



Economic Regulation Authority

Draft decision on proposed revisions to the access arrangement for the Western Power Network 2022/23 – 2026/27

Attachment 11: Network tariffs

9 September 2022

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Note

This attachment forms part of the ERA's draft decision on proposed revisions to the access arrangement for the Western Power Network for the fifth access arrangement period (AA5). It should be read with all other parts of the draft decision.

The draft decision comprises all of the following attachments:

Draft decision on proposed revisions to the access arrangement for the Western Power network 2022/23 – 2026/27 – Decision Overview

Attachment 1 – Price control and target revenue

Attachment 2 – Regulated asset base

Attachment 3A – AA4 capital expenditure

Attachment 3B – AA5 capital expenditure

Attachment 4 – Depreciation

Attachment 5 – Return on regulated asset base

Attachment 6 – Operating expenditure

Attachment 7 – Other components of target revenue

Attachment 8 – Services

Attachment 9 – Service standard benchmarks and adjustment mechanism

Attachment 10 – Expenditure incentives and other adjustment mechanisms

Attachment 11 – Network tariffs (this document)

Attachment 12 – Policies and contracts

1. Summary

This attachment deals with network tariffs.

Western Power's network tariffs are charged to the users of the network i.e. electricity retailers (such as Synergy), generators and some very large customers connected to the transmission network. Electricity retailers decide how to pass on the network charges they incur to their customers, i.e. households and businesses.¹ However, the way network tariffs are structured, in terms of fixed and variable components (particularly how rates vary with when electricity is consumed) influences how retailers structure their services and ultimately how households and businesses manage their electricity use.

Western Power has made good progress towards improving the efficiency of its network tariffs. However, further work is needed prior to the final decision.

Summary of draft decision

- Update the cost allocation and forecast revenue for each reference tariff to reflect the most recent actual and forecast energy and customer numbers and revised target revenue.
- Provide at least the same level of information on the cost allocation, charging structures and indicative prices that was included in the price list information and price list provided for previous access arrangement reviews. Indicative prices for 2023/24 for all reference tariffs must be included.
- Include sufficient detail in the reference tariff change forecast so that customers can understand how much individual components of the tariff are forecast to change and the likely effect on customers with a range of consumption profiles. The reference tariff change forecast must include all reference tariffs (including the proposed new tariffs) and the forecast overall change in reference tariffs.
- Take account of stakeholder concerns about the effect of rebalancing between fixed and variable charges to develop a more gradual transition.
- Include demand-based time of use tariffs for residential and commercial customers. The time of use periods must be consistent with the super off-peak tariffs.
- Modify the proposed tariffs for the storage and electric vehicle charging reference services to take account of the matters raised in the stakeholder submissions received by the ERA.

The reasons for the ERA's draft decision in respect of the matters relevant to network tariffs and details of required amendments are set out in this attachment.

¹ Network costs are approximately 45 per cent of the total retail bill.

2. Regulatory requirements

The access arrangement must include a “tariff structure statement” containing the proposed tariff structures during the access arrangement period and a “reference tariff change forecast” of how much each tariff is forecast to change during the access arrangement period.

The tariff structure statement sets out the service provider’s pricing methods, and must include the following elements:

- the structures for each proposed distribution reference tariff
- the charging parameters for each proposed distribution reference tariff
- a description of the approach that the service provider will take in setting each distribution reference tariff in each price list of the service provider during the relevant access arrangement period.

The tariff structure statement must comply with:

- the pricing principles set out in the Access Code
- any applicable framework and approach.

The reference tariff change forecast sets out, for each reference tariff, the service provider’s forecast of the weighted average annual price change for that reference tariff for each pricing year of the access arrangement period.

An extract of the sections of the Access Code relevant to tariffs is included in Appendix 1.

3. Western Power's proposal

Western Power has proposed changes to tariffs, including:

- Reducing variable charges and increasing fixed charges.
- Introducing a very low super off-peak rate for energy between 9am and 3pm.
- Introducing new tariffs for grid-connected batteries and electric vehicle charging stations.

Western Power states that it proposes a gradual transition to its proposed new tariffs to avoid price shocks and give customers and stakeholders time to prepare for the changes. Western Power states it is aiming to limit the increase in the average price of a tariff to no more than two per cent above the overall change in tariffs that is required to recover total target revenue.

To develop its proposed prices, Western Power states it has estimated the forward-looking efficient cost (or future cost) of providing each reference service. It has grouped together reference services that it considers are likely to have similar future costs.

Western Power states that the proposed on-peak prices – derived from the estimate of future costs – are well below its existing on-peak prices. Western Power considers it can increase pricing efficiency by reducing on-peak prices.

