



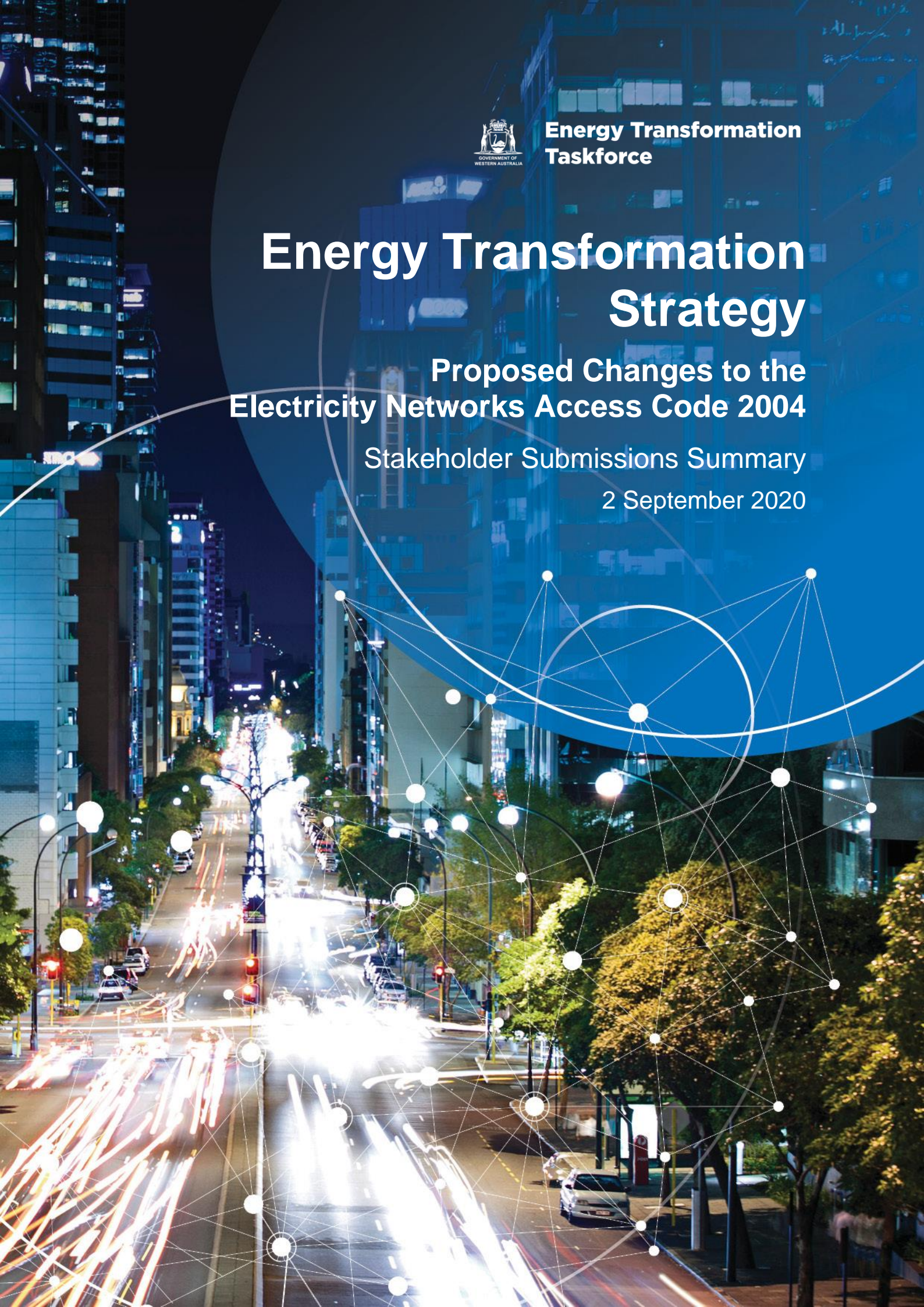
**Energy Transformation
Taskforce**

Energy Transformation Strategy

**Proposed Changes to the
Electricity Networks Access Code 2004**

Stakeholder Submissions Summary

2 September 2020



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1. Background

Overview

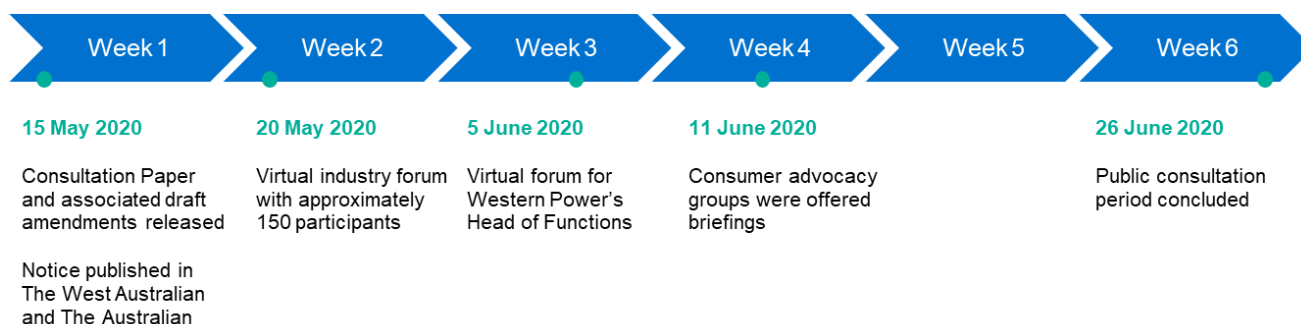
Changes to the Access Code are required to support the delivery of the Energy Transformation Strategy and seek to achieve the following outcomes:

- **Increasing opportunities for new technologies** through changes to the New Facilities Investment Test (NFIT), introducing non-network solution obligations, facilitating the deployment of stand-alone power systems and distribution connected storage, introducing 'multi-function assets', streamlining the regulatory approach for Whole of System Plan priority projects, and amending the Technical Rules change management process.
- **Maximising network utilisation** through changes to the Access Code objective, ensuring end-use customers receive appropriate price signals, enabling cost recovery for Advanced Metering Infrastructure (AMI), improving access to the Western Power network and enabling cost recovery for constraint-related functions.
- **Improving the access arrangement process** through the introduction of a Framework and Approach process and providing flexibility in the access arrangement timeframes.

