



Economic Regulation Authority

Determination on the proposed 2023/24 price list for the Western Power network

Submitted by Western Power

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Economic Regulation Authority

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1. Determination

On 26 April 2023, Western Power submitted a proposed 2023/24 price list for its electricity network for approval under chapter 8 of the *Electricity Networks Access Code 2004*.

Western Power's proposed price list has been submitted in accordance with the amended access arrangement that applies to Western Power's electricity network for the fifth access arrangement period (2022/23 to 2026/27).

Western Power has proposed an average increase in prices of 7.43 per cent. This is in line with the access arrangement final decision forecast price increase published by the ERA on 31 March 2023.

The ERA has assessed the proposed 2023/24 price list and considers that some amendments are required for it to comply with the requirements of Western Power's approved access arrangement (including the tariff structure statement) and the Access Code.

The amendments required are:

- The proposed increase of 44 per cent to the streetlight tariff (RT9) must be reduced to 7.5 per cent and other distribution tariffs adjusted accordingly to recover total target revenue.
- The super off-peak rate for the low voltage electric vehicle charging service (RT40) must be amended from 6 cents to 4.2 cents.
- The time of use rate for RT3 must be amended to 4.064 cents.
- The RT7, 8 and 11 urban demand length charge must be amended to 1.076 cents.
- The following metering services must be amended:
 - Remove the proposed new M15 service (unmetered supply, accumulation, bi-monthly, manual) as unmeasured supplies do not require meters.
 - Amend the prices for M18 (unidirectional, interval, weekly, remote) and M20 (bidirectional, interval, weekly, remote) to be consistent with other remote meter reading services.

In accordance with the provisions in section 8.3 of the Access Code and with the assistance of Western Power the ERA has amended the prices in the proposed price list. The amended price list has been published with this determination.

Details of the ERA's assessment and required amendments are set out in the following sections.

Consistent with the requirements of section 8.11, the approved amended price list will take effect from 1 July 2023.

2. Compliance with the Access Code

Chapter 8 of the Access Code sets out the process and requirements for the ERA to approve and publish the price list. The ERA must approve the price list if it is satisfied that:

- The price list complies with Chapter 7 and Chapter 8 of the Access Code and the service provider's access arrangement including the tariff structure statement.
- All forecasts associated with the price list are reasonable.

Chapter 8 of the Access Code details the required contents of the price list. The ERA has assessed the annual price list submitted by Western Power on 26 April 2023 to ensure it includes the following content requirements set out in section 8.12:

- The proposed reference tariffs, including the charging parameters and the elements of service to which each charging parameter relates, for each reference service included in the approved access arrangement.
- The nature of any variation or adjustment to the reference tariff that could occur during the course of the pricing year and the basis on which it could occur.
- Demonstration of compliance with the Access Code and the approved access arrangement and tariff structure statement.
- For any pricing year other than the first pricing year in an access arrangement, demonstration how each proposed reference tariff is consistent with the forecast price change for that reference tariff as set out in the relevant reference tariff change forecast, or explanation of any material differences between them.
- A description of the nature and extent of change from the previous pricing year and demonstration that the changes comply with the Access Code and the approved access arrangement.

The ERA is satisfied that the proposed price list includes the required content.

The pricing requirements in Chapter 7 of the Access Code are incorporated in the tariff structure statement included in the approved access arrangement. Compliance with the access arrangement and tariff structure statement is considered in the following sections.

3. Compliance with the access arrangement

The access arrangement contains the price control that determines the target revenue Western Power can earn for the pricing year.

Western Power has set out its calculation of maximum target revenue in section 1.4 of the proposed price list. The ERA has reviewed the calculation and parameters Western Power has used and is satisfied that it is consistent with the requirements of clause 5.7 of the access arrangement. The maximum target revenue that can be recovered through network charges in 2023/24 is \$1,807 million.

4. Compliance with the tariff structure statement

The tariff structure statement sets out the pricing methods that will be used during the access arrangement period including:

- The structure of each reference tariff.
- The charging parameters for each reference tariff.
- A description of the approach that will be taken in setting each reference tariff in each price list during the access arrangement period.