Consequently, Western Power proposes to reduce variable energy charges in line with its estimate of future costs and increase fixed charges to recover the total revenue required.

Western Power proposes to offer a very low, “super off-peak” energy price to encourage greater use of energy during periods when solar panels are exporting renewable energy to the grid.²

Western Power provided the following information on its proposed pricing for the new time of use periods:

- A very low variable rate of close to zero cents per kW hour for electricity consumption during the super off-peak period (9am to 3pm).
- A low variable rate during off-peak periods (11pm to 6am).
- A moderate variable rate for shoulder periods, of approximately 1.3 times the off-peak rate (6am to 9am and 9pm to 11pm).
- A relatively higher variable rate for consumption during the on-peak period from 3pm to 9pm, approximately two times the shoulder rate (3pm to 9pm).
- A fixed charge component that is the same across different time periods.

Western Power proposed time of use energy tariffs (rather than demand structures) because it thinks that customers understand energy-based tariffs more easily and will be encouraged to shift load outside of the on-peak period.³

² Western Power, *Appendix F.1 – Tariff Structure Statement Overview*, 1 February 2022, p. 3.

³ A demand based tariff structure is based on both power demand on the network in a specific time period (expressed in kW) and the amount of electricity used (expressed as kWh).

As required by the framework and approach, Western Power proposes to introduce new tariffs for large batteries that connect directly to the network, and for dedicated electric vehicle fast-charging stations.⁴

Western Power states that the proposed new tariffs will have similar structures to existing tariffs. For example, the tariffs for electric vehicle fast-charging stations will be consistent with existing metered demand tariffs (RT5 and RT6). As is the case for existing bi-directional distribution-connected customers, Western Power will not charge distribution-connected storage systems for exporting energy into the grid.

Western Power has summarised the forecast weighted average price change for each reference tariff in AA5 in [Table 5.1](#) of the Tariff Structure statement overview.⁵

Western Power states the proposal is based on a small sample of the 2.5 per cent of total residential customers that have advanced metering infrastructure. Western Power expects to be able to refine its forecast of weighted average annual price changes over the course of 2022, as it gains access to a larger sample of interval data for residential customers.

Western Power states it has not calculated a forecast weighted average price change for the new tariffs as there is currently no published starting point from which to calculate the price change. Western Power anticipates that once the initial price is established for 2023/24 there will be no further price change for the remaining years of AA5.

Western Power submitted additional information on its proposed tariffs on 30 June 2022.⁶ The additional information included:

- An indicative price list for the 2023/24 year.
- Further detail and suggested changes to the structure of the electric vehicle charging and storage service tariffs included in its initial proposal.
- A new super off-peak time of use tariff with a demand component.
- Further information to demonstrate compliance of the tariff structure statement with the Access Code pricing principles.

⁴ Economic Regulation Authority, *Framework and approach for Western Power's fifth access arrangement review*, 9 August 2021, p. 20.

⁵ Western Power, *Appendix F.1 – Tariff Structure Statement Overview*, 1 February 2022, p. 27.

⁶ The additional information can be found on the [ERA website](#).

4. Submissions

Submissions from Alinta Energy, Australian Energy Council, Change Energy, Collgar Wind Farm, Craig Hosking, Chamber of Minerals and Energy, Evie, Noel Schubert, Perth Energy, Synergy, WACOSS, Chamber of Minerals and Energy, RAC and the WA Expert Consumer Panel in response to the ERA's issues paper all included comments on Western Power's proposed pricing methods and tariffs.⁷

Matters raised include:

- More information is needed on the proposed tariffs including an indicative price list and further stakeholder consultation and engagement.
- Concerns about the proposed structure of the new tariffs for EV charging stations and storage services.
- Support for the new time of use periods.
- Concerns about the discontinuation of time of use demand services.
- Concerns about the proposed rebalancing that will increase fixed charges and reduce variable charges.
- Allowing sufficient time for publishing proposed tariffs with sufficient detail so that users can implement the necessary operational and system changes in time for the commencement of AA5.⁸

In response to stakeholder submissions on the issues paper, Western Power provided additional information on its proposed tariffs on 30 June 2022. The ERA published the additional information on 1 July 2022 and invited submissions by 26 July 2022.

Further public submissions on matters relevant to tariffs were received from the Australian Energy Council, Electric Vehicle Council, Evie, Noel Schubert, Synergy, WA Expert Consumer Panel and WACOSS.

