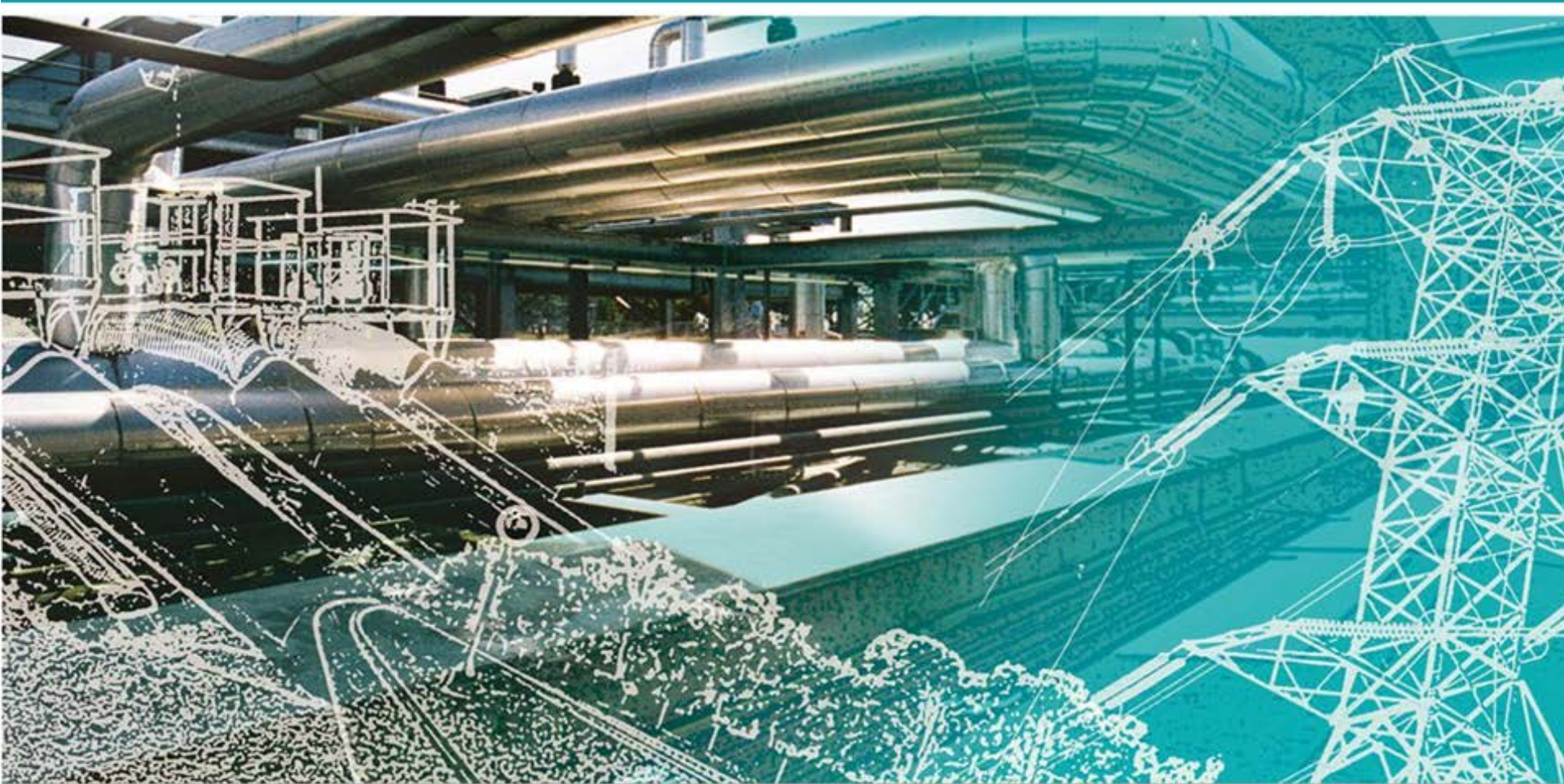




Economic Regulation Authority

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# Economic Regulation Authority

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## Public forum

### **Proposed revisions to Western Power's Access Arrangement for its covered network for the period of 1 July 2012 to 30 June 2017**

**Monday, 14 November 2011**  
**Rydges Perth (Westend One)**

# Forum Overview

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**To provide an opportunity to discuss Western Power's proposed access arrangement revisions**

