Framework and approach for Western Power's fifth access arrangement review: Synergy's response to the Economic Regulation Authority's issues paper

4 May 2020

Contents

EXECUTIVE SUMMARY

Matter	Framework and approach for Western Power's fifth access arrangement (**AA5**) review: Synergy's response to the Economic Regulation Authority's (**ERA**) issues paper.
Context	On 18 September 2020, the Electricity Networks Access Code 2004 (**ENAC**) was amended to support the delivery of the State Government's Energy Transformation Strategy, which Synergy supports. As a result of the amendments, the ERA is required to develop a Framework and Approach and new guidelines that will apply to Western Power's AA5 review.
Scope	The ERA has prepared an issues paper to assist stakeholders to understand the regulatory requirements and process for the development and establishment of an AA5 Framework and Approach (**Issues Paper**) and has sought stakeholder feedback on the matters contained therein.
Issues	1. **Regulatory requirements**. Synergy supports the ERA's approach to considering the ENAC objectives. Synergy considers the ERA should obtain information in relation to an AA5 proposal to substantiate how a proposal will promote the ENAC objectives. 2. **Service classification**. It is important the Framework and Approach clarify and explain the delineation between a reference service, non-reference service and excluded service, including making it clear when the network operator must make an excluded service request to the ERA under ENAC clause 6.35. 3. **Reference services**. Synergy agrees with and supports the ERA's position that the current list of reference services needs to be retained and modified where users can demonstrate an ongoing or future requirement and reduced where there is no longer a need. Existing time of use services do not meet Synergy's reference service requirements. Synergy supports the ERA's position that network services required to implement the energy transformation reforms should be included as reference services in AA5. Synergy advocates time band periods and pricing being reassessed in relation to the new ENAC objectives and the long term interest of customers to ensure an outcome that puts downward pressure on network prices. 4. **Service standard benchmarks.** Synergy agrees with the ERA's approach to determining service standard benchmarks. With the classification of specific metering services as reference services under AA4 and given the criticality of metering to end use customer billing and the increased usage of remote disconnection, reconnection and energy data services accessibility during AA5 Synergy advocates metering reference services should also form part of the service standards as required by ENAC clause 5.6.

	5. **Price control** Synergy supports the ERA's position and advocates for continuation of the current form of price control in AA5. Synergy considers the Framework and Approach should require the network operator to undertake a detailed cost allocation focussed on each reference service to ensure each tariff is cost reflective. Synergy supports the ERA's proposed single price control mechanism and the removal of the side constraint provisions provided cost reflectivity and minimising cross subsidy are addressed under the new price control mechanism. 6. **Investment adjustment mechanism.** Synergy supports the ERA's approach in relation to the investment adjustment mechanism but notes that a practical outcome is dependent on adequate review of new facilities investment to ensure that costs are not overstated. The new facilities test guidelines contemplated under ENAC clause 6.56 will play an important role in ensuring this outcome. It is also important to ensure the capital base is not overstated, because the network operator will also earn a WACC benefit of any out-performance of its new facility investment. The Framework and Approach needs to address situations where the ERA approved investment did not provide the required services. 7. **Gain sharing mechanism.** Synergy supports the ERA's views and the proposed changes to the gain sharing mechanism but seeks additional clarification in relation to the treatment of a deficit. 8. **Service standards adjustment mechanism.** Synergy supports the ERA's proposed approach to service standard adjustments and advocates the ERA applying the service standard adjustment mechanism to metering reference services. 9. **Demand management innovation allowance mechanism.** Synergy seeks visibility of the ERA's proposed draft guidelines on this mechanism before finalising its views on the appropriateness of the ERA's approach on the matter.

1. Introduction

Synergy is Western Australia's (WA) largest network user, paying Western Power (the network operator) approximately $1.3B annually. Synergy is also Western Australia's largest electricity retailer with more than 1 million customers.

Synergy is also the largest network user within the south west interconnected system (**SWIS**), with more than 1 million connection points on its electricity transfer access contract with Western Power. Network charges comprise the single largest cost component of a residential customer's electricity bill.

Historically an access arrangement review commenced with Western Power submitting its access arrangement proposal. The ERA then determined whether the access arrangement met the ENAC objective and the specific requirements for an access arrangement.

The ENAC was amended in September 2020 to establish a new two-stage decision-making process. In the first stage, the ERA must decide some elements of the access arrangement before Western Power lodges its access arrangement proposal.

The ERA may determine additional aspects of the access arrangement if it chooses to do so. The ERA must set out its decision on these matters in a document called the "Framework and Approach". To prepare the Framework and Approach, the ERA must publish an Issues Paper, draft decision and final decision, with the final decision to be published by 2 August 2021.

The second stage of the access arrangement review is Western Power submitting its access arrangement to the ERA for approval. Western Power's access arrangement must be consistent with the elements that the ERA has already determined in the Framework and Approach. The ERA will then consider the elements of the access arrangement that were not determined in the Framework and Approach.

Synergy's response to the ERA's Issues Paper is structured as follows:

- Regulatory requirements (section 2)
- Service classification (section 3)
- Reference services (section 4)
- Service standard benchmarks (section 5)
- Price control (section 6)
- Investment adjustment mechanism (section 7)
- Gain sharing mechanism (section 8)
- Service standards adjustment mechanism (section 9)
- Demand management innovation allowance mechanism (section 10)

Words in *italics* have the same meaning as in the ENAC.