The submissions reiterated some matters that were raised in the submissions on the issues paper and raised new matters including:

- Continued concerns that the information provided by Western Power lacks sufficient detail to enable users to make informed decisions and is based on outdated demand and customer forecasts.
- Continued concerns about the proposed increases to fixed charges.
- Some support for the proposed changes to the electric vehicle charging service reference tariff but further work is required on the specific parameters and price points to ensure the tariff can support the rollout of publicly available fast and ultra-fast electric vehicle charging stations.
- Concerns that the proposed changes to the storage service tariffs penalise users for exporting into the grid at times of low network utilisation but do not reward users for exporting at periods of high utilisation.

⁷ The submissions can be found on the [ERA website](#).

⁸ Synergy stated it requires at least three months to make system changes and notify customers of the reference tariffs in the new AA5 price list.

5. Considerations of the ERA

The ERA commends the efforts Western Power has made to engage with stakeholders to develop its proposed network tariffs. However, the ERA's consideration of Western Power's proposal has been hampered by a lack of detailed information and out of date forecasts.

In its proposed revised access arrangement, Western Power's tariff structure statement and reference tariff change forecast is contained in two documents:

- Appendix F.1 Tariff Structure Statement Overview
- Appendix F.2 Tariff Structure Statement Technical Summary.

Additional information provided on 30 June 2022 included an indicative price list for 2023/24, additional costing information to demonstrate compliance with the pricing principles in the Access Code and suggested changes to the proposed storage and electric vehicle charging tariffs. Stakeholders and the ERA have had limited time to consider this additional information.

As identified in stakeholder submissions, the pricing information is based on outdated forecasts of demand and customer numbers. It also lacks sufficient detail to enable customers to understand the likely effect on their bills over the AA5 period.

Furthermore, the economic outlook has changed significantly since Western Power prepared its proposal. Due to increases in forecast inflation and the weighted average cost of capital, there are likely to be significant increases in network tariffs over AA5, rather than the small increase contemplated in Western Power's proposal. This has implications for any tariff rebalancing which will need to be mindful of placing further pressure on customers already struggling with affordability.

To progress the development of the tariff structure statement and network tariffs, updated and more comprehensive information is required.

Although the 2023/24 price list will not be approved until after the final decision, it is important that customers have sufficient information as early as possible to plan and prepare for the new tariffs that will commence on 1 July 2023.⁹ Western Power should include indicative tariffs for 2023/24 for all reference services in its response to the draft decision.

The ERA intends to engage further with Western Power and stakeholders on the matters identified in this draft decision prior to Western Power lodging its revised proposal in November.

⁹ Western Power is required to submit the price list for the 2023/24 year within 15 business days after the final decision is published. The ERA must, within 15 business days from the date Western Power submits its proposed price list, publish an approved price list including any amendments it has made if relevant. The approved price list takes effect from a date specified by the ERA, provided that the date is at the commencement of the pricing year to which the price list relates unless the ERA considers there are circumstances that reasonably justify a departure from such a date. For the 2023/24 price list, the pricing year commences on 1 July 2023.

Required Amendment 1

Western Power must:

- Update the cost allocation and forecast revenue for each reference tariff to reflect the most recent actual and forecast energy and customer numbers and revised target revenue.
- Provide at least the same level of information on the cost allocation, charging structures and indicative prices that was included in the price list information and price list provided for previous access arrangement reviews. This should include clear demonstration that the pricing principles and other Access Code requirements have been met.
- Include sufficient detail in the reference tariff change forecast so that customers can understand how much individual components of the tariff are forecast to change and the likely effect on customers with a range of consumption profiles. The reference tariff change forecast must include all reference tariffs (including the proposed new tariffs) and the forecast overall change in reference tariffs.

Further specific matters are considered below.

5.1 Rebalancing between fixed and variable

Western Power has proposed changes that will affect the balance between fixed and variable charges.

Western Power considers that its current variable on-peak prices are higher than its estimate of long run marginal cost. It considers it can increase pricing efficiency by reducing on-peak prices. Consequently, Western Power proposes to reduce variable energy charges in line with its estimate of long run marginal cost and increase fixed charges to recover the total revenue required.

Under section 7.6 of the Access Code, the incremental cost of service provision should be recovered by tariff components that vary with usage or demand and the remaining costs should be recovered by tariff components that do not vary with usage or demand, unless an alternative method would better achieve the Access Code objective. In the additional information provided on 30 June, Table B.4 indicated that the forecast revenue from variable tariffs based on the indicative 2023/24 price list, would be higher than the incremental cost of service for all reference services except streetlights.

Stakeholder submissions raised concerns about the proposed rebalancing. The concerns included both whether it was economically efficient to do so and the impact it would have on customer bills.

The Expert Consumer Panel (ECP) considered that Western Power could reform its tariffs to better reward customers for flexible energy use, and better align pricing structures with network cost drivers, without resorting to higher fixed charges which create affordability risks for consumers. The ECP considered that increasing the fixed charges is not in the long-term interests of consumers because the fixed charge is an ineffective, inefficient charge that customers cannot respond to, to help lower forward-looking long-run network costs as well as customer bills.