On 15 May 2020, the Minister for Energy and Energy Transformation Taskforce (the Taskforce) released the [Energy Transformation Strategy: Proposed Changes to the Electricity Networks Access Code \(Access Code\) Consultation Paper](#) (Consultation Paper) and [associated draft Access Code amendments](#) for public comment.

Public consultation on the proposed changes was open for an extended period of six weeks to assist stakeholders in the context of COVID-19 and concluded on 26 June 2020.

Figure 1.1: Summary of stakeholder consultation



Formal written submissions were received from nine interested stakeholders and are publicly available on the [Energy Policy WA website](#). Stakeholders were broadly supportive of the proposed changes but raised a number of concerns which are detailed in this paper.

On 21 August 2020, the Taskforce endorsed the proposed Access Code amendments to be progressed to the Minister for Energy for gazettal. Further public consultation was not required as the policy positions have not changed, and the amendments are minor in nature.

Gazettal of the proposed changes are targeted for mid to late September 2020, subject to approval from the Minister for Energy.

2. Increasing opportunities for new technologies

2.1 Investment in new technologies

Stakeholder feedback summary

- Most submissions expressed concerns regarding the proposed drafting of changes to the new facilities investment test, introduction of multi-function assets, and the ability for covered networks to own stand-alone power systems and distribution connected storage.
- Submissions raised significant concerns that the proposed measures to enhance transparency do not go far enough and provided Western Power a first mover advantage in the deployment of alternative options to network investment.
 - The main concern was that this advantage could crowd out the ability for third party providers of alternative options to enter the market and compete with the network operator to provide services to the network.
- Many submissions quoted the Explanatory Memorandum that was provided to Parliament with the Electricity Industry Amendment Bill 2020, which articulated the Government's intent to not allow those changes to open new lines of business for covered networks.
- Submissions proposed a range of limitations on Western Power's ability to own assets and earn unregulated revenue from assets included in the regulated asset base (either in full or in part).
- Limitations proposed included ring-fencing arrangements that a covered network would need to comply with to earn any unregulated revenue from regulated assets and/or battery storage like similar to the arrangement in the National Electricity Market (NEM).

The proposed Access Code changes should not be viewed in isolation of each another, but as a package of interrelated improvements that are intended to incentivise Western Power to adhere to its regulatory obligations, while providing greater transparency and opportunity for third-party providers.

Major changes include:

- Expanding the definition of "new facility" to specifically refer to stand-alone power systems and battery storage. This means that any investment in these assets by Western Power will be subject to an efficiency assessment under the new facilities investment test.
- A Chapter 6A requirement for Western Power to develop a network opportunity map, an alternative options strategy for procurement of network services, a template alternative options contract and an alternative options vendor register. This will impose a discipline on Western Power to consider all options, including from third parties, in network service procurement.
- A requirement for Western Power to consult with the Australian Energy Market Operator (AEMO) for any network investment related decisions that require it to consider changes in costs and benefits for participants in the Wholesale Electricity Market (WEM). This will ensure that Western Power has access to the appropriate market costs and benefits to consider when it makes investment decisions.

- The introduction of multi-function asset provisions, which seeks to address a gap in the existing regulatory framework¹ by codifying a process to allow a network operator to earn additional revenue from an asset included, either in-part or in-full, in the regulated asset base where that revenue is shared with users of regulated services through lower network tariffs.

Together, these changes require Western Power to test the market for the appropriate option, whether it be a capital investment or alternative option service each time it seeks to make an investment in its network. The prudence of any network investment will be subject to an ex-post review by the ERA as part of the next access arrangement. It would not be appropriate to adopt more stringent and potentially costly measures until the efficacy of the changes has been assessed.

Expanding the definition of “new facility”

The legislative changes to the Electricity Industry Act (Industry Act) enacted in April 2020 that allow Western Power to own and operate stand-alone power systems and distribution connected batteries should not be misconstrued as a desire for covered networks to actively invest in these assets. Rather, the Industry Act changes in conjunction with the Access Code amendments aim to ensure all reasonable and prudent options are considered by Western Power. For example, where Western Power is not able to obtain the network services it requires from third parties after a thorough tender process, the Industry Act provisions allow it to meet its least cost investment obligations and recover the costs from network tariffs.

Furthermore, the proposed changes to the Access Code require Western Power to assess any investment in these assets in accordance with new guidelines that must be developed by the ERA for the new facilities investment test. To further enhance the efficacy of these guidelines and respond to submissions, a new section has been inserted in the Access Code requiring the ERA to provide reasons in support of its draft and final decisions, that include detail on how it applied the new facilities investment test guidelines.

Chapter 6A – Alternative Options

Chapter 6A introduces new obligations on Western Power to provide greater transparency and opportunity for alternative options service providers. For example, where a network limitation could be alleviated by the installation of storage works, the covered network would be required under the Access Code to undertake a transparent process to procure any necessary network support services to alleviate the constraint in the most efficient, least cost, and prudent manner.²

Multi-function assets

The intent of the multi-function asset provisions is not to provide Western Power with an incentive to pursue unregulated revenue at the expense of third-party providers of energy services, but rather to ensure that Western Power is not being paid twice for the same asset. This gap is as a result of the Cost and Revenue Allocation Methodology not having the capability to adequately account for and fairly allocate any unregulated revenue earned by a network business. The multi-function asset

¹ The Cost and Revenue Allocation Methodology under the Access Code currently does not have the capability to adequately account for net and fairly allocate any unregulated revenue earned by a network business.

² Whether a project has passed the Regulatory Test or is explicitly included in Western Power's determination or not does not prevent Western Power from undertaking that project. However, it can inhibit Western Power's access to funding or expose Western Power to the risk that it may not be able to recover the costs of delivering the project from network tariffs in the future. Historically, this has proven to slow down the network project approval and delivery process.

guidelines will also clarify the arrangements to allocate revenue when regulated assets are used to earn unregulated revenue.

