

4 December 2020

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Submitted via electronic lodgement at <https://www.erawa.com.au/consultation>

Dear Ms Walters

## **Framework and approach for Western Power's fifth access arrangement review –**

### **Scoping Paper**

Western Power welcomes the opportunity to provide a response to the ERA's scoping paper on the framework and approach for Western Power's fifth access arrangement review.

Western Power supports the ERA's view that establishing an effective framework and approach, and guidelines, is an important step to ensuring Western Power's fifth access arrangement can accommodate industry, market and regulatory changes to provide the network services required for the long term interest of consumers.

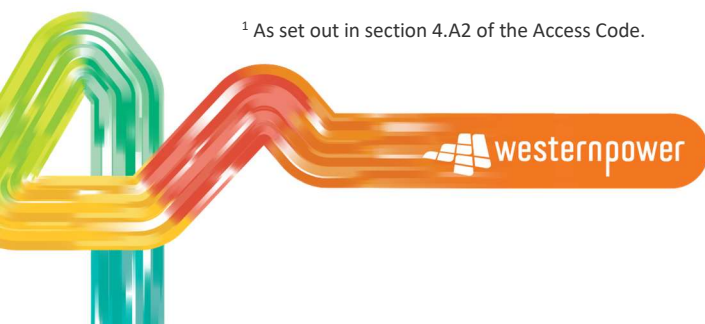
This is the first access arrangement for which a framework and approach will be developed and approved therefore, ensuring clarity and certainty on the content of the framework and approach will be key to its success. Western Power considers the framework and approach should therefore be limited to the required content as specified in section 4.A2 of the revised Access Code. The matters that must be included in the framework and approach are:<sup>1</sup>

- The investment adjustment mechanism
- The gain sharing mechanism
- The service standards adjustment mechanism
- The demand management innovation allowance
- The form of price control that will set the target revenue
- A list of, and classification of, services, including whether services are reference services or non-reference services. This may include the eligibility criteria for each reference service, the structure and charging parameters for each distribution reference tariff and a description of the approach to setting each distribution reference tariff
- The method for setting the service standard benchmarks for each reference service.

Western Power notes this is an opportunity to incorporate learnings from previous access arrangements in establishing an effective framework and approach process. During the fourth access arrangement determination process, a number of decisions on key elements of the access

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<sup>1</sup> As set out in section 4.A2 of the Access Code.



arrangement were made throughout the determination process that had significant implications for the approval and finalisation of the access arrangement. These included:

- changes to the form of price control to apply for the fourth access arrangement; and
- a significant expansion of the list of services to be offered under the fourth access arrangement.

This created uncertainty during the access arrangement process and led to significant additional work by Western Power, the ERA and key stakeholders with limited time for further public consultation on the proposed changes. Western Power considers therefore, that early and thorough public consultation on these key matters during the framework and approach process will provide greater certainty to all stakeholders and improve the effectiveness and efficiency of the access arrangement process.

In addition to the contents of the framework and approach, Western Power notes the ERA is also proposing to consult on four new guidelines during the framework and approach consultation:

- Acceptable methods for valuing net benefits
- Factors to consider when determining whether expenditure meets the requirements of the new facilities investment test
- The approach to the multi-function asset principles
- A demand management innovation allowance mechanism.

Western Power supports the development of these guidelines and we look forward to working with the ERA to develop the guidelines in parallel to the framework and approach process.

Western Power provides the following specific feedback on particular items for the framework and approach and guidelines consultation process that are intended to ensure that the remainder of the framework and approach process is as efficient as possible and focuses on the key matters as early as possible.

#### **Services:**

- **List of Services** - Western Power considers that the list of, and classification of, services should be limited to their classification and whether services are reference services or non-reference services for both distribution and transmission. Western Power considers the eligibility criteria, structure and charging parameters and approach to setting the tariffs should be excluded from this framework and approach and included in the new Tariff Structure Statement requirement to be submitted as part of the fifth access arrangement (AA5) initial proposal on 1 February 2022. This will allow more time to ensure the list of services is correct and complete before focussing on specifying the more detailed elements which would be more appropriately consulted on as part of the determination process.

Western Power would like to understand how the ERA intend to apply clause 4.A14 of the Access Code, which requires that a request for the introduction of new reference services be supported by information which justifies and supports the basis on which the party making the submission considers the relevant reference service is likely to be sought by either or both of a significant number of customers and applicants or a substantial proportion of the market for services in the covered network. Western Power notes that the delivery of the state government's Energy Transformation Strategy may require the

addition of new reference services that Western Power and other stakeholders have not currently considered.

- **Service Classifications** - to assist with consideration of the list of services and classification of services as reference or non-reference services, Western Power provides the following information to assist stakeholders understand the make-up of Western Power's revenue, and the relatively small proportion that is not directly regulated under the access arrangement or related to core network functions<sup>2</sup>. In 2018/19, Western Power received ~\$1.8BN in revenue, comprising:
  - 82% through delivering network access services (revenue target services), based on Western Power's regulated Price List
  - 14% relating to 'connection services' such as charges for capital contributions and gifted assets from customers connecting to the network as well as the associated tax recovery. These charges are determined in accordance with the Contributions Policy, part of the approved access arrangement, and Western Power's approach to tax on contributions
  - 2% relating to non-reference services that are related to the network (for example extended metering services, high load escorts and line relocations) and other services ancillary to the network (for example, costs for cancelled projects, costs recovered directly from customers for damaging the network, the cost of connecting customers to the network as part of the State Underground Power Program)
  - Of the remaining 2%:
    - Approximately half relates to material sales, where Western Power sells network components to developers and other parties for use on the network
    - 27% relates to the value of assets that are disposed of through the year (for example, land sales)
    - The remainder is for other unregulated services, such as vegetation clearing, fleet service, design work and training services.