2. Regulatory requirements

2.1 What information or data might be available to assist the ERA in considering each of the limbs, particularly the environmental consideration, in determining consistency with the Access Code objective. For example, information on greenhouse gas emissions?

2.1.1 ENAC Objectives

The Issues Paper highlights the State Government's energy transformation strategy[1] adopted three limbs in establishing new ENAC objectives.

1. A focus on promoting the long-term interests of consumers in relation to price, quality, safety and reliability and security of electricity supply.

2. Improved facilitation of the Technical Rules, with a greater emphasis on the environmental implications of using networks to supply electricity.

3. Ensuring the access regime gives regard to the environmental consequences of energy supply, accounting for technological change that may drive environmental objectives and lower carbon emissions from electricity supply, including facilitating a greater focus on environmental objectives in relation to the regulation and investment in electricity networks.

Synergy supports these principles established by the State Government and agree they should underpin the framework for determining whether the proposed AA5 is consistent with the ENAC objectives. Synergy welcomes movement towards solutions that focus on the long term interest of consumers in relation to using the network.

Synergy supports the ERA's position that it must also give regard to the factors in section 26 of the Economic Regulation Authority Act 2003 (**ERA Act**) when making an AA5 determination. Synergy also concurs with the ERA that clause 2.1(c) of the ENAC is aligned and consistent with section 26(1)(b) of the ERA Act, in relation to considering the long term interests of consumers in relation to the price, quality and reliability of goods and services.

Synergy supports the ERA's views that "…the Access Code objective must be read as a whole. As discussed above, there are three limbs which must be considered by the ERA. The ERA is of the view that these limbs may be balanced or weighed, but all must be considered…".

Therefore, Synergy considers the Framework and Approach should also reflect the matters under section 26 of the ERA Act, their application to AA5 and the matters the ERA must consider when making a determination under AA5.

2.1.2 Additional data

The ERA should obtain information in relation to an AA5 proposal to substantiate how a proposal will promote the ENAC objectives. For example:

- When considering environmental consequences of energy supply and consumption to account for technological changes that may drive environmental objectives and lower carbon emissions from electricity supply in relation to any AA5 proposal or initiative, the ERA should obtain information from the proponent and relevant stakeholders (where appropriate or applicable) to substantiate the environmental impact, benefits and costs of the proposal relative to the impact,

[1] Energy Policy WA's *Energy Transformation Strategy: Proposed Changes to the Electricity Networks Access Code* consultation paper.

benefits and costs on the first two limbs of the ENAC objectives specifically price impacts to consumers and Technical Rule ramifications.

- It is important the ERA seeks retailer views in relation to what situations benefit more from a network solution or assets and what situations benefit from a non-network solution. Data is required that evidences how proposed investment options, services and tariffs meets all of the ENAC objectives specifically placing downward pressure on costs whilst maintaining reliability and quality. For example, in situations where an alternative option could be provided by a network operator, a network user or a third party and the network operator adopts its own solution, the ERA should have access to information that substantiates this investment decision better promotes the ENAC objectives than if an alternative option was adopted.

2.2 Where do stakeholders foresee conflicts arising between elements of the new Code objective. For example, a line route chosen based on biodiversity considerations might result in higher prices for customers?

Synergy has reviewed the Australian Energy Market Commission's guideline on applying the National energy market objectives (July 2019) and considers this to be a useful reference for the ERA when considering the application of the ENAC objectives.

The multi element nature of the ENAC objectives and the ERA's requirement to objectively consider all elements will be challenging and will involve trade-offs.

The ENAC objectives should not operate in conflict provided the ERA exercises its discretion to apply different weightings to each of the three limbs when considering a particular AA5 proposal and does so in a transparent manner.

For example, an overarching need to improve supply reliability could result in increased costs to consumers. However, consumers may not value or require increased reliability. Therefore, the additional costs to augment the network could result in underutilised network assets and higher costs to consumers (including having environmental consequences). In this example the factors are not in conflict but the impact on the reliability and cost factor and the long term interests to consumers may be considered to be inefficient.

2.3 Are there particular matters within the Framework and Approach and access arrangement which are not well suited to consideration of environmental consequences, or where environmental consequences may not be relevant. For example, biodiversity considerations may not be relevant when determining the list of reference services?

The "environmental" factors under the ENAC objectives are similar to the "quality" factor in that they will both have varying degrees of relevancy and consequence in relation to proposed initiatives under AA5 including reference services. For example, if network charges reduce materially because of a decision to reduce (quality) service standards then this can have material consequences to the long term interests of consumers if customers experience outages as a result. Similarly, if time of use (**TOU**) reference tariff structures promote the inefficient consumption of electricity and consequently, inefficient generation operation then that could also have material environmental and cost consequences in relation to the long term interests of consumers.

Synergy considers there needs to be transparency in relation to reference services and tariff structures and how likely they are to have an environmental consequence. For example, the impact of TOU reference tariff structures on distributed energy resources (**DER**) and how a network user may respond to such price signals for example incentivising customers to change their behaviour.

