

4 December 2020

Ms Elizabeth Walters

Economic Regulation Authority  
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Sent to: [publicsubmissions@erawa.com.au](mailto:publicsubmissions@erawa.com.au)

Dear Ms Walters

## **FRAMEWORK AND APPROACH FOR WESTERN POWER'S FIFTH ACCESS ARRANGEMENT REVIEW – SCOPING PAPER**

Perth Energy makes this submission in response to the Economic Regulation Authority's (ERA) *Framework and approach for Western Power's fifth access arrangement – Scoping paper* published on 5 November 2020.

Perth Energy appreciates the opportunity to provide input into Western Power's fifth access arrangement (AA5) review process at such an early stage. We see this, together with the new framework and approach (F&A) process, as a positive step which will allow stakeholders to provide meaningful input into Western Power's plans for the five-year period from 2023.

We understand the ERA is seeking preliminary views on matters that should be considered in the development of the issues paper on the F&A, in particular as they relate to:

1. matters in the current access arrangement that need to be reviewed; and
2. new matters arising from changes in the industry and regulatory environment.

Our brief comments on each of these categories are made in the following sections.

### **Matters in the current access arrangement**

#### **Correction of the price path for transmission connected customers**

The fourth access arrangement (AA4) review process resulted in significant price increases for transmission connected customers. Western Power sought to address this and the ongoing saw-tooth trajectory of prices caused by the price path, by providing a number of revenue recovery options for consideration by the ERA.



Western Power put forward a number of credible options to mitigate price increases for transmission connected customers, however, the ERA's consideration of those options was encumbered by its interpretation of the requirement to avoid price shock, which it interprets to apply to price decreases as well as increases. As a result, the ERA opted for a smooth price path for AA4, believing this to best meet the *Electricity Networks Access Code* (Access Code) requirements.

In a submission to the ERA<sup>1</sup>, Western Power highlighted that by the end of the current access arrangement period, a smoothed transmission revenue path would be higher than the building block revenue, thus perpetuating the pattern of steep increases and decreases in transmission pricing. As a result, we expect there will be a correction over the AA5 period, with significant price decreases.

Under past interpretations of price shock, the sharp price decreases necessary in AA5 may not be considered permissible by the ERA. However, recent amendments to the Access Code provide the ERA an opportunity to finally address this transmission revenue and price volatility issue.

The Access Code amendments remove the concept of price shock from the pricing principles, and have replaced it with the following requirements:

- to minimise as far as reasonably possible, variance between expected revenue for the last pricing year in the access arrangement period and the target revenue for that last pricing year; and
- that the revenue expected to be recovered from each reference tariff must minimise distortions to the price signals for efficient usage.

We consider this revised wording permits the ERA to use reasonable discretion to allow the necessary price correction during AA5. Network charges represent the majority of our customers' electricity costs, and electricity costs are a key input into the profitability of many large businesses. We therefore urge the ERA to consider the certainty and stability of network charges as being in the long-term interests of consumers and therefore consistent with the amended Access Code Objective.

We recommend the ERA includes in the F&A consideration of the correction of the transmission price path under the new pricing principles to stop the cycle of significant, unnecessary price swings for transmission connected customers.

### **Reference Service eligibility criteria as a barrier**

As part of the AA4 review process, customers requested Western Power to develop a suite of new Reference Services. One such request was from Perth Energy. The ERA required these services to be included in AA4.

While Western Power did develop new Reference Services, we highlight that the eligibility criteria pertaining to those services prohibits customers accessing them.

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<sup>1</sup> Attachment 10.8 Transmission price path, Access Arrangement Information, Western Power, 2 October 2017



We recommend the ERA includes in the F&A consideration of the expected uptake of any new products or services, and seeks to ensure the drafting of terms and conditions, including eligibility criteria, for any Reference Service is not prohibitive.

### **De-powering incentive-based regulation**

Perth Energy notes the ERA's attempt through the AA4 review process to reduce the ability for Western Power to achieve windfall gains under the various incentive mechanisms. We appreciate the ERA's intent, however, de-powering the incentive framework to avoid windfall gains also de-powers any incentives to over-perform. The purpose of incentive-based regulation is to encourage Western Power to achieve efficiencies (which for a non-monopolistic organisation would come from competition).

Subject to our comments on the new demand management innovation allowance (see below), we recommend the ERA includes in the F&A consideration of whether the design of the current mechanisms provide sufficient incentives (positive and negative) for Western Power to deliver sustained efficiencies, resulting in lower long-term costs to customers.

### **New matters arising**

#### **Determining appropriate Service Standard Benchmarks for a constrained network access regime**

On 1 October 2022, the SWIS will move from an unconstrained network access regime to a constrained network access regime. This decision was made, in large part, to reduce the costs to service customers in the SWIS, the majority of which relate to network charges.