***Forum Agenda:***

**10:30 – Lyndon Rowe, Chairman of the Economic Regulation Authority**

- Welcome
- Role of the Authority
- Access arrangement assessment process

**10:45 – Doug Aberle, Managing Director of Western Power**

- Proposed revisions to the Access Arrangement

**11:30 – Greg Watkinson, Chief Executive Officer of the Economic Regulation Authority**

- ERA Issues paper

**11:45 – Questions from Interested Parties, chaired by Lyndon Rowe**

# The Authority's role

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## Independence

- **State's independent economic regulator**
- **Decisions are independent of industry, government and other interests**

## Functions

- **Administers access to monopoly infrastructure**
- **Licenses service providers**
- **Monitors and regulates markets**
- **Conducts inquiries (referred by State Government)**

## Industries

- **Electricity, gas, rail and water**



# Access Arrangement Review

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- Must have regard to the objectives and requirements of the Access Code
  - **Code Objective (section 2.1)**
  - **Requirements of Chapter 5**
- Authority must consult with the public
  - **Public submissions are an important part of the decision making process**
  - **Authority will consider all issues brought to its attention**
- If objectives and requirements met, the Authority must approve proposed revisions, even in the event that there are other revisions that could be made

# Authority's assessment stages – completed

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## Timeline so far:

Milestone	Timing
Western Power's proposed <b>revisions submission</b> submitted	30 September 2011
Authority published Western Power's proposed revisions submission and <b>invited submissions</b> from interested parties	7 October 2011
Authority released <b>Issues Paper</b>	7 November 2011
<b>Public Forum</b>	14 November 2011

# Authority's assessment stages – to come

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## What next?

Milestone	Timing
<b>First round of public consultation</b> closes	5 December 2011
Authority publishes <b>Draft Decision</b> and invites submissions from interested parties	Early 2012
<b>Second round of public consultation</b> closes	2012
Authority publishes <b>Final Decision</b>	2012

# Proposed revisions to the access arrangement (1 July 2012 – 30 June 2017)

ERA public forum 14 November 2011





- Overview of our proposal
- Discuss key aspects highlighted by ERA
- Invitation to engage with us
- Questions

# Our proposal

- Submitted on 30 September 2011



# Our proposal

- Highlights:
  - Reference services that customers have asked for
  - Stronger incentive regime to ensure efficiency and service outcomes
  - Operating expenditure that reflects efficiencies achieved
  - Capital investment that balances network risk with price impact and deliverability
  - Improved Application & Queuing Policy
  - Enhancements to other policies and contracts
  - Target revenue of **\$10.3 billion** to enable proposed service and investment to be delivered

# Open and honest communication

- Development of our proposal included extensive stakeholder engagement:
  - More than 100 major customers and stakeholders consulted
  - More than 600 small businesses and residents surveyed
  - Regional and metropolitan forums
  - Worked closely with ERA and Government throughout





# Service standards and incentives

- Greater incentive to increase efficiency without compromising service
- Service targets remain consistent with current levels
- Targets reflect expectations given forecast expenditure
- Strong financial penalties for not providing the targeted service
- Strong legal and financial implications for not providing the minimum service standard