In addition, it is important to note the access arrangement contains service standard benchmarks to assess the quality of supply for a reference service but there are currently no environmental benchmarks specified for reference services.

2.4 Where do stakeholders foresee conflicts arising between the Code objective and particular criteria or criterion in the Access Code? For example, the new facilities investment test may produce a result that is inconsistent with the environmental limb of the Access Code objective

Examples where regulatory inconsistency could occur between the ENAC's objectives and ENAC criterion in relation to activities where:

1. a network operator is providing or proposes to provide services in competition with non-network operators or where a network operator elects to invest in their own alternative option.
2. a network operator proposes an investment that could be potentially provided more cheaply (least cost solution) by a non-network provider.

ENAC mechanisms where this could be impacted are:

2.4.1 Multi-function assets

Issues for the ERA to consider and obtain information in response are:

- What information does the ERA expect a network operator to provide and publish in relation to multi-function assets in the access arrangement information document?
- What assets will be categorised/used as multi-function assets and which will be not? For example, are batteries which meet the new facilities investment test permitted to be used as multi-function assets.
- What network services will be provided by multi-function assets?
- How payments received by the network operator in relation to services provided by multi-function assets are to be treated under the regulatory frame?
- What information will the ERA require the network operator to disclose and publish? For example, will this include a list of unregulated services a network operator provides and the total unregulated revenue from shared assets.

2.4.2 Alternative options

Issues for the ERA to consider and obtain information in response are:

- How will the ERA ensure the least cost alternative option solution will be provided irrespective of service provider? For example, should the ERA review alternative options provided by non-network providers against the corresponding capex investments proposed or implemented by the network operator to ensure the least cost option is implemented?
- How will the ERA encourage the network opportunity map to be used to create an open and efficient market for alternative options?
- How will the ERA consider a network operator's capex investment be dealt with under the regulated asset base if an alternative option is more efficient?
- How will the ERA differentiate between an alternative option and a multi-function asset?
- How will the operation of the alternative option mechanism interact with a network user's ETAC? For example, in a situation where a network operator independently contracts with a non-network operator (for example - for battery storage services) at a connection point the subject of a network user's ETAC.

- The alternative options mechanism can support a broad range of solutions that potentially affect the network operator's capital expenditure (capex), operating expenditure (opex), service standard performance and adjustment mechanism. Therefore, not all solutions would be valued the same way because it potentially impacts different elements of the network operator's costs and operations. For example, the opex related to an alternative option could result in significant financial rewards to the network operator under the gain sharing mechanism. Consequently, there needs to be more transparency in relation to the types of alternative options that may be implemented and what the impact is on the network operator's access arrangement and target revenue. It is important the 2020 ENAC changes result in an efficient price discovery mechanism for network users (e.g. using the network opportunity map) to efficiently allocate resources between network investment and alternative options.
- What factors need to be considered in relation to valuation methodologies for different types of services/solutions? For example, could solutions with an environmental benefit be valued higher.

2.4.3 Demand management innovation allowance

Issues for the ERA to consider and obtain information in response are:

- What constitutes research and development?
- What constitutes a demand management innovation project? For example, could a load control trial using advanced meters be considered a research and development project under ENAC clause 6.32C or would this be classified as an operational trial of an established technology?
- What criteria the ERA should apply to determine whether the demand management innovation allowance objective has been met?
- What criteria should be applied to determine if other sources of funding are available as an alternative to the demand management innovation allowance mechanism?
- What matters should be subject to public consultation?
- How will the risk of technology obsolescence be assessed when approving an allowance for a research and development project, especially a project with a long duration?
- What temporal caps will exist on a research period?
- Does (or will) the mechanism preclude or interfere with users and consumers from implementing demand management innovations as a means of reducing their transport costs and promoting competition consistent with the requirements of the ENAC objectives?

2.5 Do the questions above provide an analytical framework for assessing consistency with the new Code objective? Are there additional questions the ERA should ask?

Yes. To determine whether an AA5 revision is consistent with the ENAC objectives the ERA should consider how to:

1. measure the AA5 revision; and
2. compare the AA5 revision to an AA4 baseline, standard or a benchmark to determine consistency, improvement or detriment.

Provided this occurs, the ENAC objectives (and following factors) can provide an analytical or quantitative basis to assess an AA5 revision for consistency with the objectives.

Synergy considers the ENAC objectives can be categorised into three elements and their interrelationships, explained as follows:

Input factors			Desired output		Desired outcome
• Price • Quality • Safety	• Reliability • Security • Environmental consequence	→	• Efficient network investment • Efficient network operation • Efficient network service use	→	• Long term interests of consumers are achieved through economic efficiency

As outlined above Synergy does not consider the input factors to be in conflict but considers there needs to be more transparency in relation to how the AA5 revisions relate to these factors. For example, users and customers may not know what proportion of their network charges (prices) goes towards improving or maintaining quality, safety, reliability or security. In addition, all the input factors in the ENAC objectives can be measured or have a benchmark.

However, the environmental factor is new and currently does not have a measure or a benchmark that is considered to be applicable to an access arrangement.[2] The Framework and Approach should outline the relevant environmental measures that should reasonably form part of the assessment of AA5 (so that a cost can be assigned to these measures and assessed).