Western Power's proposed rebalancing between fixed and variable charges results in no net change to the average customer bill. WACOSS highlighted the possibility that for those who are consuming the least amount of electricity, which could include people who are consuming less than what is necessary for good health and wellbeing, an increase in the fixed component could result in them paying more than what they already do. An increase in fixed charges also undermines the capacity for consumers to manage their bills by reducing electricity use. WACOSS considered further analysis of the effect on consumers needed to be undertaken.

As outlined above, the economic outlook has changed significantly since Western Power prepared its proposal. There are likely to be significant increases in network tariffs over AA5, rather than the small increase contemplated in Western Power's proposal. This increases the need to take a cautious approach on rebalancing between fixed and variable charges and the effect it has on customer affordability.

Also, as highlighted in submissions, increasing the fixed charges may reduce the ability to send price signals about network usage through the time of use prices.

To progress this matter, Western Power will need to provide an updated cost allocation, including its estimate of incremental costs, and rebalancing proposal. Western Power should take account of the matters raised in the submissions and, to the extent that it considers rebalancing is still required, develop a more gradual transition with sufficient detail so that stakeholders can understand any rebalancing it is proposing over the AA5 period and the effect this will have on customers with a range of consumption profiles.

Required Amendment 2

Update the cost allocation and proposed rebalancing between fixed and variable charges taking account of stakeholder concerns to develop a more gradual transition. This must include sufficient detail so that stakeholders can understand any rebalancing that is proposed over the AA5 period and the effect it will have on customers with a range of consumption profiles.

5.2 Time of use tariffs

Tariffs based on time of use periods are becoming increasingly important as demand patterns across the day change. In the past, peak periods were the main driver of network costs. More recently, low demand periods have become a driver of network costs.

In the framework and approach it was decided that time of use services should be based on the following time periods:

- Super off-peak – 9am to 3pm
- Peak – 3pm to 9pm
- Shoulder – 6am to 9am and 9pm to 11pm
- Off-peak – all other times.

Western Power's proposed tariffs are based on the time of use periods decided on in the framework and approach.

To transition from the existing time of use tariffs, Western Power proposes to continue to provide the existing time of use tariffs if the services were provided at the relevant connection points as at the AA5 effective date and those services have continued to be provided from the

AA5 effective date. However, as at the AA5 effective date, the current time of use services will be closed for new nominations and existing connection points under those services will transition to the new time of use service over time as users transition connection points to alternative services.

The ERA agrees this is a reasonable approach to transition away from the existing time of use periods that no longer reflect network usage patterns.

Some stakeholders have expressed concern that the proposed new time of use reference tariffs are higher than the existing time of use reference tariffs. Updated pricing information based on current forecasts of demand and customer numbers is needed to understand whether this is actually the case.

The difference may be because the existing tariffs are not cost reflective, in which case it is entirely appropriate that the tariffs are discontinued. Synergy's analysis suggests some of the difference is due to the fact that the new time of use periods apply seven days a week, whereas the existing time of use tariffs generally treat weekends and public holidays as off-peak periods. Western Power may wish to give further consideration to whether the tariffs for peak and shoulder periods on weekends should be at the same level as weekdays.

5.3 Demand based tariffs

The framework and approach required Western Power to include demand-based time of use services for residential and commercial customers.

Western Power did not include reference tariffs for either of these services in the proposal submitted on 1 February. In the additional information submitted on 30 June, it included a demand-based time of use reference tariff for commercial customers.

Stakeholder submissions indicated that demand-based time of use tariffs are being sought for both residential and commercial customers.

Required Amendment 3

Demand-based time of use tariffs must be included for residential and commercial customers. The time of use periods must be consistent with the super off-peak tariffs.

5.4 Electric vehicle charging

Western Power initially proposed a tariff structure consistent with its existing metered demand tariffs (RT5 and RT6). This comprised:

- A fixed, daily charge for access to the network based on the rolling 12 month maximum half-hour demand, which is eligible for an energy use related discount.
- A variable demand based charge that applies to the rolling 12 month maximum half-hour demand in excess of pre-determined demand thresholds, which is eligible for an energy use related discount.
- A variable charge applied to the electrical distance between the relevant connection point and the closest zone substation, which varies by reference to the measured electrical distance and the rolling 12 month maximum half-hour demand.

- A fixed, daily metering charge that reflects the metering reference service we provide to these customers.

Stakeholder submissions did not support this approach and considered it would result in tariffs that would not facilitate the roll out of public electric vehicle charging infrastructure. As noted in the Electric Vehicle Council submission, balancing the requirements of commercial viability for charging operators with the operational requirements of the energy networks is challenging.

