



Notice

31 March 2023

Western Power's fifth access arrangement review

Final Decision

The Economic Regulation Authority has published a [final decision](#) on Western Power's access arrangement proposal for the period 2022/23 to 2026/27.

The ERA's final decision is to not approve Western Power's revised proposed access arrangement submitted to the ERA on 15 November 2022.

As required under section 4.18 of the *Electricity Networks Access Code 2004*, the ERA has drafted, approved and published its own access arrangement, which is based on the revised proposal submitted by Western Power on 15 November 2022 and amended in accordance with the required amendments set out in the final decision.

The final decision sets a target revenue of \$9 billion that Western Power can earn over the five-year period. The forecast average change in network tariffs for the first price list (2023/24 commencing on 1 July 2023) is about 7 per cent. Network tariffs are forecast to increase by about 7.5 per cent each year for the remainder of the AA5 period, based on current forecast inflation.

Western Power's network tariffs are charged to users of the network including electricity retailers (such as Synergy), generators and some very large industrial and mining companies connected to the transmission network. Electricity retailers decide how to pass on the network charges they incur to their customers. Most residential customers and business customers who use less than 50 MWh of electricity each year are supplied by Synergy and are on a capped retail tariff set by the State Government. At the 2021 State election, the Government committed to keeping residential electricity prices capped at inflation.

The access arrangement is required under the Access Code, and sets out the terms and conditions, including prices, for third parties seeking to access the Western Power network.

An Overview of the final decision is attached to this notice.

Further information

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Overview

Western Power's fifth access arrangement is being determined during a period of significant change in the energy sector. At the same time, financial conditions are uncertain with high inflation and rising interest rates.

Customers and businesses are changing their behaviour and demanding energy from lower cost, greener sources, as well as generating their own electricity from roof-top solar systems. Government and corporate policies to reduce carbon emissions, including planned closures of coal fired generation, are encouraging storage systems and large-scale wind and solar farms to join the network. With the electricity supply chain traditionally designed around thermal baseload generation, the consequence is an electricity industry undergoing a once in a century transformation.

The electricity network - the mechanism needed to transport a reliable supply of electricity between suppliers and customers – is critical to this transformation and the process of decarbonisation and needs to respond. Western Power faces the challenge of planning, costing and implementing new technologies and responding to more frequent and severe weather events from our changing climate. The scale of the changes underway require fundamental shifts in investment and the ongoing operation of the network.

Western Power has responded to these challenges by developing a modular grid strategy that differentiates the distribution network into three zones. In urban areas, Western Power proposes a tightly meshed network, undergrounded in parts and with operating systems able to support increasing levels of rooftop solar, storage and electric vehicles. At the extremes of the South West Interconnected System, Western Power may disconnect customers from the main network and instead supply them from autonomous microgrids or standalone power systems. Between the metropolitan and regional areas, Western Power proposes to supply customers using a hybrid network comprising mostly overhead poles and wires with microgrids and standalone power systems adopted where necessary as the most efficient means of supplying energy and meeting service standards.

To support this strategy Western Power's proposal included expenditure for digitalising the distribution system, undergrounding the urban network, cyber security, installation of standalone power systems in remote areas and completing the roll out of advanced interval meters.

Over the course of the AA5 review, there has been a significant increase in interest rates and inflation. Western Power's initial proposal was based on a risk-free rate of 1.53 per cent and expected annual inflation of 2 per cent. In contrast, the final decision is based on a risk-free rate of 3.73 per cent and expected annual inflation of 2.6 per cent, reflecting more current market conditions. This has had a bearing on Western Power's weighted average cost of capital and has contributed to an increase in network prices.¹

The challenge to the ERA in considering Western Power's access arrangement is to ensure that customers are not exposed to excessive costs and risks from the ongoing uncertainty of financial markets and the energy transformation, while also enabling Western Power to be commercially sustainable as a business and fulfil its vital role in supporting the energy sector's transformation over the next five years.

