



Economic Regulation Authority

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Media Statement

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Economic Regulation Authority Releases Final Decision on Western Power's Revisions

Western Power's proposals on terms and prices for access to the interconnected electricity network in the south west of the State for the next three years have not been approved by the Economic Regulation Authority.

"The reasons have been outlined in our final decision document, which includes 45 amendments required by the Authority to approve Western Power's revisions," Authority Chair, Lyndon Rowe, said.

In response to the Authority's earlier draft decision, Western Power has indicated its acceptance of a significant number of these amendments.

Western Power supplies electricity to 840,000 residential and small business customers throughout the South West Interconnected Network.

The Authority has not approved Western Power's proposed revisions for its second period of access to the network, which runs for three years from 2009/10 to 2011/12.

The Authority released its final decision today, disallowing Western Power's proposed tariff increases. It also outlined other measures covering increased service standards and improved incentive schemes for reliability and efficiency of services.

"However, based on economic factors, the Authority has agreed that Western Australia's electricity network tariffs will need to increase," Mr Rowe, said.

"The increase for users of the transmission and distribution network will come in three stages – March 2010, July 2010 and July 2011 – and will be in the vicinity of 16.3 per cent in real terms each time. They are based on our estimates that there will be a 12.9 per cent real increase in transmission tariffs and a 17.7 per cent real increase in distribution tariffs at each of these three points in time over the next three years," he said.

If these increases were passed through to retail electricity tariffs, it is estimated that residential tariffs would increase by approximately 7 per cent (in real terms) at each of these points in time.

Mr Rowe said the increases in network tariffs allowed by the Authority were substantially less than those proposed by Western Power.

The Western Australian Government has required distribution network tariffs to include an amount of \$479 million in "tariff equalisation contributions" to finance a subsidy paid to Horizon Power. This has increased from the amount of \$213 million which applied for the first three year access arrangement period.

The tariff increases reflect an increase in costs of operating the network.

The decision means approximately \$4.8 billion (nominal) is expected to be spent by Western Power to improve its ageing network, a reduction of \$1.2 billion in the amount originally proposed by Western Power. This represents an increase of \$1.5 billion over the expenditure during the first access arrangement period.

"A large part of the increase in costs is for additional maintenance activities, such as inspection and maintenance of wood poles, which should serve to improve the reliability of services in the third and subsequent access arrangement periods (commencing 2012).

"However, the expected improvements in reliability should include setting more stringent service standard benchmarks and increasing the potential rewards and penalties for Western Power under the service standard adjustment mechanism."

The Authority's final decision means Western Power must:

- enable small-scale renewable energy systems to connect to the network, giving consumers the opportunity to participate in the Renewable Energy Buyback Scheme;
- add service standard benchmarks for the transmission network that will improve accountability of Western Power in electricity transmission; and
- face penalties for reductions in service standards and will be rewarded for improvements.

Western Power submitted its proposed access arrangement revisions to the Authority on 1 October 2008. In July this year, the Authority issued a draft decision to not approve the revisions.

Under section 4.19 of the *Electricity Networks Access Code 2004*, Western Power has until 6 January 2010 to address the Authority's required amendments.

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