.6 million	\$2,980.4 million
Operating expenditure	\$1,805 million	\$1,696 million	\$1,830.5 million	\$1,756.1 million	\$1,792.0 million

Next steps

As required under sections 4.24 and 4.25 of the Access Code, if the ERA's further final decision is not to approve a service provider's access arrangement, the ERA must publish its own access arrangement within 20 business days of publishing a further final decision.

Using the deadline extension permitted under section 4.66(l) of the Access Code, the ERA will publish its access arrangement by 28 February 2019.

¹ All figures \$ real June 2017

It is anticipated the revised access arrangement and new price list will come into effect on 1 July 2019.

Background to the further final decision

This access arrangement covers the period 1 July 2017 to 30 June 2022.

Western Power submitted its proposed access arrangement on 2 October 2017. The ERA released its draft decision on 2 May 2018, which was to not approve the proposed revisions to the access arrangement. The ERA required 91 amendments to the access arrangement for it to be approved.

On 14 June 2018, Western Power submitted its revised proposed access arrangement.

The ERA published its [final decision](#) on 20 September 2018, which was to not approve Western Power's revised proposed access arrangement. The ERA required 66 amendments to the access arrangement for it to be approved.

On 16 November 2018, Western Power submitted its amended proposed access arrangement.

Price control

In the final decision, the ERA required the price control to include a requirement that the forecast customer numbers, energy volumes and any other charging parameters for each reference service must be consistent with the demand forecast approved with the access arrangement decision.

In its amended proposed access arrangement, Western Power included forecast customer numbers and energy volumes used to determine pricing in the amended access arrangement, but did not include any other charging parameters.

Operating expenditure

In the final decision, the ERA approved operating expenditure of \$1.756 billion.

Western Power identified an inconsistency in the operating expenditure model in which operating expenditure was not adjusted to reflect the level of capital expenditure approved for SCADA and communications and adjusted operating expenditure by \$36 million.

In the further final decision, the ERA has acknowledged this inconsistency and accepted the revised operating expenditure of \$1.792 billion.

Reference services

In the final decision, Western Power was required to include additional reference services likely to be sought by a significant number of users or substantial portion of the market. It was also required to specify separate metering services based on the services required by users.

Western Power is developing the required reference services. However, not all of the required services have been included in the amended access arrangement and some of the terms and conditions for those services are likely to restrict their availability.

Although Western Power indicates it will implement the revised metering services, it has deferred the changes to 1 July 2020. The ERA does not consider that Western Power's

amended proposed access arrangement provides sufficient detail to assess whether the required amendment will be adequately implemented or whether sufficient consideration was given to implementing any part of the required amendment earlier than 1 July 2020.

As highlighted by Western Power in its amended proposal, the proposed new reference services were developed in a very short time period. This is unlikely to have provided sufficient time for consultation with users and a comprehensive review by Western Power and the ERA.

Tariff structures

The ERA required amendments to the new time of use services and the high and low voltage metered demand tariffs.

The ERA considers that Western Power has not adequately implemented the required amendments:

- The price differential for peak and off-peak rates for the new time of use services is not adequately supported and Western Power's proposal to review the pricing approach at the next access arrangement period creates uncertainty for any users considering the new services.
- Western Power has not included a mechanism to enable high and low voltage metered demand users' demand to be re-evaluated where it can be clearly demonstrated that future demand will be lower.

Gain sharing mechanism

In the final decision, the ERA required the gain share mechanism to be amended to specify that an adjustment, based on the proportion of years with service standard benchmark failures over the access arrangement period, will be made to the total above benchmark surplus.

The ERA has determined that Western Power has not adequately implemented this required amendment by only requiring the "SSB Deficiency Proportion" to be calculated in a year when the above-benchmark surplus is positive.

Service standard benchmark failures need to be accounted for in each year, not just those where the above-benchmark surplus is positive. There is also no need for a separate determination process as the value to be added to target revenue will be assessed at the next access arrangement review.