Given this Synergy supports the AEMC's views outlined on page 8 of the Issues Paper. That is, environmental consequences in relation to the efficient operation, use and investment of the network need to be considered in relation to factors specified in the ENAC objectives that affect the long term interest of consumers. Synergy considers this can be done in a systematic and analytical way provided environmental measures or benchmarks are established.

Also refer Synergy's response to Q.2.3.

3. Service classification

3.1 The ERA is seeking stakeholder feedback on the proposed approach to the classification of services including any views on the classification of batteries

3.1.1 Reference and non-reference service classifications

Synergy is the largest user of network services within the SWIS.

Synergy agrees with and supports the ERA's position that the current list of reference services needs to be retained and modified where users can demonstrate an ongoing or future requirement and reduced where there is no longer a need.[3]

Synergy also agrees with the ERA's views that properly targeted reference services would create a level playing field for all network users to contribute to or benefit from, rather than relying on negotiating non-reference services. This matter is not confined to WA. Synergy notes the Australian Energy Regulator's (**AER**) views on the matter of negotiated services. The AER:

> "…only makes a negotiated service classification where it considers that all relevant parties have a reasonable degree of countervailing market power to effectively negotiate the provision of those services…".[4]

It is important the Framework and Approach clarify and explain the delineation between a reference service, non-reference service and excluded service, including making it clear when the network

[2] For example, the Technical Rules and access arrangement contains accepted measures for supply, quality and reliability but there are no measures currently defined for environmental consequences.

[3] Synergy's March 2021 response to the ERA's reference service user survey detailed its required reference service modifications.

[4] Issues Paper, page 16.

operator must make an excluded service request[5] to the ERA under clause 6.35 of the ENAC. In the event the Framework and Approach does not deal with this matter there is a market risk that excluded services could be incorrectly categorised and consequently associated network charges recovered as a non-reference (covered) service.

3.1.3 Stand-alone power systems

Amendments to the *Electricity Industry Act 2004* has defined stand-alone power systems;

1. to be part of network infrastructure facilities; and
2. as network infrastructure facilities which are not connected to the network; and
3. cannot be a covered network on its own but may be treated as part of a covered network.

In addition, section 105(1)(ca) of the *Electricity Industry Act 2004* requires the ENAC may make provisions for or in relation to "…access to the services of stand-alone power systems…". In addition, the *Electricity Industry Act 2004* defines "services" as:

> "…***services*** means —
>
> (a) the transport of electricity, and other services, provided by means of network infrastructure facilities; and
> (b) services ancillary to those services; …"

ENAC clause 3.34A also clarifies that a *stand-alone power system* is to be treated as part of the *covered network*.

The ERA considers "… stand-alone power systems … [are] an input, rather than a service. It should be captured under the existing reference services and included in the target revenue category.".

Because section 105(1)(ca) of the *Electricity Industry Act 2004* requires the ENAC may provide access to *covered service*s by means of stand-alone power systems, Synergy does not concur with the ERA the services provided in relation to stand-alone power systems (network infrastructure facilities) are an input rather than a service. Users are entitled to seek *covered services* provided by means of a *stand-alone power system* in the same way that they may request *covered services* provided by means of a meter. These could be metering or DER related *covered services*. It is important that the Framework and Approach recognises these qualities and rights in relation to the use of *stand-alone power systems*.

Notwithstanding this Synergy supports the ERA capturing or incorporating the *exit services* provided by stand-alone power systems, in relation to *connection points*, under existing reference services and the costs included in the calculation of the target revenue, in accordance with the ENAC.

4. Reference services

4.1 The ERA is seeking stakeholder feedback on the current reference services, changes the ERA has raised and any further modifications or new reference services required

Synergy agrees with and supports the ERA's position that the current list of reference services needs to be retained and modified where users can demonstrate an ongoing or future requirement and reduced where there is no longer a need.

Synergy's response to the ERA's reference service user survey (March 2021) detailed its reference service requirements. Synergy has updated its survey response to reflect its revised reference service

[5] This could be in relation to a multi-function asset or an asset that has wholly added to the capital base.

requirements. Attachment 1 to this submission (commercial in confidence, not for publication) details the changes.

4.1.1 Constrained access

When considering matters associated with constrained access under the Framework and Approach it is important to note that ENAC clause 4.46 contemplates:

> "…An *access arrangement* continues in effect from the *access arrangement start date* until the network ceases to be a *covered network*.
>
> {Note: The revision of an *access arrangement* does not create a new *access arrangement* but operates as an amendment to the *access arrangement*. Accordingly, in a subsequent *access arrangement period* the original *access arrangement* continues to have effect, but in a revised form.}…".

The ERA has proposed that entry reference services need to be amended to reflect the amendments under ENAC clause 2.4C . Synergy recognises the need for the change but notes that the amendments made to entry reference services also need to ensure it does not affect any electricity transfer access contracts entered into with the network operator prior to 18 September 2020 consistent with ENAC clause 2.4C. That is, the change should not affect exit or bi-directional reference services including entry reference services established from the *access arrangement start date*, prior to 18 September 2020.

4.1.2 Exit and bi-directional services

Synergy considers a bi-directional service to be a sub-category of an exit reference service that meets the requirements of ENAC clause 5.2(d).