In the additional information provided on 30 June, Western Power suggested a tariff that it considers can be used to gradually transition dedicated electric vehicle charging infrastructure from volumetric (time of use) to demand based charges over time.

It is a sliding-scale based tariff consisting of both time of use and demand charges that vary with utilisation, with the following three charging components:

- A fixed daily or monthly network access charge (\$/time period).
- A two-tiered time-of-use-based component (c/kWh) that steps down with increased utilisation:
 - An on-peak period rate operating from 3:00 pm to 9:00 pm.
 - An off-peak rate operating between 9:00 pm and 3:00 pm the following day.
- A demand-based component (\$/kW) for the highest 30-minute demand in a month within the on-peak period only that steps up with utilisation. There are 3 steps: 0-10%, 10-20% and 20-30%.

'Utilisation' is defined as the proportion of intervals over a billing period that exceed a defined threshold.

Stakeholder submissions indicate support for such an approach but consider further work is needed on the price points, utilisation rates and other charging elements of the tariff. This includes ensuring that electric vehicle charging stations can access an energy only tariff equivalent to that paid by other commercial businesses.

The ERA agrees with stakeholders that the suggested new tariff for electric vehicle charging services has greater potential than the tariff included in Western Power's proposal to facilitate the roll out of public electric vehicle charging infrastructure. The ERA considers the points raised in submissions on the suggested new tariff provide helpful suggestions and challenges. Western Power must take account of the matters raised in submissions to refine and improve the tariff.

Required Amendment 4

Modify the proposed tariff for electric vehicle charging reference services to take account of the matters raised in the stakeholder submissions received by the ERA.

5.5 Storage

Western Power initially proposed the following tariffs for distribution connected storage services:

- Distribution storage service tariffs for low voltage and high voltage connections in the form of metered demand and contract maximum demand consistent with the existing tariff structures applying to connections at the same level of the network.
- No charge for distribution-connected storage systems for exporting energy into the grid consistent with the existing tariff structures applying to bi-directional distribution-connected customers. Western Power noted this reflected its aim to encourage the uptake of storage systems and its preference for a customer-led, demand-side solution to address the costs that may arise from customer exports.

The Chamber of Minerals and Energy welcomed the exclusion of charges for distribution-connected storage systems for exporting energy into the grid.

In the additional information provided on 30 June, Western Power suggested changing the proposed structure. It has suggested a volumetric (bi-directional) time-of-use structure to signal batteries not to charge from the network during peak and shoulder periods and not to discharge during periods of low network load.

The proposed components are as follows:

- Energy consumed from the network
 - A fixed daily network access charge (\$/day)
 - A time-of-use based variable component (c/kWh):
 - Super off-peak – 9am to 3pm
 - Peak – 3pm to 9pm
 - Shoulder – 6am to 9am and 9pm to 11pm
 - Off-peak – all other times.
- Energy exports into the network
 - A stepped demand charge for exports (\$/kW) based on the relevant band with the highest level of energy exported into the network during the super off-peak period in the month, with the:
 - Band 1 rate applying to the first 3 kW exported
 - Band 2 rate applying to all kW exported above 3 kW.
 - Network charges will be close to zero for exports during off-peak, shoulder and peak periods.

Synergy considers the tariff penalises users for exporting into the grid at times of low network utilisation but does not reward users for exporting at periods of high utilisation. It considers the export charge should be removed or Western Power should pay users for exporting during periods of high network utilisation. Synergy also considers users should not be restricted to the storage tariff and should be able to choose from other tariffs.

For transmission connected storage services, Western Power initially proposed a tariff in the form of contract maximum demand consistent with the existing transmission exit and entry services.

Alinta's submission noted that the AEMC had decided that transmission storage owners should negotiate network charges so that charges could reflect the locational costs to serve. Alinta agreed with the principle that whether a given storage asset benefits the network should

be the key factor determining whether it pays transmission charges but was concerned that negotiated charges could lead to inconsistent results and barriers to entry.

Under the Access Code framework, users can negotiate services, so the reference service just provides a starting point for such negotiations.

In the additional information provided on 30 June, Western Power stated it would be seeking stakeholder feedback on adopting a tariff structure similar to its suggested new tariff structure for distribution connected storage. It noted that transmission connected storage is more complex than distribution connected storage and that it would continue to engage with stakeholders to develop its response to the draft decision.

Only Synergy commented on the transmission connected storage tariff. Similar to its views on the distribution storage tariff, it considered the export charge should be removed or Western Power should pay users for exporting during periods of high network utilisation. It also considered users should be able to select from other reference tariffs.