The ERA has compared the tariff structures and charging parameters included in the price list with the tariff structure statement and is satisfied that they are consistent.

Western Power's proposed forecast revenue and change in each tariff is summarised in Table 1 below.

Table 1: Proposed forecast revenue and change in tariffs (\$ million nominal)

	Forecast revenue \$ million	Change in tariff (%)
RT1 Anytime energy residential	265.03	1.42%
RT2 Anytime energy business	62.19	2.83%
RT3 Time of use energy residential (discontinued)	4.64	13.66%
RT4 Time of use energy business (discontinued)	14.68	13.54%
RT5 High voltage metered demand	47.52	3.55%
RT6 Low voltage metered demand	129.35	3.60%
RT7 High voltage CMD	172.47	2.78%
RT8 Low voltage CMD	24.59	3.61%
RT9 Streetlighting	62.08	43.85%
RT10 Unmetered supplies	6.62	4.00%
RT11 Distribution Entry	4.97	7.16%
RT13 Anytime energy residential bi-directional	140.32	1.19%
RT14 Anytime energy business bi-directional	6.48	0.8%
RT15 Time of use residential bi-directional (discontinued)	6.18	12.41%
RT16 Time of use business bi-directional (discontinued)	3.19	13.77%
RT17 3 part time of use energy residential (discontinued)	139.69	10.64%
RT18 3 part time of use energy business (discontinued)	199.53	14.39%
RT19 Time of use demand residential (discontinued)	0.29	11.93%

	Forecast revenue \$ million	Change in tariff (%)
RT20 Time of use demand business (discontinued)	47.54	11.60%
RT21 Multi-part time of use residential (discontinued)	233.75	12.99%
RT22 Multi-part time of use business (discontinued)	1.38	13.58%
RT34 Super off-peak energy business (new)	15.33	n/a
RT35 Super off-peak energy residential (new)	83.41	n/a
RT36 Super off-peak demand business (new)	11.24	n/a
RT37 Super off-peak demand residential (new)	13.39	n/a
RT38 Low voltage distribution storage (new)	1.05	n/a
RT39 Low voltage distribution storage (new)	1.05	n/a
RT40 Low voltage electric vehicle charging service (new)	0.09	n/a
RT41 High voltage electric vehicle charging service (new)	0.06	n/a
TRT1 Transmission exit	48.89	7.50%
TRT2 Transmission entry	58.57	7.50%
TRT3 Transmission storage (new)	1.05	n/a
Total	1,806.63	7.43%

Appendix A to the proposed price list includes information that Western Power considers demonstrates it has complied with the tariff structure requirements for setting each reference tariff. This includes:

- Demonstrating that the allocation of costs to each reference tariff is consistent with the method set out in the tariff structure statement (Tables A.5 to A.7)
- The results of the cost allocation for the 2023/24 year (Table A.2).
- Demonstrating that the forecast revenue for each reference tariff is in line with the cost allocation and that the sum of the forecast revenue for each tariff is equal to the total maximum target revenue (Table A.3).
- Demonstrating that the proposed reference tariffs are between the avoidable and stand-alone cost of service provision (Table A.1).
- Demonstrating that the incremental cost of service provision is recovered by tariff components that vary with usage or demand. (Table A.4).

The tariff structure statement describes how Western Power will set prices such that the revenue recovered from each tariff will move closer to the efficient cost target, avoids unacceptable bill impacts on end users and is between the standalone and avoidable cost of providing the service.

In addition, the tariff structure statement also describes how Western Power will transition to more cost reflective tariffs if a significant price change is needed to recover the efficient costs.

The tariff structure statement specifies that when an increase in the revenue allocation is required for a customer class to transition to its efficient allocation, to manage bill impacts, it will endeavour to limit the increase in revenue per end-user to two per cent on top of the baseline adjustment.