Given this and the similarity of certain exit services to their bi-directional counterpart Synergy's view is that combining these categories of services would reduce the number of services and the administrative burden of re-nominating customers who have purchased a DER system onto the equivalent bi-directional service.

However, Synergy acknowledges there are circumstances where exporting energy to the network places different demands on the network compared with importing energy from the network. In particular, the differences can be material at different times in the day. The load profile for a customer that can supply some of its own energy will differ from a customer who draws all its energy from the network.

Therefore, Synergy supports the ERA's position that reference services should be tailored to the service that is provided and the demand it places on the network during different time-of-use periods.

Please also refer to Attachment 1.

4.1.3 TOU periods

The Energy Transformation Reforms and DER uptake have highlighted that network tariffs based on time of use periods are becoming increasingly important as customer demand patterns change during the day. Consequently, with the deepening of the duck-curve, low consumption periods are beginning to drive network costs and augmentation strategies.

Synergy, based on its experience, considers the current TOU periods and time band pricing is out of date and no longer effective. This is largely because the current TOU network service pricing is relatively flat and, in some cases, identical across different time bands.[6]

Synergy advocates time band periods and pricing being reassessed in relation to the new ENAC objectives and the long term interest of customers to ensure an outcome that puts downward pressure on network prices. Given the requirements of ENAC clause 7.3F and 7.3G(a), the Framework and Approach should provide guidance and direction to the network operator and network users on required time-bands and pricing differentials in relation to the pricing within time bands.

Please also refer to Attachment 1.

4.1.4 Services to support energy transformation reforms

The State Government made ENAC changes as part of the State Government's Energy Transformation Strategy that are intended to increase opportunities for new technologies and maximise the use of the existing Western Power network. Synergy supports the State Government's strategy and the associated DER Roadmap (Roadmap). The actions detailed within the Roadmap will allow Western Australia to meet the challenges that come with new ways of producing, managing and consuming electricity.

Synergy supports the ERA's position that network services required to implement the energy transformation reforms should be included as reference services in the access arrangement. In the event this does not occur reference services required to support DER uptake would not be available to the market until July 2027.

In addition, Synergy advocates the ERA identifying those DER services that should be classified as excluded services under clauses 6.35 and 6.36 of the ENAC.

Please also refer to Attachment 1.

4.1.5 Metering reference services

Please refer to Attachment 1.

4.1.6 Distributed generation or other non-network solutions

Please refer to Attachment 1.

4.1.7 Smart technology and streetlights

The current reference services for Type 7 connection points have essentially remained the same since the access arrangement was first approved in 2007.

The ERA in its Issues Paper has highlighted that:

> "…Technology for smart meters and streetlights is becoming increasingly sophisticated. Generally, the network is likely to have a certain standard of meters/streetlights which could be upgraded to increase functionality…
>
> …If a function can be added to existing infrastructure that would provide useful services to enable users to manage demand, it would be preferable that Western Power made the service available to users so there could be a broader take-up…".

Synergy agrees with these views.

[6] E.g., refer to the C13 multi part time of use energy (residential) bi-directional service.

4.1.8 Other new services

Please refer to Attachment 1

5. Methods for setting service standard benchmarks

5.1 The ERA is seeking stakeholder feedback on the proposed changes to the method for setting service standard benchmarks

Synergy agrees with the ERA that service standard benchmarks are the minimum level of service customers should receive and benchmarks should align with the long term interests of consumers. However, benchmarks are set in advance of the access arrangement period. Therefore, Synergy agrees it is reasonable that historical measures should be adjusted for factors considered likely to cause service standards to vary from historical measures during the access arrangement period.

The ERA considers the method for calculating the benchmarks should continue to be based on the 97.5th (or 2.5th) percentile of actual performance over the previous period. Updating the benchmarks to reflect the most recent historical period will take account of changing trends in performance due to changes in consumer behaviour. In addition, the ERA is proposing the network operator include in its access arrangement revisions any planned network disruptions, new facilities investment or changes to maintenance initiatives that affect service standards.

Synergy supports this approach in relation to setting service standards.

5.1.2 Circuit availability

The ERA considers excluding transmission outages from distribution measures may be appropriate in the NEM where transmission and distribution services are provided by different companies. However, Western Power provides both transmission and distribution services to its customers. The ERA proposes that the current exclusion should be amended so that any interruptions to distribution customers caused by Western Power planned or unplanned outages on the transmission network are included in SAIDI and SAIFI.

Synergy supports this approach and considers it provides better transparency on the factors that impact the long term interests of consumers.

5.1.3 Exclusions

The ERA proposed reviewing the service standard exclusions along the following lines:

- Distribution service standards should not exclude faults on the transmission network. If customers on the distribution network experience an interruption that was caused by an unplanned outage on the transmission network, the interruption should be included in the distribution SAIDI and SAIFI.

- An exclusion for force majeure is not required as it is dealt with adequately under the calculation of major event days. The ERA has proposed an exclusion, similar to the approach in the national electricity market (**NEM**).

- Planned outages should continue to be excluded. However, they are still a significant disruption to customers. The ERA proposes introducing increased reporting requirements to provide better information on the level and reason for planned outages.

Synergy supports this approach and considers that it will provide better transparency in relation to the factors that affect the long term interests of consumers.