The ERA considers Western Power has made a good start to developing tariffs for storage services. Further consideration of the matters raised in submissions and engagement with stakeholders is needed to refine the proposed tariffs.

Required Amendment 5

Consider the stakeholder feedback received and engage further with stakeholders to refine the proposed storage tariffs.

Appendix 1 Extract of relevant provisions from Access Code

Tariff structure statement and reference change forecast are defined in section 1.3 of the Access Code as follows:

“tariff structure statement” means, for a service provider, the tariff structure statement referred to in section 7.1A that has been approved by the Authority for that service provider.

“reference tariff change forecast” means, for a service provider, the forecast of price changes as referred to in section 7.1D.

Section 7.1A to 7.1C of the Access Code set out the requirements for a tariff structure statement:

7.1A A *tariff structure statement* of a service provider of a covered network must set out the *service provider’s pricing methods*, and must include the following elements:

- (a) the structures for each proposed *distribution reference tariff*;
- (b) the *charging parameters* for each proposed *distribution reference tariff*; and
- (c) a description of the approach that the *service provider* will take in setting each *distribution reference tariff* in each *price list* of the *service provider* during the relevant *access arrangement period* in accordance with sections 7.2 to 7.12.

7.1B A *tariff structure statement* must comply with:

- (a) the *pricing principles*; and
- (b) any applicable *framework and approach*.

7.1C A *network service provider* must comply with the *tariff structure statement* approved by the Authority and any other applicable requirements in this Code when the *service provider* is setting the *reference tariffs* for *reference services*.

Pricing methods are defined in section 7.1 of the Access Code as follows:

7.1 In this Code **“pricing methods”** means the structure of reference tariffs included in the tariff structure statement, which determines how target revenue is allocated across and within reference services.

Pricing principles is defined in section 1.3 of the Access Code as follows:

“pricing principles” means the requirements set out in sections 7.3D to 7.3J.

Section 7.1D describes the reference tariff change forecast:

7.1D A *tariff structure statement* must be accompanied by a *reference tariff change forecast* which sets out, for each *reference tariff*, the *service provider’s* forecast of the weighted average annual price change for that *reference tariff* for each *pricing year* of the *access arrangement period*.

As required under section 7.1A(c), the approach the service provider takes to set prices must be in accordance with sections 7.2 to 7.12 of the Access Code.

Section 7.2 sets out the form of pricing methods.

7.2 A *tariff structure statement* may contain any *pricing methods* provided they collectively meet the objectives set out in sections 7.3 and 7.4 and otherwise comply with this Chapter 7.

{Examples:

The *pricing methods* may result in *tariffs* which distinguish between:

voltage levels; and

classes of *users* or *users* by reference to their *end-use customers*.

The *pricing methods* may result in *tariffs* which relate to specific *connection points*, and may result in *tariffs* which involve a combination of fixed and variable amounts related to one or more of the following elements:

demand levels (maximum kW or kVA per period);

energy quantities involved (kWh or kVAh per period); and

time of use.

If the *pricing methods* use quantities in determining tariffs, they may use minimum, maximum or actual quantities.}

Section 7.3 sets out the pricing objective:

- 7.3 Subject to sections 7.3K, 7.7 and 7.12, the *pricing methods* in a *tariff structure statement* must have the objective (the “**pricing objective**”) that the *reference tariffs* that a *service provider* charges in respect of its provision of *reference services* should reflect the *service provider’s* efficient costs of providing those *reference services*.

Sections 7.3A to 7.3C set out the application of the pricing principles.

- 7.3A Subject to sections 7.3B, 7.3K, 7.7 and 7.12, a *service provider’s reference tariffs* must comply with the *pricing principles* set out in sections 7.3D to 7.3J.

- 7.3B Subject to section 7.3K, a *service provider’s reference tariffs* may not vary from the *reference tariffs* that would result from complying with the *pricing principles* set out in sections 7.3D to 7.3H, except to the extent necessary to give effect to the *pricing principles* set out in sections 7.3I to 7.3J.

- 7.3C A *service provider* must comply with section 7.3A in a manner that will contribute to the achievement of the *pricing objective*.

Sections 7.3D to 7.3L set out the pricing principles:

- 7.3D For each *reference tariff*, the revenue expected to be recovered must lie on or between:

- (a) an upper bound representing the *stand-alone cost of service provision for customers* to whom or in respect of whom that *reference tariff* applies; and
- (b) a lower bound representing the avoidable cost of not serving the *customers* to whom or in respect of whom that *reference tariff* applies.

- 7.3E The *charges* paid by, or in respect of, different *customers* of a *reference service* may differ only to the extent necessary to reflect differences in the *average cost of service provision* to the *customers*.