# Service standard performance measures

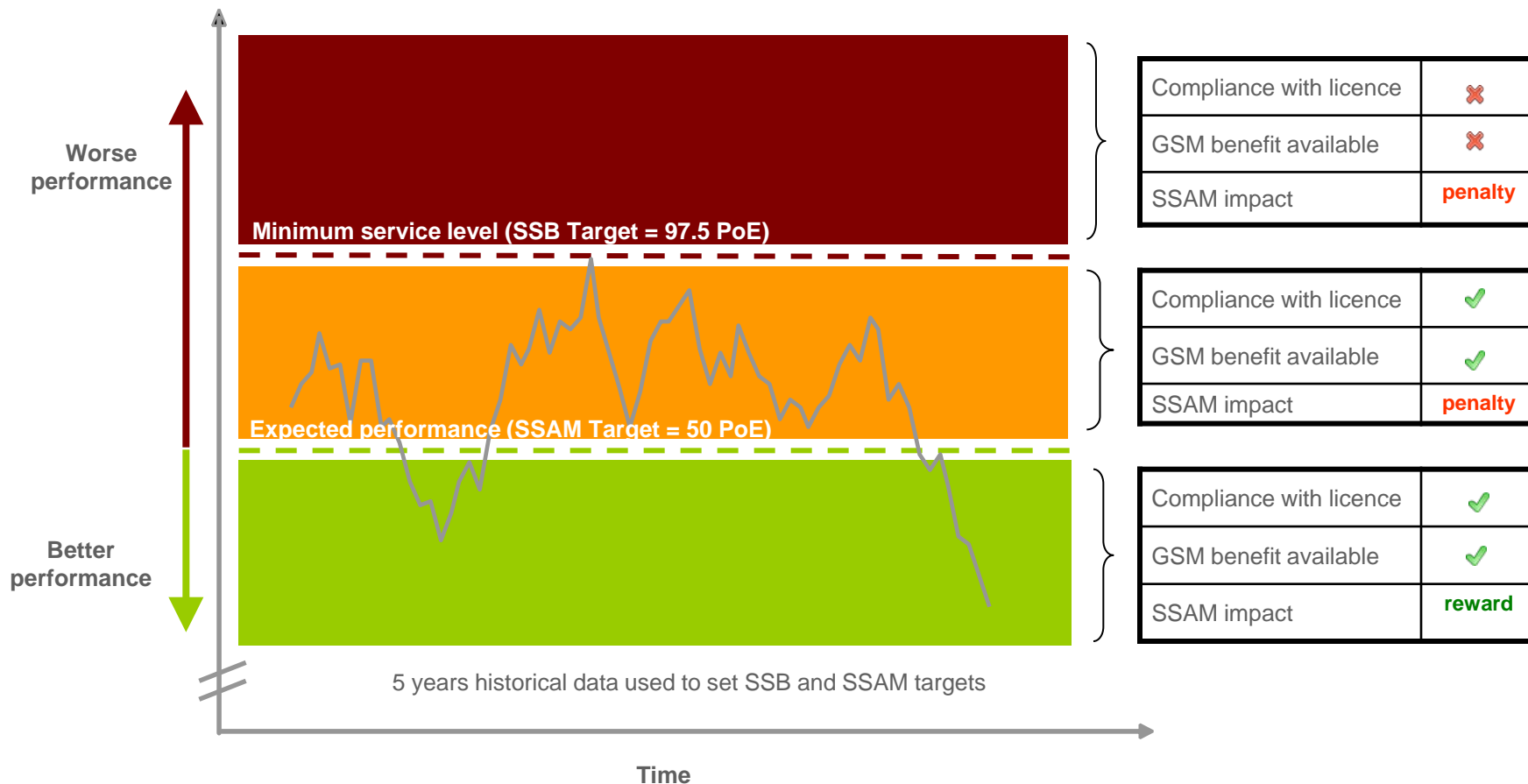
- We will continue to report on and be accountable for all current measures
- We will have a legal requirement and/or a financial incentive to meet all AA3 measures

AA3 Performance Measures			AA3		
			Reporting Requirement	Legal Requirement (Service standard benchmark)	Financial Incentive Scheme (SSAM)
Distribution reference services	SAIDI	CBD	✓	✓	✓
		Urban	✓	✓	✓
		Rural short	✓	✓	✓
		Rural long	✓	✓	✓
	SAIFI	CBD	✓	✓	✓
		Urban	✓	✓	✓
		Rural short	✓	✓	✓
		Rural long	✓	✓	✓
	Call centre performance		✓	✓	✓
	Circuit availability		✓	✓	✓
Transmission reference services	Individual customer service measure		✓	✓	✗
Streetlight reference services	Metropolitan area		✓	✓	✗
	Regional area		✓	✓	✗

AA2 Performance Measures			Reporting Requirement	Legal Requirement (Service standard benchmark)	Financial Incentive Scheme (SSAM)
Distribution network	SAIDI	SWIN	✓	✗	✗
	SAIFI	SWIN	✓	✗	✗
Transmission network	System minutes interrupted	Meshed network	✓	✗	✗
		Radial network	✓	✗	✗
	Loss of supply events	>0.1 to 1.00 System minute	✓	✗	✗
		>1 System minute	✓	✗	✗
	Average outage duration		✓	✗	✗