Where a network business has purchased an asset, or leverages a regulated asset to provide services incidental to the supply of electricity (for example, the installation of communications infrastructure on wooden poles or streetlights), the multi-function asset framework allows the business to recover a portion of the total cost of the asset over any amount recovered through regulated tariffs alone. The materiality threshold for any additional net incremental revenue earned by the network business has been revised to \$1 million (escalated each year by the consumer price index) from \$10 million.³ The Taskforce considers this to be an appropriate level to balance incentives for network businesses and rewards for customers. Where Western Power owns an asset, such as storage works, these arrangements would not preclude the network business from leasing out the available capacity of storage works to a third-party service provider.

One submission contended that the definitions of “covered services” and “common services” were inconsistent with the definition of “multi-function asset”, as it would result in the services provided by assets such as batteries, which are primarily introduced to support the provision of network services being determined as covered services. The Taskforce disagrees with this interpretation. A service provided by way of, for example, a battery is not a common service unless it is a covered service. That is, the definition of common service applies only if the relevant service is a covered service, even if the service would otherwise meet the definition of a common service. In summary, the Taskforce considers that if the relevant service is not provided by way of the covered network, or is an excluded service (as may be the case for services provided by storage works), then it would not be a covered service and therefore would meet the definition of a multi-function asset.

³ Under the revenue sharing arrangements, Western Power will retain 70 percent of any net incremental revenue earned and 30 percent will be returned to consumers in the form of lower network reference tariffs.

Revenue sharing examples

Leveraging regulated asset to earn revenue incidental to electricity supply

Western Power uses a regulated asset, which has been fully funded by consumers, to provide a service and earn revenue that is incidental to electricity supply. The Access Code multi-function asset mechanism outlines a process to return a proportion of net profit to consumers.

Example

Western Power contracts with a telco provider to host communications infrastructure on wooden power poles or streetlights

Poles are fully funded by consumers and form part of Western Power's RAB

Telecommunications is incidental to the supply of electricity



Outcomes

Multi-function asset rules require Western Power to return 30% of net profits from these arrangements back to consumers – reducing costs in the power system as a whole

Leveraging partially regulated asset to earn revenue related to electricity supply

Western Power invests in an asset that can provide regulated and unregulated services. In this example, a portion of the asset value (e.g. 25-50%) is recovered as part of regulated revenue for provision of regulated services. The same asset is used to provide unregulated services. This unregulated revenue is shared with customers and helps Western Power to recover some additional revenue.

Example

Western Power owns a PowerBank battery connected to a distribution network

Western Power able to include network-related portion of battery capital cost in RAB

A third-party retailer operates, under a leasing arrangement, the non-regulated portion of the battery to provide customer facing services



Outcomes

Network requirement met at efficient cost (that is, consumers only pay the efficient costs, not the total costs of the asset). Alternative revenue stream may provide commercial return.

Western Power procures network services from third party owned asset

Western Power procures network services from a third party and does not own the asset. Western Power signs an Alternative Options Service Contract with a third party for network support services, where non-capital costs can be recovered through an Access Code process.

Example

Western Power procures network services from a battery owner

The battery owner would be free to pursue other revenue streams (such as in the WEM), as long as it meets its obligations to Western Power



Outcomes

Western Power meets network need at most efficient cost

Western Power recovers non-capital costs

Third-party competition for network services further drives costs down over time

Ring-fencing arrangements

In respect of the claim in submissions for the application of ringfencing arrangements, Chapter 13 of the Access Code already allows for the ERA to develop such arrangements for a covered network. Under section 13.11 of the Access Code, the ERA can develop ringfencing rules where it considers that a covered network is not adequately adhering to the ringfencing objectives. In developing any ringfencing arrangements, the ERA can consider the costs and benefits as appropriate, which may include the impacts on competition from covered networks interacting with third-party providers of network services.

The development of additional ringfencing arrangements would result in significant regulatory, accounting and compliance costs for Western Power. This could increase costs for consumers under the guise of increasing competitive pressure in the market when there are other mechanisms that are intended to achieve the same objectives more efficiently.

Some submissions have incorrectly assumed that when Western Power acquires storage works to alleviate a network constraint or limitation the total capital expenditure will be rolled into the regulated asset base. Only the portion of the asset that is providing network services can be included in Western Power's regulated asset base.

Proposed amendments

The post consultation amendments proposed to address submissions is outlined in the table below.

Table 2.1: Summary of amendments to NFIT, multi-function assets and alternative options

| Section | Description of change |
|---------------------------------------|---|
| New facilities investment test | |
| 6.52 | Clarification of new facilities investment as it relates to alternative options and non-capital costs. The following amendments have been made: <ol style="list-style-type: none">Deleted the reference to costs in the definition of "alternative options"Amended section 6.52(a)(iii) to state that the consideration of alternative options must include having regard to the capital and non-capital costs of that alternative option Inserted a reference to "storage works" in the definition of "new facility". |
| 6.55A | A new section 6.55A has been inserted in the Access Code requiring the ERA to provide reasons in support of its decisions, that include detail on how it applied the guidelines. This is expected to further enhance the efficacy of these guidelines with respect to investment decisions in new facilities. |
| Multi-function assets | |
| 1.3 | Clarification of the definition of "net incremental revenue" to remove the reference to "charges" and replace it with a reference to "payments received" to avoid confusion among defined terms under the Access Code. |
| 6.84 | Clarification of this section to ensure that only "network assets" are considered for inclusion in the multi-function asset policy and guidelines. |
| 6.87 | This section has been amended to change the materiality threshold to \$1 million escalated for the annual change in the consumer price index. |
| 6.88 | This section has been amended to require the ERA to make and publish the multi-function assets guidelines. |

