

Final Decision on Proposed Variations to Western Power's Access Arrangement for 2009/10 to 2011/12: Contributions Policy

Submitted by Western Power

Economic Regulation Authority

WESTERN AUSTRALIA

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For further information, contact:

Economic Regulation Authority
Perth, Western Australia
Phone: (08) 6557 7900

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FINAL DECISION

1. On 17 January 2012, the Economic Regulation Authority (**Authority**) received a proposal from Western Power to vary Appendix 3 of its current access arrangement, the contributions policy, under section 4.41A of the *Electricity Networks Access Code 2004* (**Access Code**).¹ Sections 4.41A to 4.45 of the Access Code allow Western Power to propose (mid-period) revisions to vary its approved access arrangement during the access arrangement period and sets out the procedure for the Authority to follow when considering such revisions to an access arrangement.
2. Western Power's current access arrangement covers a three year access arrangement period from 2009/10 to 2011/12 and was approved by the Authority in January 2010, with the access arrangement becoming effective on 1 March 2010.
3. As the proposed changes, which relate to the inclusion of a new distribution low voltage connection headworks scheme² (**DLVCHS**) in the contributions policy, are material the Authority undertook public consultation as provided for under section 4.43(a) of the Access Code. As part of this consultation, the Authority prepared an issues paper on the variation proposal to assist interested parties in understanding Western Power's proposal.³ The invitation for submissions was published by the Authority on 18 May 2012 with a closing date for submissions of 5 June 2012.
4. Western Power included details of the DLVCHS in its proposed revisions to the access arrangement for the Western Power Network submitted to the Authority on 30 September 2011. Five submissions received by the Authority in response to the consultation process⁴ for Western Power's proposed revised access arrangement included comments on the proposed DLVCHS. These submissions were from:
 - Office of Energy;
 - Synergy;
 - National Electrical and Communications Association (**NECA**);
 - Property Council; and
 - Finbar.
5. The Authority's issues paper for the variation proposal included details of Western Power's responses to the five submissions noted above. Only one further submission, from NECA, was received during the consultation period in relation to the variation proposal. All submissions received during both consultations have been published on the Authority's website.
6. The Authority released a draft decision on Western Power's proposed mid-period revisions to the contributions policy in its current access arrangement on

¹ Western Power, 17 January 2012, Modifications to Contributions Policy for New Charging Arrangement Methodology for Low Voltage Customer Connections (hereafter referred to as "**variation proposal**").

² This scheme was previously referred to as the distribution low voltage connection scheme (**DLVCS**).

³ Economic Regulation Authority, 18 May 2012, Issues Paper: Proposed Variations to Western Power's Access Arrangement for 2009/10 to 2011/12: Contributions Policy.

⁴ Public consultation on Western Power's proposed access arrangement revisions took place between 7 October 2011 and 5 December 2011.

28 June 2012. The draft decision was amended on 3 July 2012 following the discovery of some errors in the original version.⁵

7. The Authority invited public submissions on its draft decision, with a closing date of 17 July 2012. One submission was received from Western Power on 16 July 2012.⁶ Western Power provided a further submission on 1 August 2012 in response to a request from the Authority for some further minor revisions to the wording of the proposed revised contributions policy.⁷
8. In considering whether to approve Western Power's variation proposal, and hence allow variations to Western Power's current access arrangement, the Authority must determine whether the proposed variations are consistent with the specific requirements for a contributions policy as set out in the Access Code.
9. The Authority identified a number of required amendments in its draft decision that would need to be addressed by Western Power prior to the DLVCHS being approved. Western Power accepted all of the required amendments in the Authority's draft decision. The Authority considers that the proposed revisions are consistent with the specific requirements for a contributions policy as set out in the Access Code.
10. Under section 4.42 of the Access Code, the Authority must determine whether the advantages of varying the access arrangement during the current access arrangement period outweigh the disadvantages, and in particular the disadvantages associated with decreased regulatory certainty and increased regulatory cost and delay.
11. The Authority considers that any disadvantages associated with decreased regulatory certainty as a consequence of varying the access arrangement during the current access arrangement period are negligible for the following reasons:
 - any changes to the contributions policy would only likely precede the introduction of the next access arrangement by a relatively short period; and
 - interested parties have been consulted on the proposed introduction of the DLVCHS by Western Power and have generally indicated support for the new arrangements.
12. The Authority has not identified any significant additional costs or delays that might arise as a consequence of varying the access arrangement during the current access arrangement period.
13. On balance, the Authority considers that the benefits to stakeholders of introducing the proposed DLVCHS as a mid-term variation outweigh any disadvantages associated with decreased regulatory certainty, increased regulatory cost or delays.
14. The Authority therefore approves Western Power's proposed mid-term variations to its contribution policy.