5.1.4 Other

With the classification of specific metering services as reference services under AA4 and given the criticality of metering to end use customer billing and the increased usage of remote disconnection, reconnection and energy data services accessibility during AA5 Synergy advocates metering reference services should also form part of the service standards as required by ENAC clause 5.6.

Also refer section 9.1.3 for further detail on this matter.

6. Price control

6.1 The ERA is seeking stakeholder feedback on the proposed amendments to the form of the price control.

6.1.1 Form of price control for AA5

ENAC clause 6.1 requires an access arrangement may contain any form of price control provided it meets the objectives set out in clause 6.4 of that Code.

The current form of price control is described as a modified revenue cap. Fundamentally, the effect is that there is no adjustment for any under or over recovery of actual revenue compared to the forecast revenue from previous years. In addition, it also requires the forecast customer numbers, energy volumes and other charging parameters for each reference service must be consistent with the demand forecast approved in the access arrangement decision.

The ERA, in its Issues Paper explains:

> "…Adjusting revenue for over or under recovery of forecast revenue during the access arrangement period, as would occur under a standard revenue cap, results in users facing distorted incentives to manage demand. Any steps they take to reduce demand will be reflected in future through higher charges which may lead to users seeking non-network alternatives. Alternatively, reductions in prices due to over-forecasting revenue may encourage users to increase usage where this is not efficient to do so…".

Therefore, ERA considers the current form of price control provides stronger incentives to develop more efficient network tariffs, encourages the connection of new customers, and offers services that meet user requirements and benefit the network operator through increased revenue, reduced costs or a combination of both.

Synergy supports the ERA's position and advocates for continuation of the current form of price control in AA5.

In addition, Synergy also considers the current form of price control is consistent with the objectives set out in ENAC clause 6.4(b), (c) and 7.1D because it provides:

1. More certainty for users and consumers, under ENAC clause 6.4(b), to predict the likely annual changes in target revenue during the access arrangement period and assess the upcoming tariffs.
2. A more effective mechanism, under ENAC clause 6.4(c) to minimise variances between the expected revenue and target revenue.
3. More certainty in relation to determining the reference tariff change forecast, under ENAC clause 7.1D, for each pricing year of the access arrangement.

6.1.2 Tariff structure statement and new pricing requirements

The ERA, in its Issues Paper, has highlighted the new pricing requirements under ENAC clauses 7.3G and 7.3H. However, Synergy also considers the ERA must also give attention to ENAC clause 7.3F and the preference of users/consumers[7] in relation to how the average cost of service provision is recovered.

Clauses 7.3F, 7.3G and 7.3H requires:

> 7.3F The structure of reference tariffs must, so far as is consistent with the Code objective, accommodate the reasonable requirements of users collectively and end-use customers collectively.
>
> {Example: *Customers* may prefer more of the *average cost of service provision* to be recovered using *tariff* components that vary with usage or demand than might otherwise be the case under section 7.6.}[8]
>
> 7.3G Each reference tariff must be based on the forward looking efficient costs of providing the reference service to which it relates to the customers currently on that reference tariff with the method of calculating such cost and the manner in which that method is applied to be determined having regard to:
>
> (a) The additional costs likely to be associated with meeting demand from end-use customers that are currently on that reference tariff at times of greatest utilisation of the relevant part of the service provider's network; and
>
> (b) The location of end-use customers that are currently on that reference tariff and the extent to which costs vary between different locations in the service provider's network.
>
> 7.3H The revenue expected to be recovered from each reference tariff must:
>
> (a) Reflect the service provider's total efficient costs of serving the customers that are currently on that reference tariff;
>
> (b) When summed with the revenue expected to be received from all other reference tariffs, permit the service provider to recover the expected revenue for the reference services in accordance with the service provider's access arrangement; and
>
> (c) Comply with sections 7.3H(a) and 7.3(b) in a way that minimises distortions to the price signals for efficient usage that would result from reference tariffs that comply with the pricing principle set out in section 7.3G.

The ERA considers these provisions have the effect of providing greater flexibility and clarity for setting tariffs for all customers.

Synergy supports this view and considers the Framework and Approach should require the network operator to undertake a more detailed cost allocation focussed on each reference service and ensure that each tariff is cost reflective. Synergy considers there are three key elements to this:

[7] Note, customers under the ENAC is defined to include the user or end-use customer.
[8] Underlined for emphasis.

- **User preferences**: As contemplated under clause 7.3F, where *customers*[9] may prefer more of the *average cost of service provision* to be recovered using *tariff* components that vary with usage or demand.
- **Location of end-use customers:** There is a fundamental difference between calculating costs due to the "geographic location" of *customers* and calculating costs at a "location" due to the demand *customers* place on the network. Therefore, under ENAC clause 7.3F, 7.3G and the ENAC objectives, this would include consideration of the consumption demand or DER generation demand customers place on the network that result in network augmentation or expansion (i.e. future network costs). Such consideration would require review of the forward looking capex and opex that apply to *customers* at a specific sub-station location where the *average cost of service provision* is recovered through a tariff that uses a combination of fixed costs and demand.
- **Greatest utilisation of the network**: ENAC clause 7.3G(a) requires reference tariffs to give regard to "…times of greatest utilisation of the relevant part of the service provider's network…". Synergy considers the term "greatest utilisation" also applies to DER customers and their impact on network utilisation. Therefore, the Framework and Approach must also detail the time bands that apply to applicable reference tariffs in relation to the greatest utilisation of the network.