| Section | Description of change |
|---|---|
| | Other consequential changes have also been made to address sections that referred to whether multi-function asset guidelines may have not been made. |
| Alternative options | |
| 6A.2(e) | Section 6A.2(e) has been amended to refer to a “5 year forward planning period” rather than 10 years, as this would better align with other elements of the alternative options strategy. |
| 6A.2(f) | Amendment to section 6A.2(f)(ii) to extend this obligation to consideration of “load” in addition to “generating plant” for greater consistency with the equivalent provisions under the National Electricity Rules. |
| 6A.2(j) | Section 6A.2(j) has been deleted from the requirements for the network opportunity map. |
| 6A.2(n) | Section 6A.2(n) has been deleted from the requirements for the network opportunity map. |
| 15.9 | Clarification that the first network opportunity map must be completed and published by Western Power no later than 1 October 2021. |
| 15.10 | New transitional clause added to clarify that the new amendments to section 5.1 of the Access Code do not require Western Power to amend its current access arrangement or empower the ERA to amend the current access arrangement to include a tariff structure statement and multi-function asset policy. |
| Consideration of market costs and benefits | |
| 6.70A, 6.70B | Western Power is required to consult with AEMO for any network investment related decisions that require it to consider changes in costs and benefits for WEM participants |

2.2 Whole of System Plan priority projects

Stakeholder feedback

- Some submissions suggested greater clarity and transparency of the methodology for selecting Whole of System Plan (WOSP) priority projects.
- A number of submissions had concerns with exempting priority projects from the Regulatory Test, in terms of whether sufficient scrutiny would be applied.
- Submissions proposed to address these concerns by either:
 - removing the exemption;
 - providing the ERA discretion to assess whether a waiver is justified; or
 - requiring Western Power to publish the business case to demonstrate that the proposed project is justified.

It is intended that priority projects are limited to large-scale transmission network related projects⁴. In some circumstances the WOSP modelling might identify that load transfer capacity between major regional sections of the transmission network⁵ needs to be increased in order to allow new generation capacity to connect in certain parts of the power system. These upgrades would be identified in the WOSP as efficient and critical for timely development.

⁴ Greater than \$38.7 million consumer price index adjusted from 2004 as per the Regulatory Test.

⁵ Referred to as transmission network zones.

There are two main considerations for determining a priority project in the WOSP:

1. **urgency** – where there is a network limitation or technical constraint that is likely to cause significant system stability or reliability issues within the next five years and, importantly, whether there are barriers that make the likelihood of the project going ahead uncertain; and
2. **impact on electricity users** – where the network limitation (whether network capacity or stability) is a significant barrier to major loads or generators connecting to that part of the transmission network, or where it is a barrier to future growth and connection of innovative or alternative technologies.

The purpose of including priority projects in the WOSP is to help streamline the process for getting them done. If a priority project is identified in the WOSP, it will no longer be subjected to a Regulatory Test⁶ for approval by the Economic Regulation Authority (ERA). This is because the WOSP modelling provides a reasonable and robust substitute for the Regulatory Test, in that the WOSP modelling:

- applies reasonable market development scenarios which incorporate varying levels of demand growth;
- uses reasonable timings and alternatives for project construction/commissioning dates; and
- considers the net benefit to those who generate, transport and consume electricity, after considering alternative options.

These are all requirements of the current Regulatory Test.⁷ It therefore follows that if the WOSP identifies a transmission network augmentation as a priority project, that project will satisfy the Regulatory Test criteria, and the formal application of the Regulatory Test can be bypassed. This means Western Power can proceed with the work more quickly.

The ERA will still be required to review the efficiency of the investment Western Power has made via the New Facilities Investment Test⁸. There will therefore remain sufficient incentives and tests to ensure Western Power delivers the project prudently and efficiently. Identifying priority projects in the WOSP and allowing Western Power to bypass the Regulatory Test is aimed to ensure priority network projects proceed without unnecessary delay.⁹

No amendments to the Access Code were proposed in response to submissions.

⁶ ERA, Guideline for Application of the Regulatory Test: <https://www.erawa.com.au/electricity/electricity-access/guidelines/regulatory-test-guidelines>.

⁷ Ibid.

⁸ Section 6.52, *Electricity Networks Access Code 2004*.

⁹ Whether a project has passed the Regulatory Test or is explicitly included in Western Power's determination or not does not prevent Western Power from undertaking that project. However, it can inhibit Western Power's access to funding or expose Western Power to the risk that it may not be able to recover the costs of delivering the project from network tariffs in the future. Historically, this has proven to slow down the network project approval and delivery process.

2.3 Technical Rules change management

Stakeholder feedback

- Concerns were expressed in one submission that the framework under Chapter 12 of the Access Code allows for the Technical Rules and WEM Rules to diverge over time.
 - It was recommended that changes to the Access Code be implemented that require amendments to the WEM Rules as a result of changes to the Technical Rules.

The Taskforce understands that the decision to allow any party to recommend a change to the Technical Rules could be perceived as increasing any existing potential for these instruments to diverge over time. However, section 12.3 of the Access Code prevents the ERA from approving changes to the Technical Rules that would require any party to contravene a written law or statutory instrument. As such, the ERA could not approve a change to the Technical Rules which would make it inconsistent with the WEM Rules, which is a higher-order instrument.

Furthermore, section 12.51B requires the ERA to seek the advice of the Technical Rules Committee for all substantial change proposals, with section 12.51F(a) requiring this advice to be published. The proposed quorum of the Technical Rules Committee will consist of Western Power, AEMO and the representative of the Coordinator of Energy (see section 12.19C(a)). These representatives have a thorough understanding of the regulatory framework, including the Technical Rules and WEM Rules. Where Technical Rules change proposals are not inconsistent with the WEM Rules, but may otherwise be considered poorly aligned, the Technical Rules Committee is well placed to provide the ERA with relevant advice.

Conversely, where changes to the WEM Rules are undertaken that are inconsistent with the Technical Rules, the WEM Rules will prevail. Section 12.55 of the Access Code provides for the ERA to be advised of a change in law to facilitate a subsequent change to the Technical Rules.

Proposed amendments

The post consultation amendments proposed to address submissions is outlined in the table below.