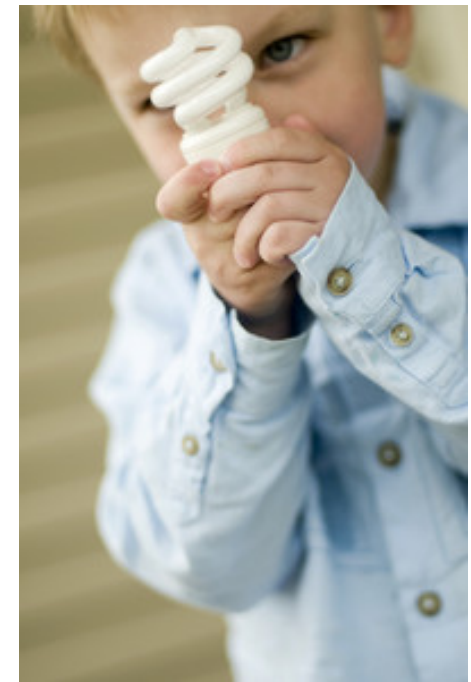
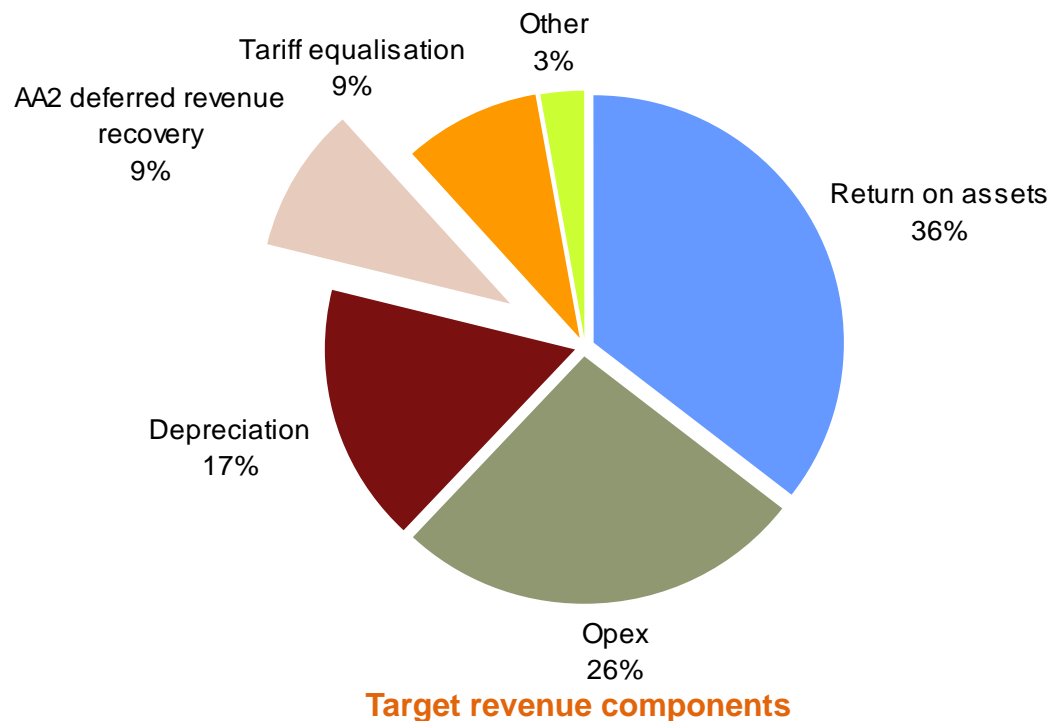
# Service standard performance targets

- Distinction between SSBs and SSAM performance targets



# Deferred revenue

- Collecting deferred revenue in AA3
  - Future generations will not have to pay for service delivered in AA2
  - Prevents amount from increasing each year
  - Price increases no greater than AA2





# Return on investment – WACC parameters

- Western Power's view, founded on expert reports
- Considers latest Australian determinations
- Looking for what is best for WA
- Essential that Western Power can attract financial capital