⁵ Economic Regulation Authority, 3 July 2012, Draft Decision: Proposed Variations to Western Power's Access Arrangement for 2009/10 to 2011/12: Contributions Policy, with corrigenda.

⁶ Western Power, 16 July 2012, Submission in response to ERA's draft decision (hereafter referred to as "**Western Power submission**").

⁷ Western Power, 1 August 2012, Amendment to Submission in response to ERA's draft decision.

REASONS

15. In considering whether to approve Western Power's variation proposal, and hence allow variations to Western Power's current access arrangement, the Authority must:
- determine whether the proposed variations are consistent with the specific requirements for a contributions policy as set out in the Access Code; and
 - determine whether the advantages of varying the access arrangement during the current access arrangement period outweigh the disadvantages, and in particular the disadvantages associated with decreased regulatory certainty and increased regulatory cost and delay.⁸

Western Power's Proposed Amendments to the Access Arrangement

16. Western Power's current access arrangement includes, at Appendix 3, a contributions policy. The contributions policy sets out the principles and processes for determining when a contribution will be required from a user, including for a network augmentation, and for determining the amount of the contribution.
17. Under the current contributions policy, customers seeking a new low voltage connection to the electricity network are required to pay a capital contribution based on the specific augmentation costs for individual new customer connections less the forecast incremental revenue that Western Power would earn as a consequence of the connection. Capital contributions are assessed on a case by case basis.
18. Western Power notes:
- An outcome of using specific augmentation costs is that quotes can vary considerably for the same size load in different locations depending upon the spare capacity of the network and the timing of the application. Loads connected to areas with low capacity, that require extensive augmentation may result in a customer making a higher capital contribution when compared to the same load being connected to an area that has ample spare capacity and little or no augmentation is required. This can result in a situation where adjacent customers make vastly different contributions, as the first customer pays for the majority of the costs and subsequent applicants are able to connect at much reduced costs.⁹
19. In the variation proposal, Western Power is seeking to vary its current contributions policy to introduce a DLVCHS. It is proposed to implement the DLVCHS as a "headworks scheme" within the terms of the contributions policy.
20. Western Power considers the proposed DLVCHS will address concerns raised by customers about the lack of transparency of the current contributions policy and the lack of predictability of the required contributions amounts.
21. The proposed amendments to the contributions policy are set out in a marked-up document in Attachment D of Western Power's variation proposal. The methods used to derive the proposed contributions under the DLVCHS are set out in Attachment G of Western Power's variation proposal.

⁸ This is a requirement under section 4.42 of the Access Code, which relates to mid-period revisions to access arrangements.

⁹ Western Power, Variation proposal, section 3.1, p.6.