Table 2.2: Summary of amendments to the Technical Rules change management framework

| Section | Description of change |
|---------|--|
| 12.50 | Previous drafting excluded change proposals in relation to Chapter 5. This has been removed, with change proposals being permitted on Chapter 5. Notwithstanding, the commencement date for change proposals has been extended (see below change to section 15.17) to 1 August 2021 to allow Western Power sufficient time to review and update Chapter 5 ahead of the Chapter being open to proposed changes. |
| 12.53 | Removal of duplicated wording. |
| 15.17 | The commencement date has been changed from 1 January 2021 to 1 August 2021. |
| A.6.2 | Matters to be excluded under the Technical Rules have been extended to include those matters dealt with under Chapter 3 and Appendix 13 (frequency operating standards) of the WEM Rules. |
| Various | References to 'market rules' have been replaced with 'WEM Rules', consistent with proposed changes to the WEM Rules. |

3. Maximising network utilisation

3.1 Access Code objective

Stakeholder feedback

- Submissions raised three main concerns with respect to the Access Code objective as proposed in the consultation paper.
- Firstly, submissions asserted that the removal of the existing part of the Access Code objective that relates to "promotion of competition in markets upstream and downstream of markets" had the potential to be at the detriment of the long-term interests of consumers.
- Secondly, submissions considered that it was not necessary to split the objective into an element relating to services of networks and a second element relating to covered networks given the Access Code only relates to the regulation and services of networks.
 - Submissions contended that making the Access Code objective broadly consistent with the National Electricity Objective (NEO) was not appropriate given that the NEO related to regulation of all aspects of the National Electricity Market.
- Finally, submissions mostly opposed the inclusion of an environmental element under the proposed Access Code Objective.
 - Submissions did not consider the Access Code the appropriate location for this obligation and considered this issue should be either managed through existing environmental protection regulations, or at a national level.
 - Submissions also contended that the environmental limb is redundant and already considered under the aspects of price, quality, safety, reliability and security of supply.
 - One submission noted that "carbon pollution" was too broad and should be limited to "carbon dioxide emissions".

Promotion of competition

The decision to remove the reference to the promotion of competition in markets upstream and downstream of networks seeks to promote greater consistency in the regulation of electricity networks across Australia. The rationale behind the changes to the objective clauses in the National Energy Laws was a recognition that the long-term interest of consumers of electricity and gas required the economic welfare of consumers, over the long term, to be maximised. That is, if energy markets and access to the services of significant infrastructure are efficient in an economic sense, the long-term economic interests of consumers in respect of price, quality, reliability, safety and security of energy services will be maximised. By the promotion of an economic efficiency objective in access to the services of significant infrastructure that keeps these costs efficient, competition will be promoted in upstream and downstream markets.

The Taskforce contends that where the promotion of competition in upstream and downstream markets is expressed as an outcome of efficient investment in and use of the relevant network infrastructure, there could be instances where network investment is justified on the basis that it promotes competition even where it is not efficient. For example, investment in significant additional capacity in the transmission network has the potential to promote competition in the upstream generation market as more generators would be able to connect; however, the additional cost to end-use consumers to pay for the network investment may negate any benefits from the increased generation capacity and/or any downward pressure on wholesale electricity prices. As such, its

removal promotes the Government’s policy intent for the regulation of covered networks to seek the most prudent and efficient least cost investment in a manner that does not preclude the ERA of including these competition related considerations in its assessment.

Services of networks and covered networks

The decision to split out the Access Code objective into an element relating to services of networks and a second element relating to covered networks seeks to acknowledge that the Access Code also regulates the technical parameters that govern the operation of equipment connected to networks in accordance with the Technical Rules.

The intent of this second limb was to recognise that as technology drives changes in the number and types of devices connecting to the network, the reliability and security of any covered network should be a consideration under the governance arrangements for the Technical Rules. The Taskforce contemplated inserting this provision directly in Chapter 12 of the Access Code such that it only applied to Technical Rules. However, it was considered that a single overarching objective for the Access Code that dealt with the regulation of each constituent element was likely to lead to more efficient outcomes, including consistent and robust decision making.

References to “services provided by way of networks” has been clarified and amended to “services of networks” to ensure that it includes access to all services and to align with the definition of “services” as per the *Electricity Industry Act 2004*.

Environmental focus

The greater emphasis on the environmental implications of the supply of electricity reflects the views of the State Government. The change to the Access Code objective reflects the Energy Transformation Strategy’s focus on lower-emissions energy sources. Technological change has the potential to drive environmental objectives in the transition to a lower carbon electricity supply for consumers, particularly in relation to alternative options to traditional grid supply.

The Taskforce acknowledges and agrees with commentary that environmental objectives would be better achieved through a national process and more generally in Western Australia through their inclusion in primary legislation, for example, the *Electricity Industry Act 2004* as it relates to energy. However, in the absence of these avenues and an acknowledgement that environmental considerations are becoming increasingly relevant with respect to the supply energy, the Taskforce considers including this objective under the Access Code is an important first step.

A minor amendment has been progressed to address a stakeholder’s suggestion to replace the reference to “carbon pollution” with “greenhouse gas emissions” to capture other emissions such as methane and sulphur hexafluoride.

Proposed amendments

Further minor amendments are detailed in Table 3.1 below.

Table 3.1: Summary of amendments to change the Access Code objective

| Section | Description of change |
|---------|--|
| 2.1 | Replace “services provided by means of networks” with “services of networks” |
| 2.1(c) | Replace “carbon pollution” with “greenhouse gas emissions” |

3.2 Improving price signals

Stakeholder feedback

- Stakeholders contended that the proposed amendments to the Access Code to replace the “price shock” mechanism with requirements to “minimise distortions” was vague and could lead to greater in-period variations should it be deemed efficient.
- Stakeholders recommended more specific guidance around acceptable price increases (and decreases) be developed and included in pricing guidelines for use in the upcoming access arrangement.
- In relation to the requirement from Western Power to consult with end users in developing the tariff structure statement and framework and approach, stakeholders were concerned that there would be no guarantee that any genuine consultation will occur.
- To alleviate these concerns stakeholders recommended supporting the introduction of the end-use customers into the access arrangement process with the establishment of an independent consultative group representative of the users of the network.