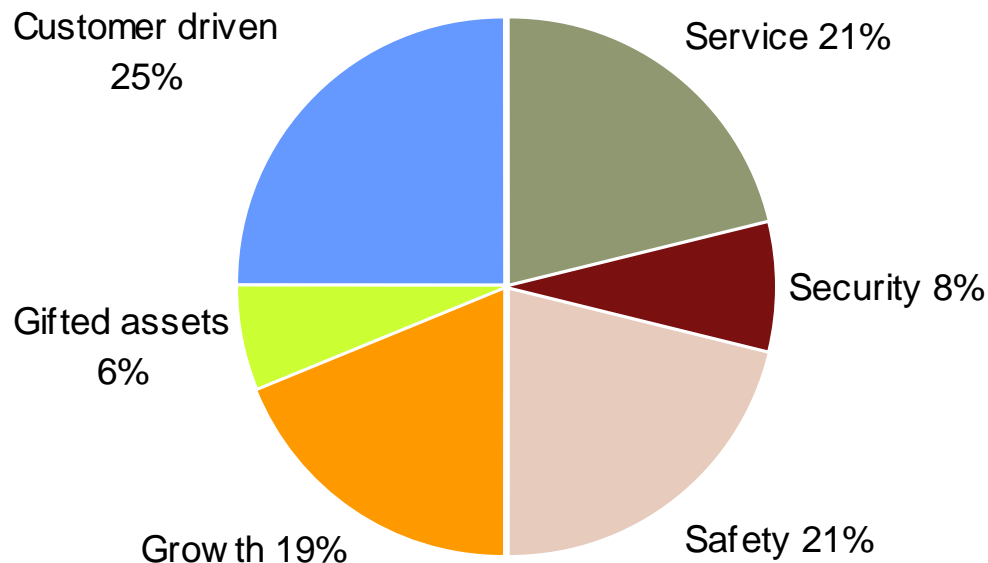
# Customer-focused services

- We will provide 17 reference services:
  - 13 unchanged from AA2
  - 1 existing bi-directional service enhanced
  - **3 new** bi-directional services introduced
  - Engaged OoE, retailers and generators to develop new services
- Bespoke services to be treated as non-reference services
- No change to customer's access rights where a non-reference service is provided