22. The DLVCHS would result in a new method of charging customers for low voltage connections on the basis of standard charges rather than individually determined charges.
23. Western Power proposes to have three tranches of charges (low use, medium use and high use) for applicants seeking connections direct to transformers. The three tranches of charges recognise that costs per unit of capacity (kVA) decrease as demand increases due to economies of scale.¹⁰
24. Western Power also proposes a separate two-tranche set of charges for applicants that will be supplied from a low voltage street network (rather than directly connected to a transformer). The charges for supply from the low voltage street network are higher than for a direct connection to a transformer because of the additional low voltage assets required for a connection to the street network.¹¹
25. The standard charges would be based upon the average costs for the provision of capacity (kVA) for customers eligible for this service. The actual contribution for these customers would be net of expected additional (incremental) revenue.¹²
26. Western Power will update the standard charges annually to reflect the actual augmentation costs for works undertaken during the previous 12 month period. The Authority notes that section 7 of the DLVCHS Methodology also provides for Western Power to review the prices and exclusion threshold periodically to reflect changes in the cost of provision of network assets. Any adjustments will apply for a minimum of six months.¹³
27. Western Power's estimates of standard charges per kVA at the time of submitting its variation proposal are set out in the following table. The Authority notes that these estimates will be reviewed and may change prior to the implementation of the DLVCHS to reflect more recent cost data.

Table 1 Proposed Charging Rates

Customer Category	Charge Rate (\$/kVA)
Low use transformer connection (0 – 216 kVA)	\$443.74
Medium use transformer connection (217 – 630 kVA)	\$221.87
High use transformer connection (631 kVA and above)	\$110.93
LV street feed connection (0 – 216 kVA)	\$495.63
LV street feed connection (217 kVA and above)	\$273.76

28. Western Power proposes that the DLVCHS will apply to both country and metropolitan customers connecting to the low voltage distribution system within 25 kilometres of a zone substation. The DLVCHS will not apply to large industrial or commercial premises, pole to pillar connections, Supply Extension Scheme works, works in

¹⁰ Western Power, Variation proposal, Attachment G, p.8.

¹¹ Western Power, Variation proposal, section 3.2, p.7.

¹² Western Power, Variation proposal, section 3.2, p.6-7.

¹³ Western Power, Variation proposal, Attachment G, p.10.

excess of standard requirements, temporary supplies, street-lighting, unmetered connections, relocations, undergrounding and subdivisions.

29. Western Power proposes applying an economic test to exclude some otherwise eligible customers on the grounds that the costs of their required augmentation would be substantially higher than the average cost.¹⁴ Western Power notes that the purpose of the economic test is to ensure that the average charges are not unreasonably skewed by very high cost connections. Western Power anticipates that around 1.5 per cent of connections would be ineligible for the standard charges and would be charged at actual cost.¹⁵

Assessment of compliance with the Access Code

Access Code Requirements

30. In considering whether to approve Western Power's variation proposal, the Authority must give consideration to the specific requirements for a headworks scheme under a contributions policy.
31. The required content of an access arrangement is specified in Chapter 5 of the Access Code. Specifically, section 5.1(h) of the Access Code requires that an access arrangement include a contributions policy, defined in section 1.3 of the Access Code as a policy in an access arrangement under section 5.1(h) dealing with contributions by users.
32. The contributions policy sets out the principles and processes for determining when a contribution will be required from a user, including for a network augmentation, and for determining the amount of the contribution. A "contribution" is defined in section 1.3 of the Access Code as a capital contribution, a non-capital contribution or a headworks charge.
33. Specific requirements for a contribution policy that must be met are set out in sections 5.12 to 5.17D of the Access Code. However, of these sections, only sections 5.12, 5.13(a), 5.13(c), 5.15, 5.16, 5.17, 5.17C and 5.17D are relevant to a headworks scheme such as the proposed DLVCHS. Further details of these requirements are set out below under "Considerations of the Authority".

Western Power's Assessment

34. Western Power submits that its proposal for a headworks scheme (the DLVCHS), and hence its proposed revised contributions policy, complies with the requirements of the Access Code. Details of Western Power's assessment are included below under "Considerations of the Authority".

Submissions to the Authority

35. Both submissions from NECA supported the proposals of Western Power on the basis that it believes that it will provide greater transparency and openness on how upgrades are priced. NECA submitted that the proposed method of charging will be a fairer system for all as it will result in more predictable pricing and will remove the

¹⁴ Western Power, Variation proposal, Attachment G, pp.10.

