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Economic Regulation Authority
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Via email: Elizabeth.walters@erawa.com.au

Expert Consumer Panel submission on the ERA's Draft Decision and Western Power's revised fifth access arrangement submission

Dear Elizabeth,

Thank you for the opportunity to make a submission in response to Western Power's revised AA5 proposal and the matters raised in the Economic Regulation Authority's (ERA) Draft Decision.[1]

The WA Expert Consumer Panel (ECP) is supported by the State Government's Western Australian Advocacy for Consumers of Energy (WA ACE) grant funding, to engage in consumer advocacy and contribute to major decision making in the sector.

In our April submission to the Issues Paper, we started out by noting that network costs are a significant contributor to energy bills, and households and businesses are relying on Western Power to deliver a smart and efficient strategy in a time of transformative change. Only six months later, Western Australian households and small businesses are confronting a very different, and much more challenging economic environment. Triggered by The War in Ukraine and supply chain disruptions of the COVID-19 pandemic, inflation is now running at levels not seen for 30 years, and interest rate increases designed to bring prices under control are placing households and small businesses under increasing financial pressure. At the same time, increases in the cost of debt have added almost $1 billion to the money that Western Power will recover from consumers over the five year period of the Access Arrangement, placing significant upward pressure on bills.

These economic headwinds make managing the transformation to a smarter, cleaner grid, much more challenging but one that Western Power must rise to. Western Australians are increasingly feeling the effects of climate change, and strong and smart local electricity networks that are resilient to heatwaves, bushfires, and can efficiently facilitate renewables, are vital for the long-term health and economic wellbeing of people and the State.

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[1] This submission identifies key matters of interest for ECP members reflecting our diverse expertise and perspectives. It does not represent the view of any other party. Details of the ECP can be found at: *https://www.wa.gov.au/government/document-collections/expert-consumer-panel*.

It is through this lens of changed economic circumstances, and the urgency around transforming the grid that the ECP provides its comments on Western Power's revised AA5 proposal and the ERA's draft decision. The ECP's contribution is informed by a high-level strategic review undertaken by Dynamic Analysis which builds on its earlier analysis of Western Power's draft AA5 proposal (Attachments A and B).

The ECP is broadly comfortable with the ERA's draft decision, and welcomes Western Power's and the ERA's responses to issues we raised in our submission on the draft determination. We do however make suggestions about how AA5 can be strengthened to deliver better outcomes for Western Australian energy consumers.

<u>Productivity framework</u>

One of the key issues we identified in our previous submission was the need for Western Power to make the most of new technologies to become a more efficient and productive organisation and deliver savings back to customers. We therefore welcome the ERA's focus on productivity in its draft decision, which will ensure Western Power works towards targets that reflect best practice for comparable networks in other parts of Australia and overseas.

We do however support Dynamic Analysis' call for the ERA to provide Western Power with more detailed guidance on where these productivity improvements should be found. The ECP's strong view is that productivity incentives must be structured to encourage Western Power to leverage smart technology and practices, rather than achieving targets by reducing frontline staff given the vital role that Western Power's people will play delivering services for customers in an increasingly challenging environment.

For example, greater use of dynamic line ratings and dynamic operating envelopes would enhance available network capacity for more of the year. Similarly, leveraging smart meter data for a whole range of smart applications could help defer capex and allow better targeting of opex.

<u>Managing project delivery risk</u>

We strongly support the ERA's draft decision to include major investments such as the undergrounding overhead power lines and stand-alone power systems in the Investment Adjustment Mechanism to better allocate the risk of non-delivery between consumers and Western Power. As the ERA notes, Western Power is proposing a major step-up in its capital works program beyond what it has previously delivered, and what might be practically achievable with labour and supply chain bottlenecks. Consumers must not carry the financing risk of non-delivery.

Of course one of the most effective ways to manage project execution risks - and to manage costs in an inflationary environment - is to find smart ways to avoid the need to upgrade the physical infrastructure through non-network solutions, which include empowering consumers to manage their usage and take pressure off the grid. Western Power is required to consider non-network solutions as part of the Access Code requirements, but we are yet to see the organisation pursue these sorts of opportunities at scale.

The framework must create strong incentives for Western Power to create opportunities for households and businesses to benefit from managing their rooftop solar PV, batteries, electric vehicles and other Consumer Energy Resources (CER) in ways that reduce the pressure on the grid. In this context we welcome the work Western Power has commenced to update its tariffs to reflect new demand patterns. We also recommend that Western Power give priority to new arrangements that will allow electric vehicles to feed into the grid or customer premises at peak times (V2G, V2H etc.) in order to defer network capex.