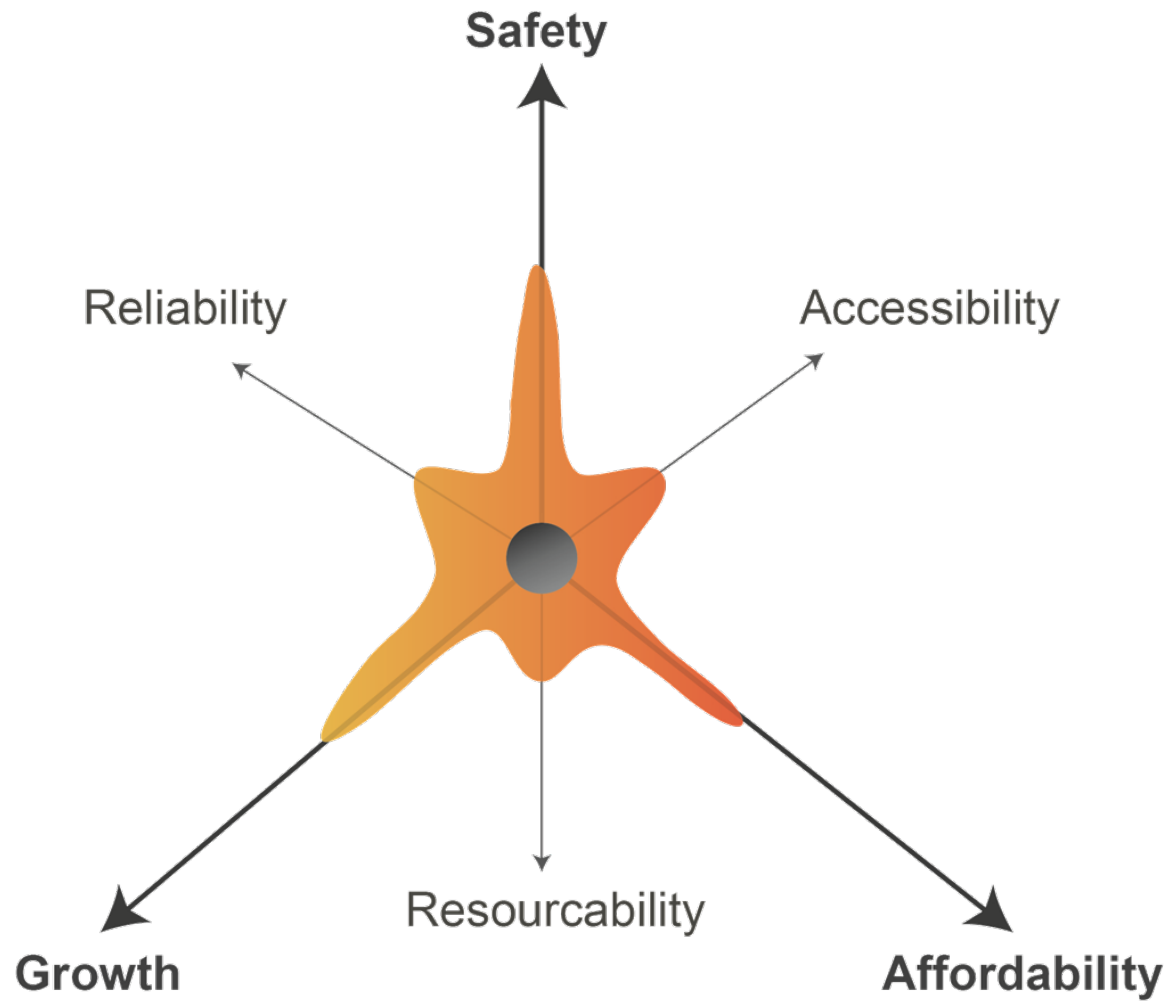
# Capital investment

- Focus on *improving* safety, growth & security, and *maintaining* service



**Forecast capital investment for the AA3 period**

# Taking a balanced approach



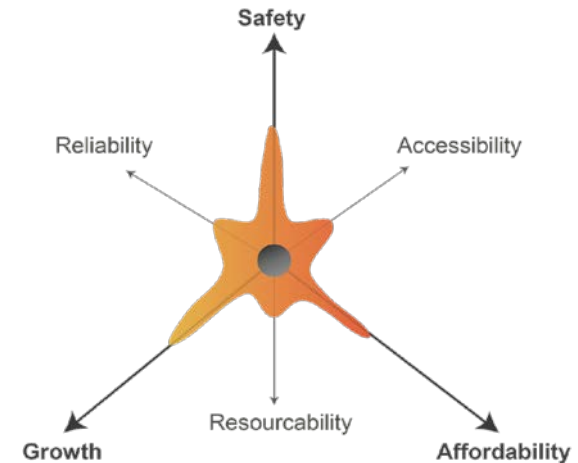


# Operating expenditure

- Reflects efficiencies achieved in AA2
  - 21.1% total opex increase over AA3 (18% distribution, 32% transmission)
  - Compares with 40.2% over 5yrs prior to AA3
- Delivering more for less
- Comparable with peers
  - Average 5yr increase for distribution businesses = 18.2%
  - Average 5yr increase for transmission businesses = 45.2%
- Increase driven by:
  - Growing network (20.5%) (14.5% during previous 5yrs)
  - Customer growth (12.6%) (10.2% during previous 5yrs)
  - Real cost escalation accounts for 6.6% of total

# We are ready to deliver this investment

- Network risk means we must deliver
- We have the resources to deliver it
- We have the incentives to deliver it efficiently
- Government is aware of the funding requirement



## Continue to engage with us

- Feel free to contact us throughout the review process
- We welcome your questions and feedback

Email: [aainfo@westernpower.com.au](mailto:aainfo@westernpower.com.au)