¹⁵ Western Power, Variation proposal, section 3.2, p.7.

disparity in pricing for customers that request the same scope of works, yet are charged dramatically different prices.

36. Submissions from Finbar and the Property Council, in response to the consultation process for Western Power's proposed revised access arrangement, both raise similar points and are concerned particularly with the potential impact on the competitiveness of multi-unit development in Western Australia. Specific points raised include the following.
- There is no effective means to gauge the risk of having Contributions Policy section 7.5 (exclusion from DLVCHS) applied to a project, thus providing no certainty to a developer when considering the initial feasibility of a project.
 - The revenue offset is not clearly set out and the current arrangements include the inequitable exclusion of multi-residential development from having a revenue offset applied to the headworks costs.
 - The need to develop an agreed formula for calculating the amount to be paid to Western Power under section 4.3 as security to ensure that forecast revenue will be met (if the revenue offset were to be applied to multi-residential developments in the future).
37. Synergy's response to the public consultation on Western Power's proposed revised access arrangement noted that, as the Access Code needed to be amended to accommodate the variation proposal, the scheme should not be considered as part of the proposed revised access arrangement. Synergy also referred to a submission it had made to the Office of Energy, in relation to its consultation on the proposed amendment to section 5.17D of the Access Code, and requested that the Authority consider the matters raised in that submission.
38. The submission from the Office of Energy in relation to the public consultation on Western Power's proposed revised access arrangement noted issues relating to the definitions of various terms:

The contributions policy defines "headworks scheme" as meaning "the scheme described in clause 6 of this contributions policy". Clause 6 only refers to the distribution headworks scheme. This definition therefore, does not include Western Power's distribution low voltage connection scheme.

It would be helpful if Western Power provided reasoning for its amendments to the Code definitions of "transmission system" and "distribution system" in its Distribution Headworks Methodology.

Western Power explicitly states that "[the] methodology document explains how the requirements of sections 5.17D(i), (ii) and (iii) [of the Access Code] have been met in the Contributions Policy. It makes no mention of the requirements under 5.17D(iv) and (v). What are Western Power's reasons for not considering these requirements?"

The Distribution Headworks Methodology states that "headworks has the same meaning given to it in the Contributions Policy". However, the definition in the DLVCHS Methodology does not contain the reference to HV (or high voltage) like the Contributions Policy definition does. The high voltage reference may have implications for the classification of the proposed distribution low voltage connection scheme as a headworks scheme.

Considerations of the Authority

39. In considering the proposed variation, the Authority has considered the requirements of the Access Code and matters raised in submissions from interested parties.

Objectives for a Contributions Policy

40. Section 5.12 of the Access Code states as follows:

5.12 The objectives for a contributions policy must be that:

- (a) it strikes a balance between the interests of:
 - (i) contributing users; and
 - (ii) other users; and
 - (iii) consumers; and
- (b) it does not constitute an inappropriate barrier to entry.

41. Western Power considers that the proposed revisions strike a balance between the interests of contributing users, other users and consumers on the basis that:

The interests of contributing users, other users and consumers are more appropriately balanced under the DLVCS with regard to simplicity, predictability and transparency.

In addition, the DLVCS reduces the barriers to entry for relevant customers, and, as discussed in section 3.3 [of Western Power's variation proposal], it strikes a better balance between the interests of contributing users and other users.¹⁶

42. The Authority notes Western Power's view that the current arrangements 'can result in the situation where adjacent customers make vastly different contributions, as the first customer pays for the majority of the costs and subsequent applicants are able to connect at much reduced costs'.¹⁷ The proposed DLVCHS will help to ensure that adjacent customers will make similar contributions by applying standard charges based on the capacity and the type of connection sought. The Authority considers that the proposed revisions strike a more appropriate balance between the interests of contributing users and other users than the current arrangements by minimising the disadvantage experienced by some 'first movers'.

