

Determination on the proposed 2021/22 price list for the Western Power network

Submitted by Western Power

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Economic Regulation Authority

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Determination

On 14 April 2021, Western Power submitted a proposed 2021/22 price list for its electricity network to the Economic Regulation Authority for approval under chapter 8 of the *Electricity Networks Access Code 2004*.

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).

Western Power has proposed an average increase in prices of 2.27 per cent. The ERA has assessed the proposed 2021/22 price list and considers that it complies with the requirements of Western Power's approved access arrangement and the Access Code.

In accordance with the requirements of section 8.2 of the Access Code, the ERA approves the 2021/22 proposed price list and determines that it has effect from 1 July 2021. The ERA has published Western Power's proposed price list and price list information on its website.¹

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

1. Regulatory requirements

Chapter 8 of the Access Code sets out the process and requirements for the ERA to approve and publish the price list:

- 8.2 The *Authority* must approve a *price list* if the *Authority* is satisfied that:
- (a) the *price list* complies with Chapter 7 and this Chapter 8 and the *service provider's access arrangement*, including any applicable *tariff structure statement*; and
 - (b) all forecasts associated with the *price list* are reasonable.
- 8.3 If the *Authority* determines that a *price list* is deficient:
- (a) the *Authority* may require the *service provider*, within 10 *business days* after receiving notice of the determination, to re-submit the *price list* with the amendments necessary to correct the deficiencies identified in the determination and (unless the *Authority* permits further amendment) no further amendment; or
 - (b) the *Authority* may itself make the amendments necessary to correct the deficiencies.
- 8.4 If the *service provider* fails to comply with a requirement under section 8.3, or the resubmitted *price list* fails to correct the deficiencies in the former *price list*, the *Authority* may itself amend the *price list* to bring it into conformity with the requirements of this Chapter 8, the *service provider's access arrangement* and the *service provider's tariff structure statement* for the relevant *access arrangement period*.
- 8.5 For the purposes of amending a *price list* under section 8.3(b) or section 8.4, the *Authority* may have regard to the forecast price changes for the relevant *pricing year* as set out in any applicable *reference tariff change forecast*.
- ...
- 8.7 The *Authority* must, within 30 *business days* from the date of submission of an *annual price list* by a *service provider* under section 8.1(b), *publish an approved price list* (including any amendments made by the *Authority* under section 8.3(b) or section 8.4) with respect to that *annual price list*.
- 8.8 If the *Authority* does not *publish an approved price list* by the date specified in section ...8.7 ..., the *approved price list* most recently in effect continues in effect until the *Authority publishes a revised approved price list* in accordance with section 8.6 or 8.7 (as applicable) and that revised *approved price list* takes effect in accordance with section 8.11.
- ...
- 8.10 An approved price list published under section 8.1A(b) takes effect:
- (a) ...
 - (b) in the case of an annual price list – at the commencement of the pricing year to which the price list relates.
- 8.11 An *approved price list published* under section ... 8.7 takes effect from a date specified by the *Authority*, provided that the date specified by the *Authority* must be the date set out in section ... 8.10(b) ... unless the *Authority* considers there are circumstances which reasonably justify a departure from such date.

The pricing requirements in chapter 7 of the Access Code are incorporated in the pricing methods approved in the access arrangement.

The reference in section 8.2(a) to any applicable tariff structure statement does not apply to this determination as Western Power does not have a tariff structure statement. This is a new requirement introduced as part of the State Government's Energy Transformation Strategy.² A tariff structure statement will be approved as part of Western Power's next access arrangement review.

The requirement in section 8.2(b) about forecasts is also not relevant as Western Power must forecast revenue based on the 2017 demand, customer and energy forecasts consistent with the price control approved in its access arrangement.

² On 6 March 2019, the Minister for Energy announced the Energy Transformation Strategy, which is the State Government's plan to respond to the technological change and evolving consumer preferences that are rapidly transforming the energy sector and to plan for the future of the power system. The delivery of the Strategy is being overseen by the Energy Transformation Taskforce, which is supported by the Energy Transformation Implementation Unit, a dedicated unit within Energy Policy WA.