### **Current and emerging challenges and opportunities in the SWIS:**

- **Current and emerging technical and operational challenges** – the issues facing the SWIS today have expanded from the traditional issues of insufficient network capacity at peak times and now include issues related to there being too little demand (low load) which can lead to a range of technical and operational issues such as voltage instability, declining inertia and lower system strength. These issues can impact energy efficiency, reliability, security and cost and may require solutions that address them holistically. Other challenges such as unforeseen changes to customer supply preference and load consumption behaviours may also emerge. Resolving the issues has the potential to change the mix of network and non-network solutions and associated expenditures. Western Power is keen to work with the ERA on understanding any impacts to the regulatory framework.

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<sup>2</sup> Further information on the services Western Power offers and how they are allocated to revenue categories is found in the Cost and Revenue Allocation Methodology (eg: [https://www.erawa.com.au/cproot/18336/2/23.%20Attachment%207.1%20-%20Cost%20and%20Revenue%20Allocation%20Method%20\(CRAM\)%202016%20-%202017.pdf](https://www.erawa.com.au/cproot/18336/2/23.%20Attachment%207.1%20-%20Cost%20and%20Revenue%20Allocation%20Method%20(CRAM)%202016%20-%202017.pdf) )

- **The increasing role of new technology** – as the scoping paper highlights, the increasing uptake of technologies such as solar PV, batteries and electric vehicles is driving a transformation of the electricity sector. Western Power is keen to work with the ERA on understanding the impacts to the regulatory framework as a result of this transformation and the framework and approach will likely touch on some of these issues. For example, the increase in non-network solutions (alternative options) has the potential to change the mix of expenditure between capital and operating costs, which may need to be considered in the design of the gain sharing mechanism and investment adjustment mechanism.
- **Demand Management Innovation Allowance** – Western Power considers that further clarity is required on what constitutes demand management innovation and that a broad interpretation is required.

Western Power notes that the historical focus has been on demand reduction, for example:

- the Electricity Network Access Code 2004 discusses demand levels in terms of maximum kW or kVA per period for pricing purposes
- the Wholesale Electricity Market Rules assume that demand management is for smoothing peak demand
- the National Electricity Rules focus is on managing peak demand.

Western Power considers that the Demand Management Innovation Allowance Mechanism Guidelines should facilitate initiatives that can address any issues that may emerge or expand over time and have the potential to reduce long term costs, regardless of the demand response required.

#### **Multi-Function Asset Guideline:**

- Western Power supports the introduction of the Multi-Function Asset Guideline and considers that it will provide both clarity and benefits for customers and Western Power. However, when developing the guideline Western Power considers that the focus of the guideline should be on how best to share profits from these new services rather than revenue. The Energy Transformation Implementation Unit published a summary<sup>3</sup> of how the sharing is envisaged to occur and Western Power believes it is useful to restate the 3 broad scenarios that the guideline could apply to:
  - Where Western Power has already installed an asset which is included in the Regulated Asset Base (RAB) and that asset is used primarily for network services but may also be used to provide a service to a third party – in this scenario the capital has already been incurred, however there are likely to be ongoing operating costs over and above regulated amounts required to deliver the additional service. The guideline should have regard to these costs.
  - Where Western Power installs an asset partially to provide a network service and partially to provide ‘other’ services – while the RAB will enable cost recovery of the network service, in calculating a portion of revenue to share, it is important to ensure the unregulated costs are included in any profit calculation. This will help ensure the price Western Power can offer will be as competitive as possible with the market.

<sup>3</sup> Energy Transformation Taskforce, Energy Transformation Strategy – Proposed Changes to the Electricity Networks Access Code 2004 – Stakeholder Submissions Summary, 2 September 2020, p.5.

- Where there is either no asset (e.g. a contract) or the asset is not providing a network service – in this case there is no asset value in the RAB and Western Power believes the guideline does not apply.

**Access Code Objective with respect to environmental consequences:**

- Western Power supports the change in the access code objective to focus on the long-term interests of consumers and the introduction of a focus on the environmental consequences of energy supply and consumption, including reducing greenhouse gas emissions, considering land use and biodiversity impacts, and encouraging energy efficiency and demand management.

Western Power is interested to understand how the ERA will be applying this new objective during the framework and approach process, for example having regard to the impact on service standard benchmarks and expenditure incentive mechanisms, and the subsequent AA5 determination process, for example supporting network investments required. In particular, Western Power notes the state government has recently released the Western Australian Climate Policy which commits the state to achieving net zero greenhouse gas emissions by 2050. It is expected that Western Power, and other industry members, will be required to invest during AA5 to assist with the new policy.

Western Power recognises the timing for the framework and approach process is constrained, with a requirement for the ERA to publish the final framework and approach by 2 August 2021. Western Power therefore welcomes early public consultation to ensure the framework and approach meets the desired objectives of improving the access arrangement process.<sup>4</sup>

If the ERA would like to discuss any aspect of our response, please contact Miles Jupp at [miles.jupp@westernpower.com.au](mailto:miles.jupp@westernpower.com.au).

Yours sincerely

**Jacqui Hall**  
Chief Financial Officer

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<sup>4</sup> Energy Transformation Taskforce, Energy Transformation Strategy – Proposed Changes to the Electricity Networks Access Code 2004 – Stakeholder Submissions Summary, 2 September 2020, p.1.