

Our ref: EDM 58453115
Contact: Jonathon Mizen

10 November 2021

Electricity Access Team
Economic Regulation Authority
Level 4, 469 Wellington Street,
Perth WA 6000

Submitted via electronic lodgement to publicsubmissions@erawa.com.au

Dear Sir / Madam

Re: Guideline on factors that will be considered in new facilities investment test determinations including methods to value net benefits – Consultation Paper

Western Power welcomes the opportunity to provide feedback on the Economic Regulation Authority's (**ERA**) proposed guideline on factors that will be considered in new facilities investment test (**NFIT**) determinations and methods to value net benefits.

The energy sector continues to develop at a rapid rate, and while its progression is exciting it is also challenging. These changes are largely driven by government policy, customer behaviour, decarbonisation of the electricity system, and technological advancement in the energy sector. Western Power notes this is an opportunity to incorporate learnings from historical NFIT determinations and establish guidelines that consider the challenges and opportunities to meet our ever-changing customer and community requirements.

The ERA's proposal to produce a single guideline for both "new facilities investment test determinations" and "acceptable methods for valuing net benefits" due to "overlap between the new facilities investment test and net benefits" is supported by Western Power.

Western Power is supportive of the proposed guideline and considers it is generally consistent with factors and considerations Western Power currently has regard for when making investment decisions. Western Power makes the following comments:

- Application of the Code objective

Western Power recognises changes made to the Code objective and is supportive of the ERA's approach that the Code objective must be read as a whole. The guideline sets out that new facilities investment to achieve environmental standards will still need to demonstrate that the investment meets the new facilities investment test. As these obligations arise, Western Power looks forward to working with the ERA to develop and assess practical approaches to quantifying potential environmental benefits that are in the long-term interests of consumers.



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- Consideration of real option value

Real options enable the ability to expand, change, or curtail projects based on changing economic, technological, or market conditions. The economic value of real options is particularly relevant where uncertainty exists around the optimum timing and/or level of investment and reduces risk of regrettable investment.

When planning the network Western Power may find value in retaining flexibility to changing market developments or scenarios. For example, when considering augmentation of a section of the network, forecast future demand may be subject to uncertainty. In a high demand scenario, investment in a substation and additional poles and wires may be required. However, this may not be required in a lower demand scenario. The ability to stage investment and preserve options for responding to new information promotes efficient investment.

Western Power believes the guideline should set out the factors the ERA may have regard to in relation to the valuation of real options. Western Power looks forward to working with the ERA to develop methodology for replicable and verifiable analysis of credible options under different scenarios.

- Potential net benefits

Section 4.4 of the proposed guideline sets out potential net benefits. These might include:

- Deferral or avoided network capital expenditure
- Reductions in non-capital costs
- Reductions in line losses
- Reduced energy or essential system service prices
- Environmental benefits such as reductions in greenhouse gas emissions.

Western Power understands this list is not intended to be exhaustive, however, considers this list should be expanded to include:

- Improvements in customer service
- Reductions in whole of system costs

Western Power suggests a minor amendment of the point on potential environmental benefits to read "*Reductions in greenhouse gas emissions or other environmental benefits*" would add clarity that the guideline does not intend to limit consideration of environmental benefits to reductions in greenhouse gases emissions, where other environmental benefits can be quantified.

- Net benefits that flow to users

Western Power notes the ERA's proposal that benefits claimed should not include benefits that are simple transfer payments between producers of electricity, the network owner, network users and/or consumers of electricity. However, Western Power believes the guideline should provide clarification in relation to net benefits that accrue to users, where uncertainty exists as to whether benefits will flow directly to consumers. For example, the benefit of an investment that reduces the cost of providing an ancillary service that is realised by users through lower service fees promotes the efficiency of services and would be in the long-term interest of consumers. Western Power requires clarification on how this type of example should be considered.

We welcome the opportunity to further discuss our response with the ERA.

Please feel free to contact Jonathon Mizen at jonathon.mizen@westernpower.com.au for any query regarding this response.

Yours sincerely

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Head of Regulation and Investment Assurance

Cc: Jacqui Hall, Chief Financial Officer