Synergy considers the Framework and Approach must reflect user preferences[10] in relation to variable and fixed cost tariff components – giving regard also to the:

- ENAC objectives and the long term interests of consumers.
- Location of end-use customers.
- Times of greatest utilisation of the network.

6.1.4 Single price control mechanism

The ERA considers separate price controls for the transmission and distribution network and the side constraint may be no longer required. The ERA will consider whether there is merit in a single price control and removing the side constraint provisions.

Synergy considers the separate price control mechanisms for transmission and distribution is not inconsistent with the new pricing requirements in the ENAC. However, the separate mechanisms provide more transparency to ensure:

1. The likelihood of cross subsidy between transmission and distribution users and ultimately end use consumers is minimised.
2. Compliance with ENAC clause 7.3G can be more easily determined. That is, the reference tariff is based solely on the forward looking efficient costs of providing the reference service to the network users it relates to.

Synergy would support a single price control mechanism and the removal of the side constraint provisions if these concerns are addressed under the new mechanism.

7. Investment adjustment mechanism

7.1 The ERA is seeking stakeholder feedback on the proposed amendments to the investment adjustment mechanism

The current (capex) investment adjustment mechanism provides for an adjustment to target revenue in the next access arrangement period that corrects for any economic loss or gain due to differences

[9] Note, customers under the ENAC is defined to include the user or end-use customer.
[10] As contemplated under clause 7.3F.

between forecast and actual capital expenditure, taking into account inflation and the time value of money for the following classes of capital expenditure:

- connecting new generation capacity
- connecting new loads
- augmentation of the network to provide covered services
- State Underground Power Program.

The ERA considers it desirable that the service provider keeps the benefit of any out-performance of cost forecasts and incurs the cost of any under-performance. This is the basis of incentive regulation, whereby the service provider is faced with an incentive to minimise costs.

In addition, the ERA considers including expenditure for growth and customer demand in the investment adjustment mechanism is inconsistent with the price control that has applied since 2019/20, which places demand risk on the network operator. The current price control effectively already includes an adjustment mechanism. Since the network operator receives more revenue if demand is greater than forecast and less revenue if demand is less than forecast, there is less need for the investment adjustment mechanism to include expenditure for growth and customer demand.

Synergy supports this approach in principle but notes that this practical outcome is highly dependent on adequate scrutiny of new facilities investment to ensure that costs are not overstated. The NFIT guidelines contemplated under ENAC clause 6.56 will play an important role in ensuring this outcome. It is also important to ensure the capital base is not overstated, because the network operator will also earn a WACC benefit of any out-performance of its new facility investment.

ENAC clause 6.17(c) requires the investment adjustment mechanism must be consistent with the ENAC objectives. Therefore, Synergy agrees with the ERA that there is less need for the investment adjustment mechanism to include expenditure for growth and customer demand.

This approach can incentivise the efficient minimisation of costs and place downward pressure on network charges. However, the Framework and Approach needs to address or clarify two key scenarios:

1. Situations where an approved forecast new facilities investment has not been committed to or implemented within an access arrangement period.
2. Situations where an approved forecast new facilities investment has been implemented despite the need for the augmentation being no longer required. This could occur for example, due to the service provider under-forecasting customer demand, demand response behaviour and/or private investment in non-network solutions, resulting in the investment being (redundant and) no longer required for the provision of covered services. The risks associated with forecast error should be borne by the forecaster. This will provide an appropriate incentive for the service provider to minimise forecast error.

ENAC clause 6.4(a) requires an access arrangement must have the objective of giving the service provider an opportunity to earn an efficient target revenue from the provision of covered services. The two scenarios above relate to situations where the approved investments did not provide the required *covered services* or *required work*. Therefore, the investment should be treated as *redundant capital*. Synergy considers this approach[11] is also consistent with the redundant capital provisions under clauses 6.61 to 6.63 of the ENAC.

[11] To treat the investment as *redundant capital*.

Synergy recommends that the Framework and Approach[12] should not permit forecast capital and non-capital costs to be included in the target revenue and *capital base* for the next access arrangement period in relation to the two scenarios outlined above.

8. Gain sharing mechanism

8.1 The ERA seeks stakeholder feedback on the proposed changes to the gain share mechanism

The (opex) gain sharing mechanism is aimed at incentivising the network operator to minimise costs by allowing the network operator to retain operating expenditure efficiencies for a longer period.

The ERA has highlighted that recent ENAC amendments will require five key changes to the current gain sharing mechanism to:

1. Ensure symmetry of the mechanism and ensure any net overspend is deducted from the target revenue in the next access arrangement period.
2. Ensure alternative options or expenditure under the D-factor is excluded from the gain sharing mechanism.
3. Network growth and customer growth escalators approved by the ERA to be reflected in the gain sharing mechanism.
4. Remove the exclusion of uncontrollable costs from the gain sharing mechanism (based on how the AER treats "uncontrollable" costs).
5. Cater for the removal of ENAC clause 6.26.

