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Economic Regulation Authority

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FRAMEWORK AND APPROACH FOR AA5 – SCOPING PAPER

Alinta Energy appreciates the opportunity to recommend matters to be considered in the ERA's issues paper on the framework and approach for Western Power's fifth Access Arrangement.

Broadly, Alinta Energy recommends that the ERA focus on the areas of the framework and approach that will have the greatest impact on the costs recovered from end users and the long-term costs of the network. Alinta anticipates these areas will be the price control and the investment adjustment mechanism.

In addition, Alinta Energy recommends that the following matters are considered in the issues paper.

Price Control – operational expenditure

Alinta Energy considers that OPEX can be particularly complex to assess because it is based on a somewhat unquantifiable plan to undertake a series of future operations, maintenance and associated human resourcing. While some effort can be taken to apply benchmarks and reasonable estimates of these costs, we recognise that a degree of error must be applied. As such, Alinta Energy recommends that the ERA focus on ensuring that the revenue allowed for OPEX is cost-effective, demonstrable, and transparent. Looking to the OPEX spend for similar regulated operations and/or engaging independent third parties to undertake a fair and equitable assessment, as applied in the NEM, could be an effective means of achieving this objective.

Services – consideration for implementation

Changes to services and the charging parameters for these services often require consequential changes to retailers' systems and the information they require to select the appropriate services, and to correctly invoice and reconcile them. For example, changes to network charges can cause retailers to require information including, what new services and charges apply to existing users, Contract Maximum Demand values, and a user's network tariff history.

Lack of consideration for these consequential changes and information requirements can result in customers failing to discern the benefits of reformed or new services or failing to implement and invoice them. This would undermine the objective that was intended in reforming the services in the first place.

For example, as part of the previous Access Arrangement decision, the ERA required that Western Power supply metering services as separate reference services. The intent was that this would allow users to acquire only the services they require.¹ However, in implementation retailers did not receive enough information to identify the metering services they were being provided, nor the charges for these discrete services. This undermined users' ability to select the most appropriate services and therefore the intention of the ERA's decision.

Alinta Energy recognises that implementing changes to services and charges often requires significant coordination. To ensure that the intended objectives of any such changes are achieved, Alinta Energy recommends that consideration is given to how any proposed changes will be implemented at the outset. This could involve Western Power being required to develop joint industry implementation plans for significant changes within certain timeframes, or undertaking robust consultation on certain changes so that users and Western Power have an understanding of each parties' respective requirements before the changes are implemented. Alinta Energy recommends that consequential changes to other regulations, including the communication rules or standing data requirements, also be identified up front.

Further consideration of the implications of implementing certain changes as part of the access arrangement may also help avoid services being required that are in practice too complex or costly to use.

Services – experience in other jurisdictions

Alinta Energy recommends that the ERA consider the experience in other jurisdictions when assessing proposed investments in metering infrastructure to provide new metering services. We encourage the ERA to specifically look at the Victorian Advanced Metering Infrastructure (AMI) project, a Government-led initiative which ran from 2006 – 2016, in which Victorian Distribution businesses were obligated to replace all manually-read meters with smart meters. While the Victorian Government implemented the program with the intention of supporting a range of benefits², a number of systemic failures overshadowed its success.

In November 2009, the Victorian Auditor-General handed down its "Towards a Smart Grid – The Roll-out of Advanced Metering Infrastructure" report³ which found that the "AMI project has not used the checks and balances that would ordinarily apply to a major investment directly funded by the state. This highlights a gap in the project's accountability framework.". In addition, the report also concludes that:

"The cost-benefit study behind the AMI decision was flawed and failed to offer a comprehensive view of the economic case for the project. Further, the cost-benefit analysis is unclear about how stakeholders, particularly consumers, will benefit and who should bear which costs. There is little evidence to show that when the project was designed, the resultant benefits and costs were adequately considered.

The AMI project also has significant implementation risks that have been underestimated in advice to government. These risks, which relate to technology and relationships with national systems and processes, have started to materialise and are likely to erode the projected net benefits. It is

¹ ERA, [Further Final Decision on Proposed Revisions to the Access Arrangement for the Western Power Network 2017/18 – 2021/22](#), January 2019, p 26.

² Including improving consumer's ability to control their electricity use, reducing industry costs through a centrally procured model, and increasing the amount of new services offered by suppliers.

³ Victorian Auditor General, [Towards a 'smart grid' – the roll-out of Advanced Metering Infrastructure](#), November 2009.

therefore possible that there will be an inequitable, albeit unintended, transfer of economic benefits from consumers to industry."

In 2015, the Victorian Auditor-General published a further review titled "Realising the Benefits of Smart Meters."⁴ In its report handed to the Victorian Government, the Auditor-General noted that

"....the net position of the [AMI] program is now expected to be a substantially increased net cost to consumers over the life of the program. In contrast, while a few benefits have accrued to consumers, benefits realisation is behind schedule and most benefits are yet to be realised[...] there are significant uncertainties and risks associated with achieving these benefits, which are not within the control of the state."

Alinta Energy strongly encourages the ERA to exercise caution in its deliberations to ensure that the development of new metering services remain in the long-term interests of consumers.

Valuing net benefits

While Alinta Energy supports reforms to facilitate "alternative options" being deployed to allay network issues, where efficient; it is concerned that in certain circumstances, they may cause perverse consequences in the WEM.

For example, procuring flexible loads to avoid network issues – e.g., paying large loads to consume power during low load periods – could distort electricity prices and keep otherwise uneconomic and redundant generation capacity from exiting the market, undermining long-term efficiency.

Additionally, the ramping of these loads to address network issues may cause frequency regulation issues and increase Essential System Services requirements. In this case, the alternative option may be a false economy, shifting rather than reducing costs.

Further, procuring network services directly from customers may significantly alter customers' load patterns without allowing the retailer to adapt their contracts or wholesale strategies, undermining price efficiency.⁵

To avoid these issues, Alinta Energy recommends that the method for valuing the net benefits of alternative options assess the potential for these potential perverse consequences in the WEM.

Demand Management Innovation Allowance

As outlined in the Access Code, the DMIA appears to allow broad access to funds, with limited measures to ensure the allowance is used cost-effectively, transparently and to the benefit of customers.

Alinta Energy recommends the ERA consider ways to better protect consumers from unnecessary costs. We encourage the ERA to further explore the following measures:

- Requiring Western Power to develop a business case, outlining focus investment areas for the DMIA, and setting the maximum DMIA based on the ERA's assessment of this business case.

⁴ Victorian Auditor General, [Realising the Benefits of Smart Meters](#), September 2015.

⁵ Alinta notes that the [wholesale demand response mechanism](#) being developed in the NEM recognises this market impact and aims to mitigate it by paying retailers with customers who have contracted to supply demand response services a "reimbursement rate." This recovers part of the cost the retailer incurs by hedging for the customer's baseline level of consumption in the wholesale market but being paid less when the customer provides demand response.

- Setting KPIs for the DMIA, and an obligation on Western Power to publicly report on these KPIs. Increases or decreases in the allowance should be tied directly to performance to ensure sufficient incentives are built into the mechanism.
- Coordinating the determination of the DMIA so that it can be consulted on with the broader Access Arrangement.

Thank you for your consideration of Alinta Energy's submission. If you would like to discuss this further, please contact Oscar Carlberg at oscar.carlberg@alintaenergy.com.au or on 0409 501 570.

Yours sincerely

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