Helping consumers switch tariffs and save money

We welcome the progress Western Power has made to phase out tariffs that provide consumption incentives based on historic demand profiles, and introduce new super off-peak tariffs. If adopted by consumers, these tariffs can increase the network's capacity utilisation and reduce the need for costly upgrades.

We do however remain concerned that better tariffs will not translate into better outcomes for consumers without significant effort by Western Power, Synergy and other service providers to inform and educate customers about new opportunities to reduce their bills. As it currently stands, it is very difficult for customers to benefit because new tariffs and the enabling smart meter infrastructure are not being proactively promoted by the utilities. Encouraging households to change tariffs without providing them sufficient data to calculate the expected cost impact may push more customers into energy debt and disadvantage consumers. Providing time of use data in a simple format which enables customers with low energy literacy to benefit from the data is essential for equity and uptake.

We ask the ERA to consider ways in which the requirements and incentives built into AA5 around tariffs can be strengthened to address what we see as a major barrier to customer outcomes in a Western Australian energy market with demand profiles evolving in the way they are.

Ensuring vulnerable households who have limited ability to shift or reduce their electricity consumption are protected is also critical. As we have noted through the TSS process, fixed charges can make up a considerable portion of the electricity bill in low income households, and these are the people most likely to need debt assistance to pay their bills. The ECP is therefore concerned that Western Power's estimates of Long Run Marginal Cost (LMRC) are unrealistically low which is distorting the analysis of the justification for increasing the fixed tariff component rather than the variable LRMC-based component (which consumers have an opportunity to manage) of network tariffs.

Western Power could model a few scenarios of demand growth, and the network augmentation capex that would apply to each scenario, and compare these with its LRMC estimates, for each scenario. A higher rate of electric vehicle take up and “electrification”, as well as transmission augmentation for greater renewable energy generation in proposed zones could result in much higher demand and capex than the forecasts Western Power has used in its revised AA5 submission.

Recent past capex projects could also be used to compare their capex per kVA of increased network capacity, with the LRMC estimates. Examples are the 330kV line to North Country, and the network feeders augmented as a result of last summer’s circuit overloads.

Clarity about demand growth and bill impacts

Further clarity is needed about the energy bill impacts for households and small businesses, noting the ERA calculates that prices could rise by more than 7 per cent each year, whereas Western Power forecasts a lower number, based on more optimistic forecasts around load growth.

The ECP would like to see greater alignment between the ERA and Western Power forecasts to help stakeholders engage with the proposal and consumers plan for the future. The ECP is particularly worried about the risk that previous failures to anticipate step changes in demand associated with airconditioning and rooftop solar PV takeup could be repeated and would like to see more detailed forecasts and plans around Electric Vehicle uptake in particular.

Ongoing engagement with consumers about their preferences in a changing environment

The bulk of Western Power’s stakeholder engagement for AA5 was undertaken before the global economic environment deteriorated, and household and small business priorities may have changed in material ways that need to be understood. We also note that Western Power has been allowed additional funding for communications, renewable energy zones and cyber initiatives late in the process.

In light of these changes Western Power must continue to engage with customers through the AA5 period on major operational and investment decisions, and pursue opportunities to adapt its business strategy to better reflect evolving circumstances. Importantly, higher levels of risk and uncertainty in our transforming environment mean we should expect further shocks during the AA5 period and the framework needs to be flexible enough to adapt along the way. In simple terms, a lot can and will likely happen in the next five years.

There are various models that Western Power could adopt to continue to engage in a systematic and open way through AA5. We note for example that some NSW networks have established investment review committees which include customer representatives. An approach that is fit for purpose in the Western Australian context could also be paired with an expenditure portfolio ranking system based on risk and value of the kind that Dynamic Analysis has suggested in its review. The ECP would be pleased to discuss options for ongoing engagement with the ERA and Western Power.

We would be pleased to provide any further information to support this submission and look forward to continuing to engage with the ERA and Western Power as the process continues. Dynamic Analysis is also available to discuss its high-level findings with the ERA and Western Power if that would be helpful.

Yours sincerely,

WA Expert Consumer Panel

Attachments A and B - Review of Western Power's ERA draft decision on Western Power's revised proposal for 2022-27, Dynamic Analysis