43. Under the proposed DLVCHS the costs of connecting to the low voltage system will be averaged across customers seeking a connection. The effect of this will be to apportion the costs of significant augmentation work across all customers seeking low voltage connection, thereby reducing the number of customers that are required to make substantial contributions. The Authority considers that implementation of the proposed DLVCHS would reduce barriers to entry for customers seeking low voltage connections relative to the existing arrangements.

44. The Authority notes that Western Power proposes to apply an economic test to exclude a small proportion (around 1.5 per cent) of otherwise eligible customers from the DLVCHS because of the high cost of their connections. Customers excluded because of the economic test will be charged at actual costs.¹⁸ These individuals may encounter a relatively high cost of connection, but the Authority notes that the cost of connection would be no greater than under the existing arrangements. Furthermore, the Authority notes that excluding these customers from the DLVCHS moderates the standard charges applied to other customers closer to the average charge, and hence helps to strike a balance between the high cost contributing user and other users.

¹⁶ Western Power, Variation proposal, Attachment E, p.1.

¹⁷ Western Power, Variation proposal, section 3.1, p.6.

¹⁸ Western Power, Variation proposal, section 3.2, p.6.

45. Public submissions from Finbar and the Property Council expressed concern that some customers would face uncertainty because their connections would be excluded from the proposed DLVCHS because of the economic test. However, the Authority notes that these customers would be no worse off than under the existing regime of capital contributions for low voltage connections.
46. The Authority notes that Western Power has not proposed a similar economic test to exclude the least expensive connections from the DLVCHS (and charge these customers the actual cost of the works required for their connection). However, the Authority considers this to be reasonable. Western Power will incur at least a minimum level of unavoidable costs for even the lowest cost connections (for example, overheads, planning costs, and travel costs). Consequently, there are unlikely to be extreme outliers amongst the lowest cost connections. In contrast, there is greater potential for extreme outliers amongst the highest cost connections, depending upon the scope of works required.
47. The Authority has considered how the proposed DLVCHS affects the overall efficiency of Western Power's charges and investment. The Authority notes that this is an important consideration because promoting economically efficient investment in the network is the primary objective of the Access Code¹⁹ (although it is not listed as a specific objective of the contributions policy under section 5.12).
48. An inefficient investment in the network may arise because customers seeking a low voltage connection to the distribution network under the proposed DLVCHS will be required to pay a standard charge based upon average connection costs for such works instead of a capital contribution that is based on the specific augmentation costs of their connection. The consequence of this fee structure may be an inefficiently high number of connections to areas of the network requiring high-cost augmentations and an inefficiently low number of connections to areas of the network requiring low-cost augmentations.
49. In the draft decision, the Authority considered that the degree of inefficiency would depend upon the magnitude of differences between what customers would pay under the proposed arrangements relative to the existing arrangements. The Authority postulated that where the difference between the two possible charges is small, the degree of inefficiency would likewise be small. Conversely, the degree of inefficiency would be large where the difference between the two possible charges is large.
50. The Authority has given further consideration to the requirements of a headworks scheme, the efficiency of the current charging methods, and the likely effectiveness of charges for sending price signals about location choices, as discussed in the following paragraphs.
51. The Authority notes that section 5.17D(d)(i) of the Access Code requires only that a headworks scheme have the objective that headworks charges will, in the long term, and when applied across all users in the affected class, recover no more than the service provider's costs (such as would be incurred by a service provider efficiently minimising costs). As such, the requirement is only for the service provider to apply minimum efficient costs across the relevant class of users, not for each individual user. That said, the Authority is concerned about the potential for inefficient investment in different locations of Western Power's network arising from averaged charges applied under the proposed DLVCHS.

¹⁹ Section 2,1 of the Access Code.

