

Our ref: 46202240
Contact: Margaret Pyrchla

29 August 2018

Nicola Cusworth
Chair
Economic Regulation Authority
Level 4, Albert Facey House
469 Wellington Street
Perth WA 6000

Dear Ms Cusworth

Public consultation – New rate of return information to be considered

Western Power appreciates the opportunity to comment on the ERA's notice of 17 August 2018 regarding the rate of return for Western Power's 2017/18 – 2021/22 access arrangement.

Western Power has serious concerns with the consultation process on such a key element of Western Power's access arrangement being undertaken at this point of the AA4 determination process. Public consultation outside of the normal submission and response process is not contemplated within the Access Code and the time available is of significantly shorter duration than any consultation period provided for within the Access Code.

The AA4 period commenced on 1 July 2017, some 14 months ago. Western Power, and our customers, have been operating during this time with significant uncertainty regarding the revenue amount and terms and conditions that will apply during the AA4 period.

Western Power's focus has been to finalise the AA4 process as efficiently as possible to provide certainty for Western Power and the broader electricity market. With this in mind, Western Power's approach to the rate of return has been to adopt as much of the ERA's thinking as is practical and apply existing market guidelines, with a view of expediting an outcome. This is demonstrated by Western Power accepting the ERA's draft decision amendment (Amendment 7) for all WACC parameters, with the exception of the market risk premium (MRP). Evidence to support Western Power's proposed MRP was included in Western Power's response to the draft decision.

The current public consultation on the AA4 rate of return is in relation to four separate pieces of information, which are quite technical in nature and would typically require more time to consider.



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Western Power has concerns with the following elements of the information:

Lack of context for new information

In the notice released, the ERA has not explained how the new information fits within the broader rate of return decision currently being made by the ERA on Western Power's access arrangement and, in doing so, justified that this new information is of sufficient importance to warrant this round of public consultation.

AER's Draft Rate of Return Guideline

The AER's Draft Rate of Return Guideline released on 10 July 2018 will be subject to extensive public consultation over the coming months and may therefore vary considerably upon finalisation in late December 2018. It is a forward looking Guideline expected to apply to all regulatory decisions conducted by the AER during the four years commencing from 2019 onwards.

The ERA is currently looking to set Western Power's rate of return for the AA4 period which commenced on 1 July 2017 – more than 18 months prior to the expected finalisation of the AER's Guideline. Western Power considers the ERA should not rely on the AER's Draft Rate of Return Guideline until such time as the Guideline is finalised.

Dr Martin Lally – Review of Gamma Submissions and the ERAWA's Views on Gamma

Western Power is unclear as to whether the ERA engaged Dr Lally to prepare this report as part of the access arrangement review process or as part of the Gas Rate of Return Guidelines review which is currently open for public consultation. The points raised in the report relate to both processes.

Western Power considers the short time frame provided by the ERA for public submissions on Dr Lally's review with respect to Western Power's access arrangement does not enable sufficient expert review to challenge, or agree, with Dr Lally's assertions. Western Power considers this process will be more effectively followed during the consultation on the Gas Rate of Return Guidelines and the ERA should not rely solely on Dr Lally's review until such time as the detailed public consultation process for the Gas Guidelines is completed.

In light of the draft nature of some of the new information, and the short timeframe for appropriate public consultation, Western Power considers the new information should not be taken into account in the Final Decision on Western Power's access arrangement.

Western Power looks forward to finalising the AA4 process as efficiently and quickly as possible to provide certainty for Western Power, our customers and the broader electricity market.

If you wish to discuss this submission further, I invite you contact Margaret Pырchla, Head of Regulation and Investment Management, on 9326 4535.

Yours sincerely

Michael Crevola
Chief Financial Officer