The ERA published its draft decision on 9 September 2022 and Western Power submitted a revised proposal on 15 November 2022. Western Power accepted many elements of the draft decision but

¹ In addition, actual inflation for June 2022 was 6.1 per cent, compared to Western Power's initial forecast of 1.84 per cent.

proposed increases to expenditure for transmission and distribution growth, distribution reliability, cyber security, private pole inspections, silicone treatment and insurance.

Stakeholder submissions on the draft decision and revised proposal indicated general support for the draft decision and some concerns about further increases to expenditure. Some stakeholders were also concerned that the level of proposed transmission investment in the access arrangement period was inadequate and would be insufficient to enable transformation at the pace necessary to meet industry requirements.

The State Government is currently working to identify future electricity demand in the South West Interconnected System, the volume of generation required to meet this demand and subsequently the transmission investment required to support ongoing decarbonisation. In its response to the draft decision, Western Power proposed new transmission expenditure for a couple of early projects, in the Eastern Goldfields and North Country, to facilitate the closure of Government-owned coal fired generation.

The work currently underway by the State Government will inform transmission augmentation requirements and Western Power may need to make additional funding requests to the ERA prior to 2027, the final year in this access arrangement period.

This final decision enables Western Power to deliver energy transformation programs at a realistic pace, at efficient cost and ensures customers only pay for the network enhancements Western Power delivers.

In making its final decision, the ERA has:

- Carefully considered Western Power's revised proposal and advice from the ERA's technical consultant on the revised proposal.
- Taken account of stakeholder views on the ERA's draft decision and Western Power's revised proposal.
- Been mindful of the State Government's decarbonisation goals and projects such as advanced metering, standalone power systems and upgrades to the transmission network, that help to achieve these goals.
- Incorporated current market interest rates and forecast inflation.
- Embedded in its decision recognition of the expanded Access Code objective that requires consideration of the environmental consequences of energy supply and consumption.

Total target revenue is \$9,099 million for the AA5 period (\$123 million higher than the draft decision). The forecast average change in prices for the first price list (2023/24 commencing on 1 July 2023) is about 7 per cent. Prices are forecast to increase by about 7.5 per cent each year for the remainder of the AA5 period, based on current forecast inflation.

Overall, Western Power's initial proposal outlined project initiatives that are consistent with the transformation and ongoing operation and maintenance of the network.

In this final decision, the ERA has included additional operating expenditure for:

- Non-recurring operating expenditure of \$24.3 million for Western Power to initially inspect private poles following a High Court ruling in December 2022 confirming Western Power's responsibility for private pole inspections.
- Insurance costs of \$43 million to reflect higher premiums due to general insurer concerns around large claims that have arisen in recent years and bushfire risk and climate change.

Overall, the final decision includes operating cost expenditure of \$2,047 million for the AA5 period.

The final decision includes additional capital expenditure for:

- Transmission investment (\$83.4 million) for network expansion projects identified by the State Government to support the announced closure of coal fired generation. The ERA has included the identified projects in the Investment Adjustment Mechanism to avoid any windfall gain to Western Power if it does not proceed with the projects or to cover any additional efficient costs if required during AA5 to deliver these projects. It is likely the projects will be identified in the next Whole of System Plan as “priority projects”. If this does not occur, Western Power will need to demonstrate that the projects maximise the net benefit to consumers after considering all options and meet all aspects of the new facilities investment test.
- Distribution growth (\$29.1 million) for upgrades to the distribution network due to an update to the demand forecast to account for heatwaves experienced in late 2021 and early 2022 and changes to market information.
- Distribution reliability (\$8.1 million) for a program to replace insulators during 2022/23 in areas currently experiencing poor reliability.
- Regional reliability (\$88 million) for Western Power to develop and trial a long-term plan to improve regional reliability.

