

Determination on the proposed 2020/21 price list for the Western Power network

Submitted by Western Power

15 June 2020

Economic Regulation Authority

WESTERN AUSTRALIA

D215251

Economic Regulation Authority

Level 4, Albert Facey House

469 Wellington Street, Perth WA 6000

Telephone 08 6557 7900

Email info@erawa.com.au

Website www.erawa.com.au

This document can also be made available in alternative formats on request.

National Relay Service TTY: 13 36 77

© 2020 Economic Regulation Authority. All rights reserved. This material may be reproduced in whole or in part provided the source is acknowledged

Contents

Determination	1
1. Access Code Requirements	2
2. Compliance of the proposed price list with the price control	3
3. Compliance with the pricing methods	6

Determination

On 28 April 2020, Western Power submitted a proposed 2020/21 price list for its electricity network to the Economic Regulation Authority for approval under chapter 8 of the Electricity Networks Access Code 2004. The ERA identified inconsistencies in the proposed price list and sought further information from Western Power. Western Power submitted a revised price list and price list information on 25 May 2020.

Western Power's proposed price list has been submitted in accordance with the amended access arrangement that applies to Western Power's electricity network for the fourth access arrangement period (2017/18 to 2021/22).

The ERA has assessed the proposed 2020/21 price list and considers that it complies with the price control and pricing methods of the amended access arrangement.

In accordance with the requirements of section 8.2 of the Access Code, the ERA approves the 2020/21 proposed price list and determines that it has effect from 1 July 2020. The ERA has published Western Power's proposed list and price list information on its website.¹

¹ The price list and price list information can be found [here](#).

1. Access Code requirements

Chapter 8 of the Access Code sets out the requirements for a service provider to submit proposed price lists and for the ERA to approve and publish the price list and price list information.

- 8.1 If a *service provider's access arrangement* requires it to submit *price lists* to the *Authority* for approval, the *service provider* must, at least 45 *business days* before the start of each *pricing year* (except for the first *pricing year*), submit to the *Authority*:
- (a) a proposed *price list* to apply for the next *pricing year*; and
 - (b) *price list information*.
- 8.2 If the *Authority* considers that a *service provider's* proposed *price list* complies with:
- (a) the *price control* in the *service provider's access arrangement*; and
 - (b) the *pricing methods* in the *service provider's access arrangement*,
- then the *Authority* must:
- (c) approve and *publish* the *service provider's* proposed *price list* which has effect from a date specified by the *Authority*; and
 - (d) *publish* the *service provider's price list information*.
- 8.3 The *Authority* must not approve a *service provider's* proposed *price list* if the proposed *price list* does not comply with sections 8.2(a) and 8.2(b) and must notify the *service provider* that it does not approve the proposed *price list* and provide *reasons*.
- 8.4 If a *service provider* is notified under section 8.3 that the *Authority* does not approve a proposed *price list* submitted by the *service provider*, the *service provider* may at any time submit a revised proposed *price list* to the *Authority*.
- 8.5 If the *Authority*:
- (a) notifies a *service provider* under section 8.3 that it does not approve a proposed *price list* submitted by the *service provider*; and
 - (b) has not approved a revised proposed *price list*,
- then the *price list* most recently in effect continues in effect until the *Authority* approves a revised proposed *price list* submitted by the *service provider* under section 8.4.
- 8.6 If the *Authority* has not notified a *service provider* that it does not approve a proposed *price list* within 15 *business days* after receiving either:
- (a) the proposed *price list*; or
 - (b) any further information the *Authority* has requested in relation to the proposed *price list*,
- (whichever is later), then the *Authority* is to be taken to have approved the *price list*.

2. Compliance with the price control

Under the Access Code, “price control” refers to the provisions of an access arrangement that determines the target revenue to be earned by the service provider.

Clauses 5.8 and 5.11 of the access arrangement set out the formula to establish the maximum target revenue for determining prices.

In conjunction with the price control, a “side constraint” limits the extent to which each reference tariff may be increased relative to other reference tariffs. The provisions for the side constraint are set out in clauses 6.5.12 to 6.5.14 of the access arrangement.

Western Power has set out its determination of maximum transmission revenue and maximum distribution reference service revenue in section 1.3 of the price list information.

For 2020/21 the maximum target revenue is the sum of:

- The revenue determined by the ERA in the access arrangement adjusted for the annual update of the debt risk premium as required under clauses 5.4.2 to 5.4.14 of the access arrangement.
- An adjustment for the Tariff Equalisation Contribution, including any previous year revenue over or under-recovery.
- Recovery of any differences between actual and forecast revenue in 2018/19.

A summary of the components of 2020/21 target revenue is set out in Table 1 below.

Table 1: Summary of 2020/21 target revenue (\$ nominal)

Parameter	Transmission	Distribution	Total
Revenue determined in the access arrangement	438.51	1,154.42	1,592.93
Adjustment for the annual update of the debt risk premium	(15.99)	(28.06)	(44.05)
Tariff Equalisation Contribution adjustment	-	7.84	7.84
2018/19 revenue adjustment	10.33	27.05	37.38
Maximum target revenue for 2020/21 price list	432.85	1,161.25	1,594.10

Western Power has set out its forecast revenue for each tariff in section 1.4 of the price list information. The side constraint and change in weighted average prices for each tariff is set out in section 9 of the price list information.