The ERA has reviewed the information provided by Western Power and considers that the proposed price list broadly complies with the matters listed above. The exception to this is the streetlight costs and proposed streetlight tariff (RT9).

Table A.7 in the proposed price list reports total annual streetlight asset costs as being \$46.26 million. This is a 55 per cent increase on the estimated asset costs in the 2021/22 price list of \$29.8 million.

The magnitude of the increased cost was not apparent to the ERA prior to the final decision. From the information the ERA has, there appears to have been an increase to the estimated cost of streetlights between the information provided prior to the final decision and submission of the proposed price list of \$11 million. Western Power's stated composition of streetlight types has also changed which has reduced the base reference level of streetlight revenues. This has also contributed to the size of the gap between Western Power's estimate of costs and the revenue currently recovered.

Submissions from local government have raised concerns about the proposed level of costs, including concerns that the estimated costs may include assets that have already been paid for through gifted assets or contributions.

The ERA has concerns about Western Power's estimate of streetlight costs and considers that further review is needed of the proposed costs, in conjunction with streetlight customers, to ensure that the cost is calculated correctly and only includes the efficient costs directly related to the provision of streetlight services.

The ERA acknowledges that the building block method Western Power has used to derive the cost of streetlights is consistent in principle with the tariff structure statement. However, the final decision and target revenue model did not specifically identify the total efficient cost of providing streetlight services. An assessment is needed of the information and assumptions Western Power has used to derive its proposed building block costs.

As shown in Table 1 above, Western Power has proposed to increase the streetlight tariff by 43.85 per cent to recover forecast revenue of \$62.08 million. It notes that this is a one-off increase and forecasts increases of around 3 per cent for the remaining years of the access arrangement period.

The proposed price list does not include any discussion on how the tariff structure statement requirements for transitioning to cost reflective tariffs have been applied in relation to the streetlight tariff. There also was no discussion regarding how the proposed tariff avoids unacceptable bill impacts on end users. This is especially concerning given that the reference tariff change forecast provided by Western Power on 18 January 2023 showed a forecast increase for RT9 of zero per cent.

Given the uncertainties about the cost of the streetlight service, the size of the proposed price increase and that it is proposed to be implemented as a one-off step change rather than through a transitional approach, the ERA does not consider the proposed streetlight tariff is compliant with the tariff structure statement.

The ERA considers the price increase for streetlight tariffs for the 2023/24 price list should be set at the overall average price increase of 7.5 per cent. Given the short period between

notification of the streetlight price increase and the date it takes effect, the ERA does not consider it reasonable to diverge from the average price increase signalled in the final decision. Although the proposed percentage increase is large, the amount of revenue affected is relatively small. The effect of reallocating the difference in target revenue (\$15.7 million) across the other distribution tariffs is very small as shown in Table 2 below.

Table 2: Amended forecast revenue incorporating adjustment to the streetlight tariff (\$ million nominal)

	Proposed forecast revenue \$ million	Adjusted forecast revenue \$ million	Difference in forecast revenue \$ million
RT1 Anytime energy residential	265.03	267.35	2.32
RT2 Anytime energy business	62.19	62.76	0.57
RT3 Time of use energy residential	4.64	4.69	0.05
RT4 Time of use energy business	14.68	14.82	0.14
RT5 High voltage metered demand	47.52	48.19	0.67
RT6 Low voltage metered demand	129.35	131.19	1.84
RT7 High voltage CMD	172.47	174.95	2.48
RT8 Low voltage CMD	24.59	25.22	0.63
RT9 Streetlighting	62.08	46.39	(15.69)
RT10 Unmetered supplies	6.62	6.66	0.04
RT11 Distribution Entry	4.97	4.97	0
RT13 Anytime energy residential bi-directional	140.32	141.59	1.27
RT14 Anytime energy business bi-directional	6.48	6.56	0.08
RT15 Time of use residential bi-directional (discontinued)	6.18	6.22	0.04
RT16 Time of use business bi-directional (discontinued)	3.19	3.21	0.02
RT17 3 part time of use energy residential (discontinued)	139.69	140.40	0.71
RT18 3 part time of use energy business (discontinued)	199.53	201.69	2.16
RT19 Time of use demand residential (discontinued)	0.29	0.29	0
RT20 Time of use demand business (discontinued)	47.54	48.08	0.54
RT21 Multi-part time of use residential (discontinued)	233.75	234.95	1.20
RT22 Multi-part time of use business (discontinued)	1.38	1.40	0.02