The final decision also includes capital expenditure for the following items that are unchanged from the draft decision:

- Expenditure to complete the roll-out of the advanced metering program over AA5.²
- Expenditure for undergrounding overhead power lines in urban areas and installing standalone power systems in regional areas. Both these programs have been included in the Investment Adjustment Mechanism. This provides flexibility so that if Western Power over or under delivers against the activity and approved expenditure, the expenditure variation can be adjusted at the next access arrangement. This ensures that customers are protected by only paying for what Western Power delivers, and that Western Power is fully funded if it delivers the programs efficiently and more quickly.
- Asset replacement and renewal.

Overall, the final decision includes capital expenditure of \$3,896 million for the AA5 period.

To ensure Western Power operates efficiently the ERA has retained the 2 per cent productivity factor included in the draft decision that requires Western Power to deliver operating efficiencies consistent with other network operators in Australia.

The Independent Review of Christmas 2021 Power Outages highlighted that some customers, particularly in regional areas are receiving a poor level of service. This is supported by network performance data provided to the ERA by Western Power.

The ERA has spoken directly with regional customers experiencing poor service and what this means to them. Customers said, “Extended power outages for regional communities have multiple impacts, [including] heating and cooling of homes, schools, and businesses.”

This engagement also showed that the service standard incentive mechanism in the Access Code is difficult for customers to understand and is a blunt tool to address pockets of poor service.

² Under a business-as-usual approach, the program would be completed in AA6. Western Power has proposed to accelerate the program to complete it in AA5.

The draft decision addressed these issues by simplifying the reliability benchmarks and raising the benchmark for rural long feeders to align with the standard prescribed in the *Electricity Industry (Network Quality and Reliability of Supply) Code 2005*.

The ERA has maintained this approach in the final decision. In addition, funding has been included for Western Power to develop and trial a strategy to improve regional reliability.

The ERA will also require Western Power to provide more detailed annual reports on its reliability performance in the regions and its plans to improve reliability for those customers.

As required in the draft decision, Western Power has engaged further with stakeholders to develop a new tariff for dedicated electric vehicle charging stations. The new tariff can be used to gradually transition from energy consumption-based charges to demand-based charges over time. It is a sliding scale-based tariff consisting of both energy consumption and demand charges that vary with utilisation.³ This addresses the issue that low utilisation of the charging station during the initial uptake of electric vehicles can make existing demand-based tariffs unaffordable due to the level of fixed charges. The new tariff also incentivises charging during low demand periods by not counting intervals between 9am – 3pm in the utilisation calculation. Incentivising such behaviour is important to enable better utilisation of the existing network and reduce the need to expand the network to meet demand from electric vehicle charging.

The final decision includes amendments to the applications and queuing policy to facilitate customer connections. Western Power has recently completed a major review of its connection process and has identified initiatives that should reduce current connection times.

Western Power is developing an implementation plan to deliver these changes, which it considers could significantly reduce the time it takes to receive an access offer and commence construction. Western Power considers that should the final decision require it to amend timeframes in the applications and queuing policy this would divert resources towards meeting those timeframes and distract it from developing a better fit-for-purpose approach.

The ERA welcomes the improvements Western Power is seeking to make to its processes and acknowledges that implementing the changes will take time. For that reason, the ERA has not required revised timeframes to the applications and queuing policy in this final decision, however, it is important that Western Power is accountable for reducing connection times.

Consequently, the final decision includes amendments that require regular reporting on current queuing times and improvements to existing processes. This will increase transparency and allow Western Power's progress towards reducing connection times to be monitored.

Following the draft decision, the ERA held a workshop with key stakeholders on matters raised by WALGA on streetlighting services. Subsequent engagement between Western Power and WALGA has resulted in significant progress on some longstanding issues. These improvements have been reflected in the final decision.

³ A consumption-based tariff is based on the amount of electricity used (expressed as kWh). A demand-based tariff structure is based on the power demand on the network in a specific time period (expressed in kW).