Western Power’s forecast revenue and change in each tariff is summarised in Table 2 below.

Table 2: Forecast revenue and change in tariffs (\$ million nominal)

	Forecast transmission revenue	Forecast distribution revenue	Change in tariff (%)
RT1 Anytime energy residential	110.80	516.62	3.45
RT2 Anytime energy business	19.87	94.46	3.09
RT3 Time of use energy residential	1.20	4.88	3.72
RT4 Time of use energy business	11.06	31.05	4.32
RT5 High voltage metered demand	10.98	22.48	4.68
RT6 Low voltage metered demand	47.15	114.16	4.29
RT7 High voltage CMD	70.39	66.79	5.41
RT8 Low voltage CMD	6.75	12.63	3.25
RT9 Streetlighting	2.39	41.27	(1.06)
RT10 Unmetered supplies	0.46	4.88	1.88
RT11 Distribution Entry	1.62	2.39	2.60
RT13 Anytime energy residential bi-directional	29.50	156.16	3.19
RT14 Anytime energy business bi-directional	2.62	7.91	4.94
RT15 Time of use residential bi-directional	1.05	5.60	3.39
RT16 Time of use business bi-directional	7.78	18.90	5.46
RT17 3 part time of use energy residential	1.00	4.28	5.11
RT18 3 part time of use energy business	5.87	16.09	4.50
RT19 Time of use demand residential	0.16	0.29	4.49
RT20 Time of use demand business	14.97	39.62	5.38
RT21 Multi-part time of use residential	-	-	n/a
RT22 Multi-part time of use business	0.00	0.01	1.85
TRT1 Transmission exit	36.73	-	5.42
TRT2 Transmission entry	46.58	-	5.43
Non-reference revenue target services	3.91	0.77	-
Total	432.85	1,161.25	3.79

The ERA has reviewed the details of calculations and underlying assumptions provided by Western Power to ensure that target revenue, forecast revenue, the side constraint and changes in tariffs have been calculated in accordance with the access arrangement.²

As required under clause 6.4.5 of the access arrangement, the forecast revenue is based on 2017 demand, customer and energy forecasts. Customer numbers and volumes for each reference tariff have been derived from the 2017 demand forecasts proportionately using the latest customer numbers and average volumes for each tariff.

The total revenue forecast for each service is equal to the maximum target revenue permitted under the access arrangement, as set out in Table 1 above. All tariffs are within the highest increase permitted under the side constraint of 5.47 per cent.

Taking into account the derivation of maximum target revenue, the forecast revenue to be collected and the changes in individual reference tariff revenues compared with the side constraint, the ERA is satisfied that the proposed 2020/21 price list complies with the price control set out in the access arrangement.

² This included verification of the annual debt risk premium update and adjustments for the Tariff Equalisation Contribution and 2018/19 revenue adjustment.

3. Compliance with the pricing methods

“Pricing methods” under the Access Code refers to the structure of reference tariffs. Clause 6 of the access arrangement details the pricing methods that Western Power must apply. Western Power’s proposed price list information sets out how it has complied with the requirements of the access arrangement.

The costs of providing reference services are required to be allocated to the relevant reference service customer groups. The ERA has reviewed Western Power’s cost allocation to ensure it is consistent with the allocations used in the 2019/20 price list approved with the access arrangement.

Apart from metering charges, Western Power has maintained the same structure of tariffs that was approved for the 2019/20 price list. The 2019/20 price list identified that additional metering charges based on the incremental cost would apply if the user selected a non-standard metering service for the relevant reference service but did not specify the additional charges. Refinements have been made to metering charges to separate the fixed elements of metering from costs which vary by type of meter reading and frequency. This provides greater clarity to users when selecting metering services as permitted under the access arrangement.

The pricing methods set out in the access arrangement also require:

- Reference tariffs should be set between the incremental and stand-alone cost of service provision.
- The incremental cost of service should be recovered by tariff components that vary with usage and the costs in excess of the incremental cost of service should be recovered through tariff components that do not vary with usage.

Western Power has demonstrated its proposed tariffs are between the incremental and stand-alone cost of service provision in sections 6.5 and 7.3 of the price list information. The ERA has reviewed the calculations of incremental and stand-alone costs to ensure they are consistent with the method used in the 2019/20 price list approved with the access arrangement. The ERA has verified the calculation of forecast revenue for each tariff.

Western Power has demonstrated that incremental costs are recovered through variable tariff components in section 7.4 of the price list information. The ERA has verified the calculation of forecast revenue from variable tariff components.

The ERA has reviewed the price list information together with additional information provided on a confidential basis to verify that the pricing method requirements of the access arrangement have been complied with. Based on its review, the ERA is satisfied the proposed 2020/21 price list complies with the pricing methods required under the access arrangement.