Addressing price shocks

The Access Code currently provides no guidance on how a ‘material tariff adjustment’ should be interpreted, nor what actions should be taken to alleviate any material changes in reference tariffs.

In its access arrangement proposals, Western Power has interpreted this pricing objective to mean that each reference tariff cannot increase by more than two per cent more than the average increase in all network prices. To provide Western Power and the ERA with greater discretion in how they mitigate tariff changes within and between access arrangements, amendments have been proposed to the Access Code to remove the references to price shocks.

Instead, the pricing principles have been amended to require Western Power to set its reference tariffs to minimise distortions to the price signals for efficient usage. That is, usage that results from reference tariffs set on the forward-looking efficient cost of providing the relevant reference service. This should provide Western Power with more discretion to set each reference tariff in a way that reduces the incidence of sudden tariff movements within an access arrangement period.

To reduce the incident of sudden tariff movements between access arrangement periods, it has been proposed to amend the Access Code to require the difference between expected revenue and target revenue for the last pricing year of an access arrangement to be minimised as much as possible. In the short-term, this provision may have the effect of larger than expected increases in tariffs between access arrangement periods, but over the long-term will have the effect of reducing the likelihood of material changes in tariffs between access arrangements.

Consultation with end-users

The Taskforce does not intend to place a requirement in the Access Code that prescribes how Western Power discharges its obligation to consult with users in developing its tariff structure statement; however, the Taskforce would support Western Power engaging with a collaborative group of representative users to develop a tariff structure statement that works in the long-term interests of consumers of covered network services.

Proposed amendments

The post consultation amendments proposed to address submissions is outlined in the table below.

Table 3.2: Summary of amendments to improve price signals

| Section | Description of change |
|----------|--|
| 7.1A | <p>As the tariff structure statement is now where the pricing methods are set out, the drafting has been amended to set out the pricing methods applicable for all reference tariffs, plus the additional information in 7.1A(a)-(c) that is applicable to distribution reference tariffs only.</p> <p>This clarification should ensure that the revised pricing objective and pricing principles under the Access Code will apply to both distribution and transmission reference tariffs, with the appropriate additional requirements for distribution reference tariffs.</p> |
| 8.6 | <p>Drafting clarification requiring the ERA to publish an approved initial price list within 15 days of this price list being submitted to it by a service provider.</p> <p>This clarification should ensure that the initial price list for the first year of a new access arrangement period is published prior to the commencement date of the access arrangement.</p> |
| 8.6, 8.7 | <p>Typographical correction to change “may by the Authority” to “made by the Authority”.</p> |
| 8.12 | <p>Clarification of section 8.12(e) such that the first year of the access arrangement period is not included in the reference tariff change forecast. This is because the tariff change forecast only covers intra-access arrangement period changes, so the changes between the last year of one access arrangement period and the first year of the next period would not be covered.</p> |

3.3 Improving access to Western Power’s network

Stakeholder feedback

- Several submissions sought clarification of the timing for the commencement of Western Power’s fifth Access Arrangement (AA5) relative to the implementation of the new WEM arrangements, specifically the timing of changes to the model documents in the Access Code and the process for ensuring AA5 policies, contracts and network tariffs reflect the new WEM arrangements.
- Several submissions also advocated for the removal of Transmission Use of System charges as they apply to generators, noting that they are only applicable to loads in the constrained network access regime in the National Electricity Market.
- One submission recommended the inclusion of a provision in the New Facilities Investment Test (NFIT) guideline to require Western Power and the ERA to consider the effect of network investment decisions on Market Participants’ access to the network and the potential implications to capacity revenue under the Reserve Capacity Mechanism.

The ETIU is currently reviewing the model documents in the Access Code to ensure they are fit-for-purpose for the new constrained network access regime and will commence consultation with stakeholders on proposed amendments later in 2020. Changes to the Access Code to incorporate the amended model documents are expected to be made by the end of 2020 and the Taskforce will consult on the required transitional arrangements to allow for new connection applications to be made under the new model documents.

Changes to remove generator transmission use of service charges will not be made as part of the Energy Transformation Strategy. These changes will need to be addressed through the AA5 process, and there is scope for stakeholders to propose changes during this process. The framework and approach process that is proposed as part of these Access Code changes will, once implemented, provide an opportunity for stakeholders to put forward their views on changes to network tariffs for consideration by Western Power as they develop their proposal to the ERA.

The proposed changes to the Access Code will require the ERA to develop guidelines as to the factors the ERA will consider when determining whether a new facility satisfies the NFIT. The proposed changes also require the ERA to develop guidelines on the acceptable methodologies for valuing net benefits for alternative options, which must include consideration of changes in costs for market participants in the WEM. Stakeholders will be able to contribute to the development of these guidelines through the ERA’s consultation process.

The post consultation amendments proposed to address submissions is outlined in the table below.

Table 3.3: Summary of amendments to improve access to Western Power’s network

| Section | Description of change |
|-----------------------|---|
| 1.3 | The definition of “constraint” has been amended to provide a clearer definition of the term. The definition of “transfer” has been amended to clarify its operation in the context of the Transfer and Relocation Policy. |
| 2.4A, 2.5, 2.7 | Addition of references to section 2.4C. |
| 2.4E, 2.4F | Provisions clarifying that the ERA and arbitrator may not make decisions inconsistent with section 2.4C. |
| 5.7(j), 5.8A | Provisions to move the Transfer and Relocation Policy to the Applications and Queuing Policy, and to set out the minimum requirements of the Transfer and Relocation Policy. |
| 5.38 | Provision stating that the ERA must not refuse to approve new model documents on the basis that they are inconsistent with the model documents in the ENAC to the extent that inconsistency is just to reflect constrained access |
| 6.56, 6A.6 | Inclusion of a requirement for the ERA to undertake consultation when developing guidelines under 6.56 and 6A.6 |
| 9.23 | Updating reference to the IMO to a reference to AEMO |

3.4 Cost recovery for advanced metering infrastructure

Stakeholder feedback

- Two concerns were raised in relation to advanced metering infrastructure (AMI).
- One stakeholder recommended establishing further regulatory safeguards to ensure that Western Power facilitates efficient access for third parties to provide behind the meter services through AMI, including meter data access.
- A separate issue was raised in relation to whether it was appropriate for AMI communications expenditure to be recovered through network tariffs at this point in time.
 - It was suggested that the expenditure could be treated as an investment by the Government with Western Power seeking recovery of the cost in future access arrangement processes.