Synergy supports the ERA's views and the proposed changes to the gain sharing mechanism but seeks additional clarification in relation to the treatment of a deficit.[13]

Clause 6.26 previously ensured that a network operator was not rewarded with efficiency gains as a result of failing to comply with service standard benchmarks. The ERA considers the removal of clause 6.26 will simplify the gain sharing mechanism. It also results in a consequential amendment to the service standard adjustment mechanism which will no longer require the benchmark as a floor when calculating penalties.

Therefore, the Framework and Approach needs to clarify the mechanism for determining the below-benchmark deficit. Including how the ERA will have data and information to determine how much of the deficit results from a failure of the network operator to meet the *efficiency and innovation benchmarks* in the previous access arrangement.

9. Service standards adjustment mechanism

9.1 The ERA is seeking stakeholder views on the proposed changes to the service standard adjustment mechanism

9.1.1 Service standard adjustment caps

The ERA proposes to retain the following service standard adjustment caps:

- The sum of the rewards or penalties for the transmission network each year is capped at 1 per cent of total transmission revenue.

12 Giving regard to clause 6.56 of the ENAC.

13 "Deficit" is defined under ENAC clause 6.23A.

- The sum of the rewards for the distribution network each year is capped at 1 per cent of total distribution revenue and the sum of the penalties is capped 1 per cent instead of the current 2.5 per cent.

Synergy considered whether different caps would better meet the long term interests of consumers but could not identify any reason to change. Therefore, Synergy supports the ERA's approach provided the other service standard adjustment changes proposed by the ERA are implemented and the ERA applies the service standard adjustment mechanism to (metering) reference services.

9.1.2 Circuit availability

The ERA has proposed to replace circuit availability with the following amendments:

- Include any interruptions to distribution customers caused by Western Power unplanned outages on the transmission network in SAIDI and SAIFI.
- Develop a new measure to capture the frequency and/or quantity of energy that a generator would have been dispatched by AEMO but could not be due to a planned or unplanned network outage.

The ERA considers the incentive rates for the new measure to capture the frequency and/or quantity of energy that a generator would have been dispatched by AEMO but could not be due to a planned or unplanned network outage will be based on the higher energy price or other market costs resulting from any generation required to run out of merit. This will increase incentives for the network operator to make the network available at the times and locations it is valued most.

This approach is reasonable as it provides more visibility on the long term impact on consumers and provides a more relevant basis to assess the factors that affect the long term interests of consumers under the ENAC objectives.

9.1.3 Metering Services

Synergy agrees with the ERA that service standard benchmarks are the minimum level of service customers should receive and should align with the long term interests of consumers. Given this, the access arrangement should include service standard benchmarks for the following reference services:

- Provision of energy data transferred through the connection point - (metering) reference services.
- Remote energisation/de-energisation reference services.
- Supply abolishment reference services.

Benchmarks for these services may already be defined in some form outside of the access arrangement specifically the model service level agreement. However, consideration should be given to reflect this within the access arrangement because it will be in the long term interests of consumers to have these services subject to the service standard adjustment mechanism.

This is because the service standards adjustment mechanism ensures that efficiencies are not achieved at the expense of service standards and that improvements in service standards are only made where they are valued by customers. For example, consumer bills are directly affected when (AMI) remote energy data is not provided on time or in accordance with the required quality. Similarly, consumers are also affected by the performance of energisations and de-energisations.

9.1.4 Calculating transmission incentive rates

The ERA proposed to amend the calculation of the transmission incentive rates to be based only on the revenue attributable to transmission customers. This is because the transmission service

standards apply only to transmission connected customers on (transmission) reference services. Synergy supports this approach.

9.1.5 Values of customer reliability

The ERA is proposing to adopt the most recent results of the AER's estimates of the value of customer reliability in the NEM. Synergy notes the AER's work and considers this to be a reasonable approach.

9.1.6 Caps in individual penalties

Synergy notes that under the gain sharing mechanism, the ENAC has been amended[14] to remove the requirement that efficiency rewards are not provided in circumstances where a service provider achieved the (opex) efficiency gains by failing to comply with the service standard benchmarks. Consequently, the service standard adjustment mechanism will no longer require the individual penalties to be capped at the service standard benchmark as it will not be penalised twice.

10. Demand management innovation allowance

10.1 The ERA is seeking stakeholder views on the proposed level of the demand management innovation allowance

The ERA is required to publish guidelines on the demand management allowance in accordance with the ENAC requirements. It is intended that there will be controls to ensure that the allowance is used only for innovative research with the potential to reduce long-term network costs and where funding is not available from any other source. The allowance can only be spent on eligible projects. Any allowance that is not used will be returned to customers.

The ERA has noted that the Energy Transformation Taskforce also indicated that the level of the allowance should be limited.

Therefore, Synergy at this stage, supports alignment with the AER's scheme. That is, innovation allowances based on:

- Up to 0.075% of target revenue for distribution related research.
- Up to 0.1% for of target revenue for transmission related research. However, given the reforms that are currently occurring under the WEM rules and the costs users have to pay in relation to these reforms, Synergy considers a lower value may be appropriate.

The ERA is developing the detailed guidelines that will set out the mechanism and controls that will be applied to meet the ENAC requirements and assess the potential to reduce long term network costs. Synergy would like to review the draft guidelines before finalising its views on this matter.

[14] Removal of clause 6.26 from the ENAC.