2. Content of the price list

Chapter 8 includes the requirements for the content of the price list:

8.12 A *price list* must:

- (a) set out the proposed *reference tariffs* for the relevant *access arrangement period*;
- (b) set out the proposed *reference tariff*, the *charging parameters* and the elements of service to which each *charging parameter* relates;
- (c) set out the nature of any variation or adjustment to the *reference tariff* that could occur during the course of the *pricing year* and the basis on which it could occur;
- (d) demonstrate compliance with this Code and the *service provider's access arrangement*, including the *service provider's tariff structure statement* for the relevant *access arrangement period*;
- (e) for any *pricing year* other than the first *pricing year* in an *access arrangement period*, demonstrate how each proposed *reference tariff* is consistent with the corresponding forecast price change for that *reference tariff* for the relevant *pricing year* as set out in the relevant *reference tariff change forecast*, or explain any material differences between them; and
- (f) describe the nature and extent of change from the previous *pricing year* and demonstrate that the changes comply with this Code and the *service provider's access arrangement*.

The references in section 8.12(d) and 8.12(e) to the tariff structure statement and reference tariff change forecast do not apply to this determination as Western Power does not have these documents. They are a new requirement, introduced as part of the State Government's Energy Transformation Strategy, and will be approved as part of Western Power's next access arrangement.

The requirements in section 8.12(a) to 8.12(c) are addressed in the proposed price list. The requirements in section 8.12(d) and 8.12(f) are addressed in the proposed price list information, as was required previously under the Access Code and in Western Power's approved access arrangement. The "price list information" will not be required for future access arrangements. The information currently contained in it will be moved to either the price list or tariff structure statement.

3. Compliance with the access arrangement

The access arrangement sets out the following requirements for the annual price list:

- The price control that determines the target revenue Western Power can earn for the pricing year.
- The pricing methods Western Power must apply to update tariffs in the annual price list.

Each of these matters is considered below.

3.1 Compliance with the price control

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 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 2021/22 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.

A summary of the components of 2021/22 target revenue is set out in Table 1 below.

Table 1: Summary of 2021/22 target revenue (\$ million nominal)

Parameter	Transmission	Distribution	Total
Revenue determined in the access arrangement	526.3	1,108.5 ³	1,634.8
Adjustment for the 2021/22 annual update of the debt risk premium	(11.3)	(32.6)	(43.9)
Tariff Equalisation Contribution adjustment	-	36.1 ⁴	36.1
Maximum target revenue for the 2021/22 price list	515.0	1,112.0	1,627.0

³ Includes a forecast Tariff Equalisation Contribution of \$161 million. The gazetted Tariff Equalisation Contribution for 2021/22 was \$178 million. The difference has been included in the Tariff Equalisation Contribution adjustment shown in Table 1.

⁴ Includes \$17 million for 2021/22 referred to in footnote 3 and \$19.1 million for prior years.

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	136.41	484.20	1.45
RT2 Anytime energy business	18.46	74.48	0.81
RT3 Time of use energy residential	1.28	3.80	0.83
RT4 Time of use energy business	8.99	18.55	0.85
RT5 High voltage metered demand	13.59	22.00	3.27
RT6 Low voltage metered demand	60.70	109.69	4.88
RT7 High voltage CMD	78.76	63.79	5.19
RT8 Low voltage CMD	6.90	12.28	4.16
RT9 Streetlighting	3.17	44.61	1.84
RT10 Unmetered supplies	0.62	4.92	1.21
RT11 Distribution Entry	1.72	2.38	1.84
RT13 Anytime energy residential bi-directional	36.94	157.52	1.62
RT14 Anytime energy business bi-directional	3.72	7.70	-0.40
RT15 Time of use residential bi-directional	1.27	5.05	1.22
RT16 Time of use business bi-directional	11.70	19.20	0.56
RT17 3 part time of use energy residential	3.44	11.38	5.58
RT18 3 part time of use energy business	11.15	23.47	-1.45
RT19 Time of use demand residential	0.31	0.45	-0.52
RT20 Time of use demand business	24.25	45.73	0.13
RT21 Multi-part time of use residential	0.00	0.00	2.71
RT22 Multi-part time of use business	0.01	0.05	-1.03
TRT1 Transmission exit	39.05	-	5.32
TRT2 Transmission entry	48.48	-	5.55
Non-reference revenue target services	4.12	0.76	-
Total	515.03	1,112.00	2.27

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

As required under clause 6.4.5 of the access arrangement, the forecast revenue is based on the 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 5.58 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 2021/22 price list complies with the price control set out in the access arrangement.

3.2 Compliance with the pricing methods

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 pricing methods approved in 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 that it is consistent with the allocations used in the price list approved with the access arrangement.

Western Power has maintained the same structure of tariffs that was approved for the 2020/21 price list. Additional streetlight tariffs have been introduced for new wattages and colour ratings.

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

- 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 price list approved with the access arrangement.

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 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 2021/22 price list complies with the pricing methods required under the access arrangement.