Implementation of the complete AMI solution, including the communications infrastructure, is essential to enable the technical functionality required to deliver safe and reliable supply, and manage a high-DER future. The transition to AMI in the SWIS also provides greater scope for providing more efficient pricing signals to end-use customers in the future. Anything short of hard-coding the amount to be recovered in the Access Code creates a cost-recovery risk for Western Power. Government has approved the proposed expenditure as part of the 2019-20 State Budget and the proposed amount has been reviewed by the ETIU.

An extra \$31 million will be added to the AMI recovery amount to account for the installation of additional communications modules as part of a COVID stimulus initiative.

Proposed amendments

The post consultation amendments proposed to address submissions is outlined in the table below.

Table 3.4: Summary of amendments for AMI cost recovery

| Section | Description of change |
|---------|--|
| 6.5F(a) | <p>This section has been amended to clarify that it only applies to expenditure incurred prior to 30 June 2022.</p> <p>Western Power will need to justify any communications related spend after this date in future access arrangement processes.</p> <p>An additional \$31 million has been added to the AMI recovery amount to account for the installation of additional Network Interface Cards as part of the State Government's COVID stimulus initiatives.</p> |

4. Improving the access arrangement process

Stakeholder feedback

- Stakeholders generally agreed with the proposed changes to the access arrangement process:
 - the removal of the further final decision stage; and
 - the introduction of a framework and approach stage.
- However, one stakeholder suggested the adoption of a staged access arrangement consultation process rather than the proposal to set minimum timeframes for public consultation and only prescribe the date by which the final decision must be made.
- In relation to the framework and approach, one stakeholder recommended an independent consultative group representative of users be used to enable meaningful consultation with network users.

The Taskforce is of the view that the new process which provides end dates allows the ERA to set consultation timeframes that are commensurate with the issues being reviewed. While the creation of an independent consultative group representative of network users has merit, the Taskforce does not consider that the Access Code should dictate the consultation processes that Western Power undertakes to fulfil its obligations under the proposed amendments. However, the Taskforce would support Western Power engaging with a collaborative group of representative users to develop a framework and approach that works in the long-term interests of consumers.

Proposed amendments

The post consultation amendments proposed to address submissions is outlined in the table below.

Table 4.1: Summary of amendments to improve the access arrangement process

| Section | Description of change |
|-------------------------|---|
| 4A.2(f) | The tariff structure statement is intended to apply to distribution reference tariffs. Sections 4.A2(f), transitional provision 15.10 and 1.3 have been amended to explicitly reference distribution reference tariffs. |
| 4A.5, 4A.7, 4A.8 | Inclusion of notes under these sections to note that public submissions made under these sections will be published in a public register by the ERA. |
| 4.13 | Addition of new sections 4.13(a) and (b) requiring the ERA to publish and provide reasons for its draft decision in respect of an access arrangement. |
| 4.17 | Addition of new sections 4.17(b) and (c) requiring the ERA to publish and provide reasons for its final decision in respect of an access arrangement. |
| 4.27 | Deletion of section 4.27 by virtue of the inclusion of requirements for the ERA to provide and publish reasons for its decisions in section 4.13 and 4.17. |
| 6.25 | Clarification of this section to delete the cross-reference to section 6.26 as this section has been removed. |
| 6.27 | Amendments to this section to refer to “above-benchmark surplus” and “below-benchmark deficit” to more accurately apply to the gain sharing mechanism. |

5. Summary of amendments

Minor amendments were progressed after the public consultation period concluded to address drafting oversights or typographical errors, and are summarised in the table below.

Table 5.1: Summary of minor amendments

| Project | Section | Description of change |
|--|---------|--|
| Increasing opportunities for new technologies | | |
| New facilities investment test | 6.52 | <p>Clarification of new facilities investment as it relates to alternative options and non-capital costs. The following amendments have been made:</p> <ol style="list-style-type: none"> Deleted the reference to costs in the definition of “alternative options” Amended section 6.52(a)(iii) to state that the consideration of alternative options must include having regard to the capital and non-capital costs of that alternative option <p>Inserted a reference to “storage works” in the definition of “new facility”.</p> |
| | 6.55A | <p>A new section 6.55A has been inserted in the Access Code requiring the ERA to provide reasons in support of its decisions, that include detail on how it applied the guidelines.</p> <p>This is expected to further enhance the efficacy of these guidelines with respect to investment decisions in new facilities.</p> |
| Multi-function assets | 1.3 | Clarification of the definition of “net incremental revenue” to remove the reference to “charges” and replace it with a reference to “payments received” to avoid confusion among defined terms under the Access Code. |
| | 6.84 | Clarification of this section to ensure that only “network assets” are considered for inclusion in the multi-function asset policy and guidelines. |
| | 6.87 | This section has been amended to change the materiality threshold to \$1 million escalated for the annual change in the consumer price index. |
| | 6.88 | <p>This section has been amended to require the ERA to make and publish the multi-function assets guidelines.</p> <p>Other consequential changes have also been made to address sections that referred to whether multi-function asset guidelines may have not been made.</p> |
| Alternative Options | 6A.2(e) | Section 6A.2(e) has been amended to refer to a “5 year forward planning period” rather than 10 years, as this would better align with other elements of the alternative options strategy. |
| | 6A.2(f) | Amendment to section 6A.2(f)(ii) to extend this obligation to consideration of “load” in addition to “generating plant” for greater consistency with the equivalent provisions under the National Electricity Rules. |
| | 6A.2(j) | Section 6A.2(j) has been deleted from the requirements for the network opportunity map. |
| | 6A.2(n) | Section 6A.2(n) has been deleted from the requirements for the network opportunity map. |