{Examples of factors which may result in the *charges* paid by different *customers* of a *reference service* differing from each other, include:

the quantities of *reference service* supplied or to be supplied; or

a *customer’s* time pattern of *network* usage; or

the technical characteristics or requirements of the *facilities and equipment* at the relevant *connection point*; or

the nature of the plant or equipment required to provide the *reference service*; or

the periods for which the *reference service* is to be supplied; or

subject to section 7.7, a *customer’s* location.}

- 7.3F The structure of *reference tariffs* must, so far as is consistent with the *Code objective*, accommodate the reasonable requirements of *users* collectively and *end-use customers* collectively.
- {Example: *Customers* may prefer more of the *average cost of service provision* to be recovered using *tariff* components that vary with usage or demand than might otherwise be the case under section 7.6.}
- 7.3G Each *reference tariff* must be based on the forward-looking efficient costs of providing the *reference service* to which it relates to the *customers* currently on that *reference tariff* with the method of calculating such cost and the manner in which that method is applied to be determined having regard to:
- (a) the additional costs likely to be associated with meeting demand from *end-use customers* that are currently on that *reference tariff* at times of greatest utilisation of the relevant part of the *service provider's network*; and
 - (b) the location of *end-use customers* that are currently on that *reference tariff* and the extent to which costs vary between different locations in the *service provider's network*.
- 7.3H The revenue expected to be recovered from each *reference tariff* must:
- (a) reflect the *service provider's* total efficient costs of serving the *customers* that are currently on that *reference tariff*;
 - (b) when summed with the revenue expected to be received from all other *reference tariffs*, permit the *service provider* to recover the expected revenue for the *reference services* in accordance with the *service provider's access arrangement*; and
 - (c) comply with sections 7.3H(a) and 7.3H(b) in a way that minimises distortions to the price signals for efficient usage that would result from *reference tariffs* that comply with the *pricing principle* set out in section 7.3G.
- 7.3I The structure of each *reference tariff* must be reasonably capable of being understood by *customers* that are currently on that *reference tariff*, including enabling a *customer* to predict the likely annual changes in *reference tariffs* during the *access arrangement period*, having regard to:
- (a) the type and nature of those *customers*;
 - (b) the information provided to, and the consultation undertaken with, those *customers*.
- 7.3J A *reference tariff* must comply with this Code and all relevant *written laws* and *statutory instruments*.
- 7.3K Despite sections 7.3D to 7.3H, a *reference tariff* may include a component, applicable where a *user* exceeds its contractual entitlements to transfer electricity into or out of the *network* at a *connection point*, which component is not set by reference to the *service provider's* costs, but instead is set at a level to act as a disincentive to the *user* exceeding its contractual entitlements. Such component should be determined having regard to the following principles:
- (a) the component must be set at a level which provides a material disincentive to the *user* transferring into or out of the *network* quantities of electricity above its contractual entitlements; and
 - (b) in determining that level, regard is to be had to the potential adverse impact on the *network*, other *customers* and *generators*, and the *service provider* of the *user* transferring into or out of the *network* quantities of electricity above its contractual entitlements.
- 7.3L Unless otherwise determined by the *Authority*, section 7.3K does not apply to *connection points* servicing *end use customers* with a contract maximum demand not exceeding 1 MVA or *end use customers* with solar photovoltaic *generating plant* not exceeding 1 MVA in capacity.

Section 7.6 of the Access Code provides guidance for establishing components of tariffs:

- 7.6 Unless a *tariff structure statement* containing alternative *pricing methods* would better achieve the *Code objective*, and subject to section 7.3K, for a *reference service*:
- (a) the incremental cost of service provision should be recovered by *tariff* components that vary with usage or demand; and
 - (b) any amount in excess of the incremental cost of service provision should be recovered by *tariff* components that do not vary with usage or demand.

Section 7.7 of the Access Code requires that tariffs be established as “postage stamp” charges in certain cases as follows:

- 7.7 The *tariff* applying to a *standard tariff user* in respect of a *standard tariff exit point* must not differ from the *tariff* applying to any other *standard tariff user* in respect of a *standard tariff exit point* as a result of differences in the geographic locations of the *standard tariff exit points*.¹⁰

Section 7.8 of the Access Code defines “equivalent tariff for the purposes of sections 7.9 and 7.10 of the Access Code:

- 7.8 In sections 7.9 and 7.10, “**equivalent tariff**” means:
- (a) for a *reference service* – the *reference tariff*; and
 - (b) for a *non-reference service* – the *tariff* that it is reasonably likely would have been set as the *reference tariff* had the *non-reference service* been a *reference service*.

