

Contact: Matthew Veryard

15 December 2017

Nicola Cusworth
Chair
Economic Regulation Authority
Level 4, Albert Facey House
469 Wellington Street
Perth 6000

Dear Ms Cusworth

Update to Western Power's Access Arrangement (AA4) position on time of use network tariffs and the Tariff Equalisation Contribution

Following discussions with our shareholder, the Department of Treasury and the Public Utilities Office, we wish to clarify Western Power's proposed position on time of use (TOU) network tariffs and the Tariff Equalisation Contribution (TEC).

TOU network tariffs

In our AA4 proposal, we submitted two new TOU energy and two new TOU demand network tariffs, designed for all new residential and small business customers who connect to the network. We firmly believe TOU tariffs are vital to help guide electricity consumption choices and potentially help reduce expenditure on costly network capacity expansion to meet electricity demand.

We recognise that customers will not benefit (nor be adversely affected) by TOU network tariffs until retailers can in some way signal network tariffs to customers through their retail tariffs. We understand that retailers may not be in a position to offer appropriate TOU retail tariffs immediately. We also appreciate it would be prudent to allow time to assess any new data that advanced metering infrastructure brings before introducing any new TOU network or retail tariffs.

Therefore, we propose that while we will still introduce the new tariff structures for the AA4 period, we will hold the TOU tariff rates flat (i.e. the same cost per kWh for peak, shoulder and off-peak times) until such time as there is broad stakeholder support or further retail reform. This means that in the short term, both customers and retailers will see no price changes as a result of TOU network tariffs. However, Western Power will commence the necessary administrative and system changes required to implement variable TOU network tariff rates when the time is right.



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The TEC

In our AA4 proposal, we recommended the TEC be wholly recovered from the fixed component of distribution network tariffs rather than wholly from the variable component (as is the case currently). This change was simply to reflect the fact that the TEC is to all intents and purposes a fixed and unavoidable cost and therefore it would be more reflective and equitable to recover the costs from fixed tariff components. Western Power would receive no more or no less revenue as a result of this change.

Following consultation with our shareholder and the Department of Treasury, we have decided not to proceed with the proposed change to the TEC at this time as we believe it would be prudent to allow more time to fully consider any forthcoming market reforms. As this is essentially an administrative change to the recovery of the TEC, we will revisit it at a later date, as required.

Yours sincerely



Michael Crevola
Chief Financial Officer