

14 June 2018

Ms Nicky Cusworth
Chair
WA Economic Regulation Authority
PO Box 8469, PERTH BC WA 6849

Email address: publicsubmissions@erawa.com.au

Draft Decision on Proposed Revisions to the Western Power Network Access Arrangement (2017/18 to 2021/22) – Energy Networks Australia’s comments

Dear Ms Cusworth,

Energy Networks Australia welcomes the opportunity to respond to the Economic Regulation Authority’s (ERA) Draft Decision on Proposed Revisions to the Access Arrangement for the Western Power Network, the five year period from 1 July 2017 to 30 June 2022. Energy Networks Australia addresses its main concerns with the ERA’s Draft Decision below.

Form of price control

In the Draft Decision the ERA stated that its initial preference is to apply a revenue cap form of regulation to Western Power’s reference services, but remove the ability to collect under or over recovery of revenue.

The practical effect of this decision is a price cap form of control. This represents a departure from the approach that was historically applied to Western Power’s reference services. Energy Networks Australia also notes that the revenue cap is the most common form of regulation for standard control services and prescribed transmission services in the National Electricity Market. That is, the ERA proposes a shift from a more nationally consistent approach to a less consistent approach.

Energy Networks Australia notes that this change is proposed against the backdrop of reductions in demand, as well as an increased quantity forecasting risk that accompanies the growing penetration of distributed energy resources and technological change.

In these circumstances, we consider that the benefits to consumers of mitigating forecasting risk that are achieved by using the revenue cap form of control outweigh the disadvantages. This is because under the price cap approach, if forecast quantities are lower or higher than is believed to be achievable, this may create an incentive to spend less than efficient levels of capital (and operating) expenditure, incurring lower future service outcomes to consumers, or higher than efficient investment later.¹

¹ Commerce Commission is New Zealand, Input methodologies review decisions, Topic paper 1: Form of control and RAB indexation for EDBs, GPBs and Transpower, December 2016, p.19.

The ERA notes that its proposed approach will provide greater price stability and certainty for users. This is true in relation to price changes within the access arrangement period. However, should actual demand differ significantly from the forecast within an access arrangement period, prices will adjust in the first year of the next access arrangement period to take account of updated quantity forecasts. Therefore, consumers remain exposed to the demand risk in the long run and may face significant intra period volatility.

Service standard adjustment mechanism

Energy Networks Australia support the use of incentive-based mechanisms to promote continuous, effective and stable financial incentives for efficient expenditure and service quality. The ERA's draft decision compromises the operation of incentive-based regulation by removing the financial penalties and rewards from the service standard adjustment mechanism.

Western Power has proposed distribution incentive rates aligned with the value of customer reliability, based on the most recent value of customer reliability study by the Australian Energy Market Operator in 2014 adjusted to apply for the Western Power Network.² In relation to transmission network reliability and call centre incentive rates, Western Power applied a percentage of its revenue at risk consistent with that in the previous access arrangement period.³ The methodology for calculating the incentive rates is also consistent with industry practice such as the Australian Energy Regulator's service target performance incentive scheme.

It is understood that Western Power customers overall are not looking for improvements in reliability, if it is likely to increase network charges. An incentive-based scheme has the advantage of promoting innovation and discovery of new technological opportunities that enable a business to improve its level of service at a lower cost than the value to customers of that improved service performance. Furthermore, the service standard adjustment mechanism has a longer-term role in balancing incentives for cost reduction with incentives to maintain or improve service quality, which is in the long term interests of consumers.

We note that the rewards earned by Western Power under the current service standard adjustment mechanism and proposed to be recovered are likely to indicate that the regulatory framework is working effectively because the regulated business is responding to efficiency and service quality incentives.

Advanced metering infrastructure

Western Power is proposing to introduce advanced metering infrastructure across its network as part of the standard meter replacement program. In its Draft Decision, the ERA did not approve the communications and IT components of Western Power's

² Available at: <http://www.aemo.com.au/Electricity/National-Electricity-Market-NEM/Planning-and-forecasting/Value-of-Customer-Reliability-review>.

³ Aggregate of 1 per cent of transmission revenue at risk for transmission measures and 0.04 per cent of distribution revenue at risk for call centre performance.

advanced metering proposal – the technology that would enable Western Power to remotely communicate advanced meters.

Communications infrastructure is required to support grid automation in order to establish a more efficient and reliable network, which is one of the key benefits of advanced metering infrastructure. The data flowing from advanced meters allows improved management of network assets, better planning of asset maintenance, as well as improved safety from detecting electrical hazards before an incident occurs. The benefits will in turn flow to customers through reduced cost and better service outcomes, as well as from providing a platform for further innovation.

Advanced metering infrastructure has a vital role to play in achieving the timely uptake of fair and efficient electricity prices. The Energy Networks Australia-CSIRO *Electricity Networks Transformation Roadmap* (the Roadmap) identified the lack of meter technology currently installed in some jurisdictions as the key barrier to widespread adoption of smarter network tariffs and retail pricing. Strong adoption of remotely-communicating advanced meters by 2021 is required for the efficient transition to better network tariffs which will enable substantial economic benefits for customers overall and also assist in removal of cross subsidies. The Roadmap also emphasised the importance of closing a gap in tariff assignment policies in those network areas where smart meters are available for use.⁴

Energy Networks Australia considers the adoption of remotely-communicating advanced meters a strategic next-step in improving the safety of grid-supplied electricity for Western Australians, as well as a means to meet evolving customer needs through supporting the delivery of new products and services enabled by advances in technology.

Energy Networks Australia appreciates the opportunity to participate in the ERA's consultation process. If you have any questions please contact Garth Crawford, General Manager Economic Regulation, on 02 6272 1507.

Yours sincerely,



Andrew Dillon
Chief Executive Officer

⁴ CSIRO and the Energy Networks Association, *Electricity Network Transformation Roadmap*, Final Report, p.40.