The Service Standard Benchmarks have historically been set based on average performance of the network, with Western Power investing to maintain performance at historical levels (i.e. not improving service or letting it degrade on average).

While some customers have access contracts with constraints, these constraints are removed for the purposes of determining Service Standard Benchmarks. Service Standard Benchmarks are therefore set on an unconstrained basis.

Given we are moving to a constrained regime, we ask the ERA to consider whether a new approach to determining Service Standard Benchmarks is required (as opposed to using the historical average). Under a constrained network access regime, Western Power is theoretically no longer required to ensure the network can support dispatch of all generation capacity connected to it, therefore the ongoing level of investment to maintain network performance should be lower than under an unconstrained regime.

Because Western Power's Service Standard Benchmarks carry financial rewards and penalties for service above or below the benchmark, using historical performance to set the benchmarks would perpetuate investment in the network to achieve the levels of network performance expected under an unconstrained access regime. This appears to be inconsistent with the State Government introduction of a constrained network access regime.

We recommend the ERA includes in the F&A consideration of what minimum level of service should be provided by Western Power under a constrained access framework.



## **Demand management innovation allowance**

Perth Energy supports incentive-based regulation and the pursuit of demand management solutions. However, we are concerned that some demand management initiatives may result in unintended consequences in relation to system security and/or pricing outcomes in the wholesale market (for example Western Power's recent 100 MW challenge).

We therefore recommend that the guideline for the demand management innovation allowance includes explicit criteria around what is/is not permissible as a demand management solution, and clear guidance on factors that must be considered when developing and ultimately approving an initiative.

We also strongly recommend that there is a requirement to consult on all proposed initiatives and that that consultation should extend to proactively consider the potential impact of a demand management activity on related energy sectors such as gas and the embryonic hydrogen industry. As a minimum, we recommend the Market Advisory Committee be afforded opportunity to input into all demand management initiatives proposed by Western Power under the new allowance.

We also request the ERA includes in the F&A consideration of whether demand management includes increases as well as reductions in consumption of electricity.

## **Consideration of what services should be regulated**

Under the new market arrangements, Western Power has been provided with a number of new functions, including but not limited to investing in and operating large grid-connected batteries and stand alone power systems. While these assets are primarily designed to provide monopolistic services (such as network control services), having large scale batteries connected to the system and providing energy (albeit as network control) has the potential to influence and distort the electricity market. It is also feasible that these assets could be used to provide competitive services (such as energy supply) in the future.

We also note that as new technologies connect to the network, Western Power is likely to provide more electrical design services than it has in the past. While these electrical design services are theoretically competitive, in practice the unique position of Western Power as network owner and now provider of batteries/stand alone power systems likely places it at a significant competitive advantage over other design service providers.

Currently, it is unclear whether the costs and revenues associated with grid-connected batteries and stand alone power systems will be regulated. We therefore urge the ERA to use the F&A as an opportunity to review and determine which of the many services Western Power provides should be regulated or unregulated. It is also an opportunity to ensure that any profit-making/competitive services provided by Western Power are appropriately ringfenced from the regulated business.

We note relevantly, the ERA is expecting to produce a guideline on the application of the New Facilities Investment Test, methods of valuing benefits and Multi-Function Asset profit sharing, which should provide more guidance in relation to these matters. We recommend that development of this guideline, in combination with the F&A is an appropriate avenue to reset the boundaries between regulated and



unregulated products and eliminate any cross-subsidisation between competitive and monopolistic services.

### Consultation on guidelines

We note that in addition to the F&A, the ERA is also developing four new guidelines, which will factor into Western Power's AA5 proposal and subsequent determination. The guidelines relate to:

- methods for valuing net benefits;
- new facilities investment test;
- multi-function asset profit sharing; and
- demand innovation allowance mechanism.

The ERA has flagged that to streamline the consultation process, it will develop the new guidelines together with the F&A.

We appreciate the ERA's intention to combine the consultation process for the F&A and guidelines. We note that the development of four new guidelines in parallel with the F&A will require considerable effort and that the timelines for consulting and publishing the F&A and guidelines (by 2 August 2021) is tight given the magnitude of the work.

We therefore encourage the ERA to engage as early as possible on the guidelines, and where practicable and more efficient to do so, separate out consultation for guidelines that may be particularly challenging or contentious. For example, we envisage that the Multi-Function Asset profit sharing guideline will generate considerable interest among Market Participants, and will heavily influence the way stakeholders invest and innovate in WA's power system.

Perth Energy welcomes early, constructive engagement on this and all associated issues during WA's ongoing energy transformation.

Should you have any questions in relation to this submission please contact me on [redacted] or at [p.peake@perthenergy.com.au](mailto:p.peake@perthenergy.com.au).

Regards,

**Patrick Peake**

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