

17 December 2008

Access Arrangement Review
Electricity Access
Economic Regulation Authority
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Perth Energy's Submission on Western Power's Proposed Access Arrangement Revisions

Perth Energy appreciates the opportunity to provide comments on Western Power's proposed revisions to the Access Arrangement. Perth Energy would also like to commend the ERA for providing an Issues Paper regarding the revisions; it has provided a useful reference for preparing this submission.

Perth Energy's responses are based on the headings and numbering used in the Issues Paper.

5.3 Proposed Revisions to the electricity transfer access contract (ETAC)

- Perth Energy supports the revisions to the ETAC that deal with the provision for Western Power and the user to agree to a different system of invoicing. This increases the commercial flexibility of both parties.
- Perth Energy supports the provision for including a dispute resolution process in the ETAC.
- Perth Energy agrees that a mechanism should be included to release or cancel capacity that is not being used by a customer. This would reduce over-investment in the transmission system and minimise the ability for capacity holders to exercise market power.
- However, Perth Energy does not support the provision for Western Power to act unilaterally with respect to capacity under the ETAC. If the proposed change in capacity cannot be agreed by the parties then it should be resolved under a binding dispute resolution process.
- Perth Energy can support a provision for a sunset clause on payment adjustments to limit the time frame for those adjustments. This clause however must be worded so that it applies to both parties equally.

7.2.2.1 Tariff equalisation payments

Perth Energy supports the view that any equalisation payments made to Horizon should be funded through a Community Service Obligation from the government. This increases transparency and improves the efficiency in the electricity market.

7.2.2.2 Non-capital costs

Perth Energy believes that substantial increase in operating costs requires further explanation by Western Power. Western Power should provide details regarding how much of the forecasted operating costs are attributable to ramping up maintenance, management and testing activities that were previously constrained by resources and budgets. Details on operating cost amounts in relation to keeping up with new customer service and regulatory standards should also be provided and finally the amount of operating expenses that are attributable to the proposed substantial increases in capital expenditure.

Additionally Western Power should provide a sample of comparative statistics regarding operating expenditure from other jurisdictions as a reference to the relative efficiency of Western Power's operation.

Perth Energy believes this further information will help the ERA determine if the forecast provided by Western Power are reasonable and consistent with the Access Code.

7.2.2.3 Capital Base and New Facilities Investment

Perth Energy believes that further explanation is required for the substantial increases in capital costs. As with operating costs above, Western Power should provide details on the amount of capital costs that are attributable to each of; investment catch-up for previous years, spending to meet customer service and new regulatory standards and investment due to forecasted growth.

Additionally, Western Power should provide details of the upgrades required and the estimated efficiencies gained by making the investments. Serious consideration should be given to the amount of investment due to forecasted growth. Perth Energy supports investment so that the network does not become a constraint on economic expansion, but the growth forecast should be reviewed not only within the context of the unprecedented growth in WA during the first access agreement period, but also in light of recent world financial events.

The ERA should require more information from Western Power on the amount of capital contributions collected and the value of the assets to which the contributions applied in the current access period. Further clarification is also needed on how much value attributed to these assets is included in the capital base for the second access period.

In relation to the substantial increases in both operating and capital expenditure, Perth Energy has concerns that, if approved, all of the work can be completed during the second access period. Western Power needs to provide more detailed plans on how it will implement such an aggressive schedule of work and substantiate the take-up rate of additional network capacity.

7.2.2.4 Capital Contributions

The proposed changes in the treatment of capital contributions in the capital base are a significant component in the proposed increases in tariffs. According to Western Power presentations this component represents 36% of the overall increase. Yet, Perth Energy notes that Western Power is indifferent to the two methods on a net present value basis. As the current method is not disadvantaging Western Power or inhibiting new investment, Perth Energy cannot support the change in methodologies at this point in time.

If, however, the ERA accepts the change in the treatment of capital contributions, revisions to the capital base for the second access period should be considered in light of the fact that under the current treatment the full value of the new asset is added to the asset base. Western Power will be earning a rate of return on the assets in the second access period, so the value of any contributions in the first access period should be removed from the asset base.

7.2.2.5 Rate of Return

Perth Energy believes that the ERA should evaluate the WACC inputs within the context of recent events in world financial markets. Western Power at the recent ERA public forum stated that every

1% change in WACC would change the tariff outcomes by 10%. Determination of a reasonable WACC for a publicly owned monopoly asset is paramount in setting tariffs.

Perth Energy supports an outcome where Western Power is incentivised to make efficient investment in the network and provides the most value for users.

7.5 Adjustments to target revenue

Perth Energy supports in principle incentive based regulation. However, as this is only the second review of the access arrangements, Perth Energy believes that these schemes be left to future access reviews.

Conclusion

The tariff increases proposed by Western Power will create a significant price shock to the market for no obvious benefits. There will be considerable hardship for all users of the system without substantive and clear equity or efficiency gains to the industry or general public being identified. Even Western Power will not gain from this proposal in terms of the net present value of capital contributions.

Perth Energy accepts that there has been under-investment in the system in recent years and this need to be corrected. Perth Energy also accepts that Western Power should be allowed a reasonable rate of return on its investments. Due to the magnitude and scope of the work proposed Western Power should be required to provide much more detail on how it plans to make these investments and how efficiency and equity gains could be made for the market.

Perth Energy cannot support any changes to the capital contributions methodology during this access arrangement. The impact, when combined with the level of new investment, will create undue and unfair cost pressure on network users.

Although not under the jurisdiction of the ERA, it should be noted that the effect of any dramatic increase in distribution costs that is not supported by full and direct pass-through to gazetted retail electricity tariffs will further inhibit retail competition in the market. Retailers like Perth Energy will be unable to provide pricing that reflects the full cost of electricity including abnormally high distribution costs to compete with gazetted tariffs.

To the extent that Government failure to fully pass-through drastic distribution cost increases to tariffs impacts on loss of retail competition and further erosion of Verve Energy's revenue due to the construct of the Vesting Contract, this Western Power proposal would have to be viewed in the context of potentially causing gross and severe market distortions.

Perth Energy would like to thank the ERA for the opportunity to provide input into this important process.

Kind Regards,

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MANAGING DIRECTOR