	Proposed forecast revenue \$ million	Adjusted forecast revenue \$ million	Difference in forecast revenue \$ million
RT34 Super off-peak energy business (new)	15.33	15.44	0.11
RT35 Super off-peak energy residential (new)	83.41	83.96	0.55
RT36 Super off-peak demand business (new)	11.24	11.37	0.13
RT37 Super off-peak demand residential (new)	13.39	13.50	0.11
RT38 Low voltage distribution storage (new)	1.05	1.05	0
RT39 Low voltage distribution storage (new)	1.05	1.05	0
RT40 Low voltage electric vehicle charging service (new)	0.09	0.09	0
RT41 High voltage electric vehicle charging service (new)	0.06	0.06	0
TRT1 Transmission exit	48.89	48.89	0
TRT2 Transmission entry	58.57	58.57	0
TRT3 Transmission storage (new)	1.05	1.05	0
Total	1,806.63	1,806.61	0

As soon as possible after the 2023/24 price list is published, the ERA will work with Western Power and streetlight customers to review and establish the costs of streetlight services and develop a transitional price path to achieve a cost reflective tariff. This will ensure customers are informed well in advance of the next price list and subsequent price lists of any increases that may be required.

The proposed increases to the discontinued time of use tariffs also have relatively high price increases compared to other tariffs (between 11 to 14 per cent). However, the relatively higher increase was flagged in the reference tariff change forecast submitted by Western Power on 18 January 2023 and subsequently updated in the final decision to reflect the expected maximum target revenue for the 2023/24 price list.

The existing time of use tariffs have been closed to new users as they are based on time periods that no longer reflect network usage patterns. New time of use tariffs have been introduced that include a super off-peak rate for the low demand period when distributed solar generation is at its maximum between 9 am to 3 pm. Although the old time of use tariffs have increased, the customer effects analysis of typical consumption profiles provided by Western Power in the proposed price list shows that the new time of use tariffs will be cheaper. The adjustments made in the amended price list do not materially affect the results of this analysis. This should encourage existing users to transition to the new time of use tariffs.

The ERA notes there is an inconsistency in the super off-peak rate for the electric vehicle charging services (RT40 and RT41). As would be expected the off-peak, shoulder and on-peak energy rates for RT40 and RT41 are lower than the business super off-peak tariff (RT34) as the fixed price is higher. However, the RT40 and RT41 super off-peak rate is higher

than RT34. To maintain consistency, the RT40 and RT41 super off-peak rate must be amended from 6 cents to 4.2 cents.

In addition, the following small amendments were identified and agreed with Western Power:

- The time of use rate for RT3 must be amended to 4.064 cents.
- The RT7, 8 and 11 urban demand length charge must be amended to 1.076] cents.
- The following metering services must be amended:
 - Remove the proposed new M15 service (unmetered supply, accumulation, bi-monthly, manual) as unmeasured supplies do not require meters.
 - Amend the prices for M18 (unidirectional, interval, weekly, remote) and M20 (bidirectional, interval, weekly, remote) to be consistent with other remote meter reading services.

5. Reasonableness of forecasts

As required under clause 6.4.5 of the access arrangement, the forecast revenue is based on the customer numbers and energy forecasts contained in Table 47 of the access arrangement. The forecast customer numbers and volumes for each reference tariff are consistent with the demand forecast underpinning the access arrangement.

Western Power has based its forecast time of use demand profiles on metering data extracted from 400,000 advanced meters. The ERA considers the forecasts are reasonable at this time but will need careful monitoring and updates throughout the access arrangement period as customers switch between different tariffs and new data becomes available.