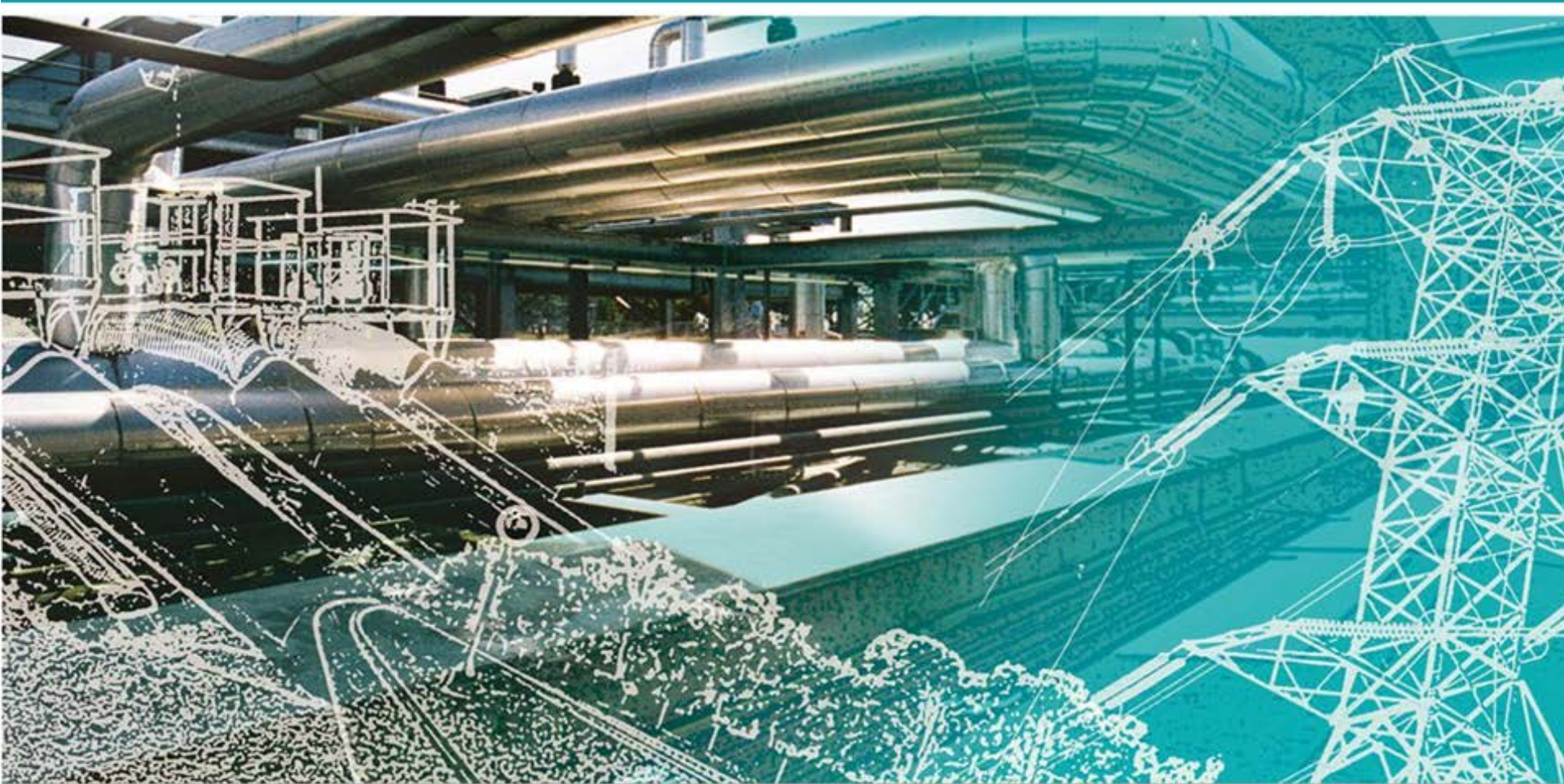
Contact: Sally McMahon





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# Economic Regulation Authority

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## Public forum

### **Economic Regulation Authority's Issues Paper on Western Power's Proposed Revisions to the Access Arrangement for the Western Power Network**

**Greg Watkinson, Chief Executive Officer, Economic Regulation  
Authority**

**Monday, 14 November 2011  
Rydges Perth (Westend One)**

# Authority's Issues Paper

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- Published 7 November 2011 and available from the Economic Regulation Authority's website
- Not an exhaustive review of the proposed revisions, or the matters to be addressed by the Authority
- Submissions invited on particular matters identified in the issues paper, AND any other matters of concern
- Public consultation closes **5 December 2011**

# Return on Regulated Capital Value - WACC

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- \$3.7 billion (36%) of total revenue requirement
- 8.82% (WP proposed AA3) vs 7.98% (ERA approved AA2)
- Impact of changes in market data
- Changes in debt risk premium methodology

# Return on Regulated Capital Value – Cost of Debt

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- Credit rating
- Government owned utilities



# Return on Regulated Capital Value – Cost of Equity

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- Equity beta
- Equity raising costs

# Return on Regulated Capital Value – Pre or Post Tax Return

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- Implications
- Other Regulators

# Capital Expenditure

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- Increased capital expenditure program (\$5.8 billion compared to \$4.3 billion in preceding 5 years)
- Efficiency of Expenditure
- Regulatory Test and New Facilities Investment Test
- Western Power propose including \$244 million of capital expenditure previously determined by the ERA to be inefficient

# Operating Expenditure

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- Increased operating expenditure in real terms (\$2.7 billion compared to \$2.1 billion in preceding 5 years)
- Includes scale and cost escalation
- No assumed future efficiencies in base operating costs



# Deferred Revenue

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- Period over which deferred revenue should be recovered
- Western Power's proposal to recover over 5 years adds nearly \$1 billion (10%) to total revenue requirement

