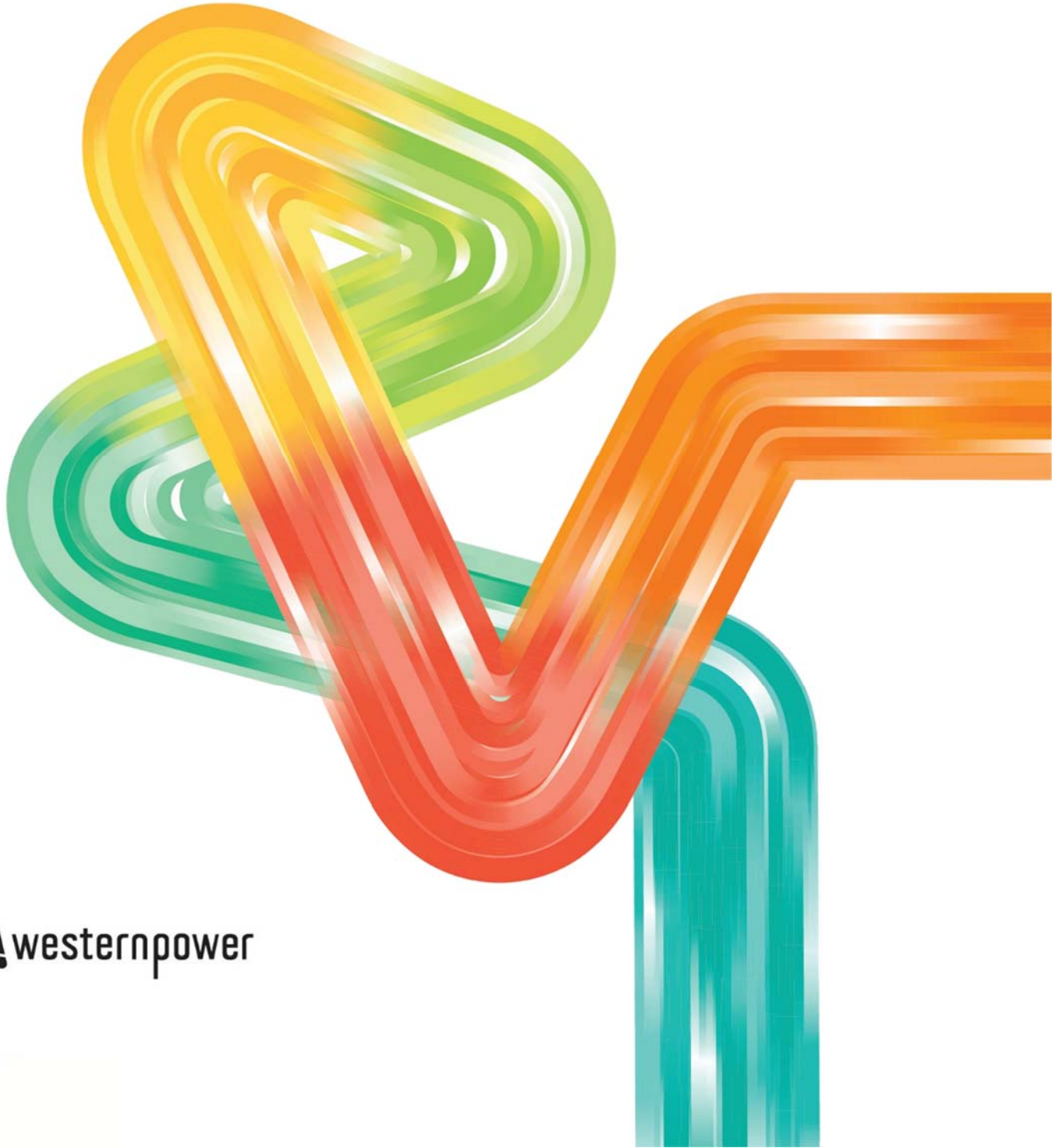
EGF NCS - Response to ERA Draft Determination

26 March 2021



westernpower

Western Power is pleased to provide its response to the ERA Draft Determination to the D Factor Submission for the Eastern Goldfields (EGF) Network Control Service (NCS).

Please find below our responses to the issues raised by the ERA in the determination.

1. Internal Administration Costs - $0.3M

ERA Determination - Western Power's business plan forecast included $0.3 million for internal administration costs and a risk allowance of $1 million.
The ERA has not approved the internal administration costs. In the draft determination the ERA stated that these costs are "a very small amount in comparison to Western Power's total administrative operations and should be able to be absorbed in normal operations. The application did not demonstrate that the contract required any new internal administrative expenditure".

Response - *Accept*
At the time of preparing the EGF NCS business case, Western Power included forecast administration cost of $0.3M. These forecast costs related to uncertainty in relation to the commitments that would arise from the additional responsibilities the EGF NCS would place on Western Power, and uncertainty in relation to the roles and obligations between Western Power and AEMO. Due to the significant obligations and total forecast cost of the EGF NCS, the additional $0.3M for administration costs was a reasonable forecast at the time. In managing these new obligations Western Power determined the associated management costs were not significant enough to require engaging additional resources, and as such did not ringfence these costs. Therefore, Western Power accepts the ERA's draft determination in relation to these costs not being recovered under the D factor mechanism.

2. Risk allowance - $1M

ERA Determination - the risk allowance is not necessary as the final costs will be known when the adjustment is made at the next access arrangement review.

Response - *Accept*
At the time of preparing the EGF NCS business case, Western Power forecast $1M in risk to manage a significant obligation that was placed upon Western Power, and to cater for the additional variable costs for operating generators that may be caused by further unforeseen planned and unplanned outages at EGF. In delivering the EGF NCS Western Power has successfully managed these risks and optimised planned outages to successfully reduce the duration of generator operations. The successful implementation of these approaches has to date, resulted in the forecasts costs of $1M in relation to risk not being realised. Therefore, we agree with the ERA that the risk allowance is not necessary as the final costs will be known when the adjustment is made at the next access arrangement review.

3. Opex that should be reclassified as Capex - $0.5M

ERA Determination - the ERA considers that a portion of the variable network control service costs is attributable to:

- planned outages for asset replacement and augmentation, and
- planned outages for customer connections.

The proportion of costs attributable to these outages form part of the asset installation or connection cost and should be included in the capital costs of the new assets and recovered over the life of the relevant assets; or included in the cost of connection and recovered from the relevant customer.

Response - *Accept*
Western Power accepts the ERA's position that a portion of the variable NCS cost are attributable to:

- planned outages for asset replacement and augmentation, and
- planned outages for customer connections.

Western Power proposes that the $0.5M in capex works identified by the ERA be added to the AA5 opening RAB. In performing the required works on the EGF network, Western Power optimises asset replacement works with planned outages to ensure efficient delivery and to minimise required outage durations.

This approach is in accordance with Western Power's Asset Management practices and provides least cost delivery and minimises costs and disruptions to the market. This makes identification and apportionment of costs between Western Power's network and customer works challenging, noting that the NCS is the most efficient option and avoids the need for an additional transmission line to the EGF, which would be cost prohibitive and would not realise economically justifiable benefits to the electricity market and its participants.