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Economic Regulation Authority
P O Box 6849
Perth Business Centre
Perth, WA 6849

Attention Ms Elizabeth Walters

Dear Elizabeth,

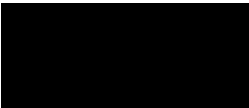
Application to revoke Technical Rule temporary exemption granted to Western Power for Meadow Springs Zone Substation

- 1 Thank you for providing an opportunity for Geoff Brown and Associates (GBA) to make a submission on Mr Davison's application to revoke the temporary exemption granted to Western Power for the Meadow Springs zone substation. GBA was the technical advisor that provided advice to the Authority before it granted Western Power the exemption.
- 2 In his submission Mr Davidson raised two substantive issues:
 - (i) the meaning of clause 2.5.4(b) and whether it has been correctly interpreted by Western Power; and
 - (ii) whether the Authority should have granted an exemption.
3. Clause 2.5.4(b) specifies the "proportion of the power transfer capacity that can be lost" following the loss of a supply transformer at a substation designated by Western Power to be an NCR substation. We submit that, as written, this clause has no practical effect as it does not make sense – if a substation loses a transformer then the power transfer capacity that is lost must surely be equal to the full capacity of the transformer that is no longer in service. It is physically impossible for this to be only 75% of the capacity of smallest transformer within the substation. It is probable that the clause was intended to specify the maximum power transfer through the substation under normal operating conditions. This is a different parameter and Western Power should change the wording of this clause to accurately specify its meaning.
4. We understand the purpose of this clause to specify a deterministic investment threshold – if the power transfer through the substation is forecast to exceed the specified level, Western Power is required to take remedial action. This would normally mean the installation of additional transformer capacity. As we understand his submission, Mr

Davidson considers the threshold is set too low, with the result being that Western Power is investing in zone substation capacity sooner than it is needed. If this the case, it is imposing unnecessary costs on consumers, who ultimately pay the cost of Western Power's investment.

5. At this point we have no view on an appropriate threshold. We note that, as no loss of supply will occur unless a transformer fails during a period of peak network demand, this is essentially a risk management issue. Modern regulatory practice is to avoid setting deterministic thresholds and to regulate outputs rather than inputs. This leaves it to a lines business to determine the appropriate asset mix to deliver the levels of service that its stakeholders expect.
6. In reviewing the application for a Technical Rules exemption, we looked at Western Power's proposed investment profile in the context of the forecast demand and the power transfer capacity of the Meadow Springs and Mandurah substations. We advised the Authority that, in our view, the proposed investment and its timing was consistent with good industry practice and that any elevated risk of a loss of supply was small and could be appropriately managed by Western Power. We stand by this assessment, which did not rely on the interpretation of Clause 2.5.4(b) of the Technical Rules or on whether Western Power would in breach of its own Technical Rules in following its proposed investment plan.
7. We fail to see how a regulatory decision allowing Western Power to defer an investment increases costs to consumers when the risk is assessed to be low. In this case we also don't understand how a decision to revoke the exemption will save consumers money – all it would do would be to require Western Power to make an investment earlier than we have assessed is necessary.

Yours sincerely



Geoff Brown
DIRECTOR