# Revenue Requirement Calculation

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- Western Power's proposed changes to revenue requirement calculation
  - Mid year capex timing
  - Recovery of tax on capital contributions
  - Allowance for working capital

# Service Standard Benchmarks and Incentive Adjustment Mechanism

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- Level of benchmarks
- Incentive for service performance

# Question Time

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Chaired by Lyndon Rowe, Chairman, Economic Regulation Authority



# Contact Details

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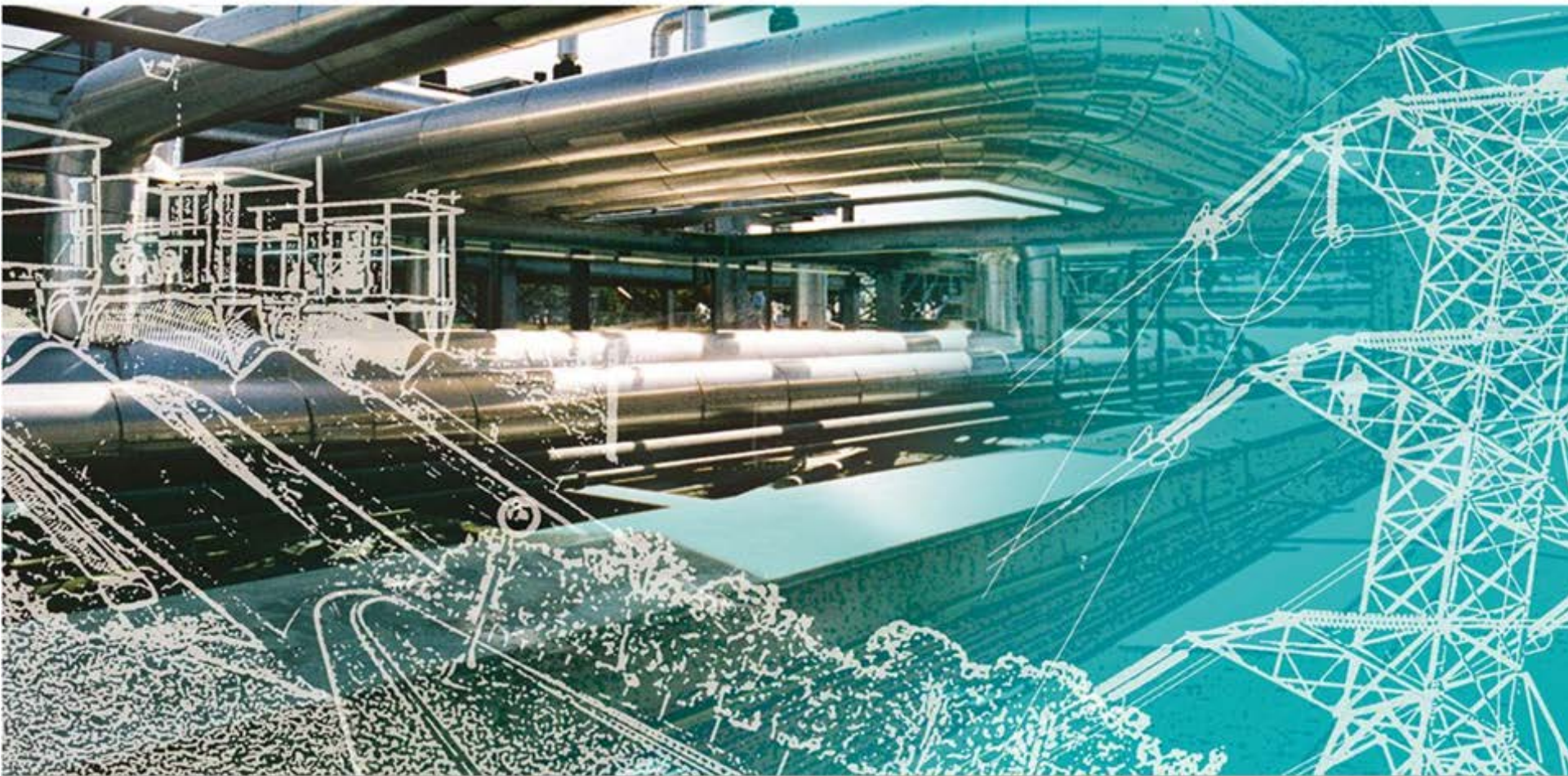
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