



Mr Robert Pullella
Executive Director
Economic Regulation Authority
Level 6
Governor Stirling Tower
197 St Georges Terrace
PERTH WA 6000

20 October 2009

Dear Mr Pullella,

RE: Western Power Bi-directional Reference Service and Associated Tariff proposal

Recognising that the date (25 September 2009) for direct submissions to Western Power on the above-mentioned issue has passed, we respectfully request that the Economic Regulation Authority (ERA) accept this late submission.

The Conservation Council of Western Australia (CCWA) considers that Western Power's proposed treatment of small-scale renewable energy systems within the South West Interconnected Network is inconsistent in terms of:

- 1) the treatment of market participants regarding cost-reflectivity and cross-subsidisation; and
- 2) the Wholesale Electricity Market (WEM) rules.

In addition CCWA is of the view that Western Power's consultation paper does not provide sufficient information to enable electricity market participants and other interested stakeholders to reach informed conclusions regarding the implications of its proposals. Given the ambiguity and poor engagement of the renewable energy sector in this issue CCWA proposes that this aspect of the service be withdrawn from the Access Agreement currently under consideration from the ERA. This would enable adequate consideration and informed input by stakeholders.

1) Inconsistency of Treatment of Market Participants

We note that Western Power has requested that Network Advisory Services consider the network tariff options against a criteria which includes:

- That the tariff is cost reflective for both the transmission and distribution networks, as required by Chapter 7 of the Code;
- There are no cross subsidies between customers with and without embedded generation, as required by Chapter 7 of the Code;

CCWA considers that there is a lack of consistency applied to issues relating to cost-reflectivity and cross-subsidisation when considering these criteria against Western Power's case for increasing the reference tariff for users with small scale embedded generation.

Cost-reflectivity: Despite the substantial increases in regulated electricity tariffs that have been announced this year, the announced increases¹ still fall short of those recommended in the recent review of tariff structures² and, as such, these tariffs will remain below fully cost-reflective levels for the remainder of 2009. There is no clear plan for the transition to fully cost-reflective electricity pricing, nor mechanisms put in place to ensure that the future price path continues to be fully cost-reflective.

Seeking to apply a cost-reflective reference tariff to users with small scale embedded generation while failing to apply such tariffs to the remainder of electricity users is inequitable and at odds with the objective of the Code which states that pricing should be set such that 'the charges paid by different users of a reference service differ only to the extent necessary to reflect differences in the average cost of service provision to the users'³.

Cross-subsidisation: Western Power makes the case that the cost of network services provision relates to the shape of the customers load profile; that customers with peakier load profiles 'generally require greater network capacity, and therefore have higher costs to serve per unit of energy delivered'.

Western Power argues that because peak PV system output *may* not be coincident with peak demand, the cost to the network of a customer with a small scale embedded generator installed will be approximately the same as a customer without an embedded generator installed.

¹ http://www.synergy.net.au/Residential_Segment/Tariff_Increases.html

² <http://www.energy.wa.gov.au/cproot/1448/13014/OOE%20Final%20Recommendations%20Report%20Submitted%20to%20Minister%20-%20Final.pdf>

³ Electricity Networks Access Code 2004. Accessed on 1 October 2009 at [http://www.slp.wa.gov.au/gazette/gazette.nsf/gazlist/2C360789573C223148256F5C0010ED84/\\$file/gg205.pdf](http://www.slp.wa.gov.au/gazette/gazette.nsf/gazlist/2C360789573C223148256F5C0010ED84/$file/gg205.pdf) Page 5591

To the extent that these two premises are correct, there may be some cross-subsidy between these two classes of users. However, we contend that **there is a substantial and pervasive cross-subsidy between electricity users in Western Australia embodied in the A1 regulated tariff, which is a flat rate tariff which is not only currently below cost-reflective levels (as noted previously) but does not reflect network provision costs related to time of use.** As such, this tariff represents an implicit cross-subsidy from users with flat load profiles to those with more 'peaky' load profiles. The Australian Business Council for Sustainable Energy has calculated that the real costs to users of reverse-cycle air-conditioners could be around \$1500 per annum but customers are only paying around \$60 per annum ⁴.

In conclusion, we argue that raising the reference tariff for this class of user to remove cross-subsidies while failing to address more significant and pervasive cross-subsidies is **inequitable and at odds with the provisions of the Code.**

2) Inconsistency between WEM Market Rules and Western Power proposal

As the ERA has a key role in market surveillance, monitoring and reporting to Government on the efficiency and effectiveness of the WEM, the ERA should consider contrasting the WEM Market Rules against Western Power's proposal:

The Market Rules state the objectives of the WEM are:

- a) to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system;
- b) to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors;
- c) to avoid discrimination in that market against particular energy options and technologies, including sustainable energy options and technologies such as those that make use of renewable resources or that reduce overall greenhouse gas emissions;
- d) to minimise the long-term cost of electricity supplied to customers from the South West interconnected system; and
- e) to encourage the taking of measures to manage the amount of electricity used and when it is used.

Points a), b), and c) are especially pertinent to the ERA's Draft Decision regarding Western Power's proposed revisions to the SWIS Access Arrangements. Western Power's proposal clearly discourages generation competition, and discriminates against particular energy options and technologies.


⁴ Australian Business Council for Sustainable Energy (2003) *Addressing peak demand*, EcoGeneration Magazine, no. 20, 8-9.

Western Power's argument regarding cost reflective mechanisms can be argued from various rival philosophies. For example, cost reflective mechanisms can support new network connections that provide incentives to locate variable systems where they are of great benefit in the SWIS - by offsetting conventional generation capacity, and deferring additional distribution and transmission capacity expenditure. This perspective would reward small generators, and logically precede the introduction of an approach that manages system quality by facilitating distributed generation to provide frequency control ancillary services. This approach would be at odds with the bi-directional reference service and associated tariff proposal, as the proposal only recognises costs, rather than benefits of small scale renewable generation capacity. This may also be regarded as contravening the "no cross-subsidy" requirement by Chapter 7 of the Code, due to undercosting the positive values of renewable generation capacity to the SWIS installed in appropriate regions of the SWIS, and overcosting expenses in a simplified manner.

In closing, we would like to reiterate our proposal that the ERA remove the bi-directional reference tariff proposal from the Access Arrangement considerations to enable greater stakeholder consideration of the implications of these, and other, important issues.

Your consideration to the matters raised herein is greatly appreciated.

Yours sincerely



Pieter Verstegen
Director