Section 7.9 of the Access Code provides for “prudent discounts” to be made available to some users:

- 7.9 If a *user* seeks to implement initiatives to promote the economically efficient investment in and operation of the *covered network*, a *service provider* must reflect in the *user’s tariff*, by way of a discount, a share of any reductions in either or both of the *service provider’s capital-related costs* or *non-capital costs* which arise in relation to the initiative by:
- (a) by entering into an agreement with a *user* to apply a discount to the equivalent *tariff* to be paid by the *user* for a *covered service*; and
 - (b) then, recovering the amount of the discount from other *users of reference services* through *reference tariffs*.

Section 7.10 of the Access Code provides for discounts for users connecting distributed generation plant:

- 7.10 If a *user* seeks to *connect distributed generating plant* to a *covered network*, a *service provider* must reflect in the *user’s tariff*, by way of a discount, a share of any reductions in either or both of the *service provider’s capital-related costs* or *non-capital costs* which arise as a result of the *entry point* for *distributed generating plant* being located in a particular part of the *covered network* by:
- (a) entering into an agreement with a *user* to apply a discount to the equivalent *tariff* to be paid by the *user* for a *covered service*; and
 - (b) then, recovering the amount of the discount from other *users of reference services* through *reference tariffs*.

¹⁰ Standard tariff user is defined as a user who transfers electricity out of a network at a standard tariff exit point. A standard tariff exit point is defined as an exit point in respect of which the contracted maximum demand under a contract for services is less than 1 MVA.

Section 7.11 of the Access Code requires an access arrangement to include a detailed policy setting out how discounts under sections 7.9 and 7.10 will be implemented:

- 7.11 An *access arrangement* must contain a detailed policy setting out how the *service provider* will implement:
- (a) if the *service provider* so chooses – section 7.9; and
 - (b) section 7.10,
- including a detailed mechanism for determining when a *user* will be entitled to receive a discount and for calculating the discount to which the *user* will be entitled.

Section 7.12 of the Access Code requires that the value of any tariff equalisation contributions be recovered as a tariff component from users of the distribution network:

- 7.12 If an amount is added to the *target revenue* under section 6.37A and is intended to be recovered from *users* of *reference services* through one or more *reference tariffs*, then the recovery must have the objective of:
- (a) applying only to *users* of *reference services* provided in respect of *exit points* on the *distribution system*; and
 - (b) being equitable in its effect as between *users* referred to in section 7.12(a); and
 - (c) otherwise being consistent with the *Code objective*.

Chapter 8 of the Access Code sets out the requirements and processes for a service provider to submit price lists to the ERA for approval and for the ERA to approve or not approve a proposed price list.

Under section 8.1(a), Western Power is required to submit the price list for the 2023/24 year within 15 business days after the final decision is published. The price list must comply with the requirements of the Access Code, including that it is consistent with the tariff structure statement and reference tariff change forecast approved in the access arrangement.

The requirements for the ERA's approval of the price list are set out in sections 8.3 to 8.5 of the Access Code:

- 8.2 The *Authority* must approve a *price list* if the *Authority* is satisfied that:
- (a) the *price list* complies with Chapter 7 and this Chapter 8 and the *service provider's access arrangement*, including any applicable *tariff structure statement*; and
 - (b) all forecasts associated with the *price list* are reasonable.
- 8.3 If the *Authority* determines that a *price list* is deficient:
- (a) the *Authority* may require the *service provider*, within 10 *business days* after receiving notice of the determination, to re-submit the *price list* with the amendments necessary to correct the deficiencies identified in the determination and (unless the *Authority* permits further amendment) no further amendment; or
 - (b) the *Authority* may itself make the amendments necessary to correct the deficiencies.
- 8.4 If the *service provider* fails to comply with a requirement under section 8.3, or the resubmitted *price list* fails to correct the deficiencies in the former *price list*, the *Authority* may itself amend the *price list* to bring it into conformity with the requirements of this Chapter 8, the *service provider's access arrangement* and the *service provider's tariff structure statement* for the relevant *access arrangement period*.

- 8.5 For the purposes of amending a *price list* under section 8.3(b) or section 8.4, the *Authority* may have regard to the forecast price changes for the relevant *pricing year* as set out in any applicable *reference tariff change forecast*.

Under section 8.7 of the Access Code, the ERA must, within 15 business days from the date Western Power submits its proposed price list, publish an approved price list including any amendments made under sections 8.3 or 8.4.

Section 8.11 of the Access Code specifies that the approved price list takes effect from a date specified by the ERA, provided that the date is at the commencement date is at the commencement of the pricing year to which the price list relates unless the ERA considers there are circumstances that reasonably justify a departure from such a date. For the 2023/24 price list, the pricing year commences on 1 July 2023.