| Project | Section | Description of change |
|--|--------------|---|
| Consideration of market costs and benefits | 6.70A, 6.70B | Western Power is required to consult with AEMO for any network investment related decisions that require it to consider changes in costs and benefits for WEM participants |
| Technical Rules change management framework | 12.50 | Previous drafting excluded change proposals in relation to Chapter 5. This has been removed, with change proposals being permitted on Chapter 5. Notwithstanding, the commencement date for change proposals has been extended (see below change to section 15.17) to 1 August 2021 to allow Western Power sufficient time to review and update Chapter 5 ahead of the Chapter being open to proposed changes. |
| | 12.53 | Removal of duplicated wording. |
| | 15.17 | The commencement date has been changed from 1 January 2021 to 1 August 2021. |
| | A.6.2 | Matters to be excluded under the Technical Rules have been extended to include those matters dealt with under Chapter 3 and Appendix 13 (frequency operating standards) of the WEM Rules. |
| | Various | References to 'market rules' have been replaced with 'WEM Rules', consistent with proposed changes to the WEM Rules. |
| Maximising network utilisation | | |
| Access Code objective | 2.1 | Replace "services provided by means of networks" with "services of networks" |
| | 2.1(c) | Replace "carbon pollution" with "greenhouse gas emissions" |
| Improving prices signals | 7.1A | As the tariff structure statement is now where the pricing methods are set out, the drafting has been amended to set out the pricing methods applicable for all reference tariffs, plus the additional information in 7.1A(a)-(c) that is applicable to distribution reference tariffs only. This clarification should ensure that the revised pricing objective and pricing principles under the Access Code will apply to both distribution and transmission reference tariffs, with the appropriate additional requirements for distribution reference tariffs. |
| | 8.6 | Drafting clarification requiring the ERA to publish an approved initial price list within 15 days of this price list being submitted to it by a service provider. This clarification should ensure that the initial price list for the first year of a new access arrangement period is published prior to the commencement date of the access arrangement. |
| | 8.6, 8.7 | Typographical correction to change "may by the Authority" to "made by the Authority". |
| | 8.12 | Clarification of section 8.12(e) such that the first year of the access arrangement period is not included in the reference tariff change forecast. This is because the tariff change forecast only covers intra-access arrangement period changes, so the changes between the last year of one access arrangement period and the first year of the next period would not be covered. |
| | 1.3 | Amendments to definitions of "constraint" and "transfer" |

| Project | Section | Description of change |
|---|------------------|--|
| Improving access to Western Power's network | 2.4A, 2.5, 2.7 | Addition of references to section 2.4C |
| | 2.4E, 2.4F | Provision stating that ERA and arbitrator may not make decisions inconsistent with section 2.4C |
| | 5.7(j), 5.8A | Provisions requiring Transfer and Relocation Policy to be included in Applications and Queuing Policy |
| | 5.38 | Provision stating that the ERA must not refuse to approve new model documents on the basis that they are inconsistent with the model documents in the ENAC to the extent that inconsistency is just to reflect constrained access |
| | 6.56, 6A.6 | Inclusion of a requirement for the ERA to undertake consultation when developing guidelines under 6.56 and 6A.6 |
| | 9.23 | Updating reference to the IMO to a reference to AEMO |
| Advanced Metering Infrastructure cost recovery | 6.5F(a) | <p>This section has been amended to clarify that it only applies to expenditure incurred prior to 30 June 2022.</p> <p>Western Power will need to justify any communications related spend after this date in future access arrangement processes.</p> <p>An additional \$31 million has been added to the AMI recovery amount to account for the installation of additional Network Interface Cards as part of the State Government's COVID stimulus initiatives.</p> |
| Improving the access arrangement process | | |
| Framework and Approach | 4A.2(f) | <p>The tariff structure statement is intended to apply to distribution reference tariffs.</p> <p>Sections 4.A2(f), transitional provision 15.10 and 1.3 have been amended to explicitly reference distribution reference tariffs.</p> |
| | 4A.5, 4A.7, 4A.8 | Inclusion of notes under these sections to note that public submissions made under these sections will be published in a public register by the ERA. |
| | 4.13 | Addition of new sections 4.13(a) and (b) requiring the ERA to publish and provide reasons for its draft decision in respect of an access arrangement. |
| Draft and Final Decision | 4.17 | Addition of new sections 4.17(b) and (c) requiring the ERA to publish and provide reasons for its final decision in respect of an access arrangement. |
| | 4.27 | Deletion of section 4.27 by virtue of the inclusion of requirements for the ERA to provide and publish reasons for its decisions in section 4.13 and 4.17. |
| | 6.25 | Clarification of this section to delete the cross-reference to section 6.26 as this section has been removed. |
| Gain sharing mechanism | 6.27 | Amendments to this section to refer to "above-benchmark surplus" and "below-benchmark deficit" to more accurately apply to the gain sharing mechanism. |

| Project | Section | Description of change |
|---|---------|---|
| Clarification of advertise and publish | Various | <p>“Advertise” and “publish” now essentially mean the same thing for the ERA and the Minister under the Access Code (that is, place the document on a website).</p> <p>As such, further amendments have been progressed to align these concepts under a single process - “publish”.</p> |
| Administration and miscellaneous | | |
| Public register | 14.5 | Clarification that the framework and approach is included in the list of documents contained in the public register under section 14.5(d)(iii). |
| ERA administered guidelines | 14.35 | Clarification that when the ERA combines more than one of its guidelines that it clearly states which guidelines have been amalgamated together. |
| Transitional provisions | 15.9 | Clarification that the first network opportunity map must be completed and published by Western Power no later than 1 October 2021. |
| | 15.10 | New transitional clause added to clarify that the new amendments to section 5.1 of the Access Code do not require Western Power to amend its current access arrangement or empower the ERA to amend the current access arrangement to include a tariff structure statement and multi-function asset policy. |
| | 15.12 | Clarification of the requirements for Western Power’s fifth access arrangement that relate to its obligations around the list of and classification of reference and non-reference services to be provided and what other elements may be provided. |