52. The key reason Western Power is seeking to introduce a headworks scheme for low voltage connections is to address the high degree of variation in the charges levied under the existing charging methods. Large variations between the charges to otherwise similar customers under the existing method can result from the amount of spare capacity in-place at the location of the required connection.
53. Western Power advises that its cost of connecting loads in areas with low or no spare capacity will be higher than in areas where there is a significant degree of spare capacity.²⁰ Data provided by Western Power indicates that a number of low voltage connection customers paid negligible, or no, fees for their connection under the current charging method. This generally reflects that there is spare capacity available at the part of the network that the customer is seeking to connect to.
54. Western Power advises that even though it undertakes the minimum efficient works when connecting a customer, this sometimes leads to installation of more capacity than is required by a connection applicant. This is because some assets (such as transformers) are only available in block amounts of capacity. Under the current charging method, this can result in some connection applicants paying for more of the shared assets than they will use. By contrast, subsequent connection applicants that use the spare capacity created in connecting the first applicant will pay a lesser charge than otherwise.²¹
55. Bearing this in mind, the Authority considers that the current charging method may result in some 'allocative' inefficiencies,²² to the extent that a first mover may be required to over-invest in capacity, leaving a second-mover to reap windfall gains in the form of significantly lower charges. It may also result in some 'dynamic' inefficiency,²³ to the extent that customers may delay applying for a connection until a 'neighbour' has connected. Under the proposed DLVCHS, the cost of assets that have the potential to be shared would be more evenly distributed amongst applicants and this may result in some efficiency gains.
56. Efficiency considerations suggest the use of location-based price signals to maximise utilisation of existing network capacity. However, Western Power has questioned the effectiveness of location-based prices for the type of connection covered by the DLVCHS, as customers seeking such connections are considered by Western Power to be relatively insensitive to location-based price signals due to the relatively low cost of low voltage distribution connection works compared to the entire costs of a project.²⁴ Western Power notes that:
- ...for most customers, the location decision is not variable. In these cases, the opportunity to reduce connection costs by relocating to a different network connection point cannot be realised (or the cost of relocation is more than the avoided connection cost).²⁵
57. The Authority accepts that many customers seeking a low voltage connection will have already made their location decision based upon a number of factors. Some will

²⁰ Western Power, Variation proposal, Attachment C, p.5.

²¹ Western Power, Variation proposal, Attachment C, p.8.

²² Allocative efficiency is a measure of how well resources (goods and services) are allocated across competing uses at a *specific point in time*.

²³ Dynamic efficiency is a measure of how well a firm uses production inputs to produce a given output series *over time*.

²⁴ Personal communication between Western Power and the Secretariat of the Economic Regulation Authority, dated 14 August 2012.

²⁵ Western Power, Variation proposal, Attachment C, p.7.

have committed to a location (including by purchasing land) prior to investigating the costs of connection to the network. At this point, the cost of connection is unlikely to result in the applicant deciding to relocate to a part of the network with greater capacity, although it could result in the customer reducing the amount of capacity requested or delaying their project (which is not necessarily a desirable outcome). As such, removing location-specific charges is unlikely to result in significant changes to these investment decisions.

58. Furthermore, the Authority notes that the DLVCHS is only available to a small set of customers and specifically excludes work relating to geographic extension of the network. As such, the scope for inefficient investment in particular locations is limited.
59. The Authority has concluded that, while the proposed DLVCHS may reduce location-specific price signals compared to the current arrangements, it is unlikely to result in significantly less efficient decisions amongst the class of customers that will be affected by the DLVCHS and may, in certain situations, result in an increase in efficiency. The proposed DLVCHS would also have the benefit of providing for simpler and more certain charging arrangements for low voltage connections.
60. The point raised in the submission from Synergy noting that the Access Code needed to be amended to accommodate the variation proposal, is no longer relevant as the Code amendment has now been gazetted. The Authority also considers the submission made by Synergy to the Office of Energy in relation to its consultation on the proposed amendment to section 5.17D of the Access Code is no longer relevant and notes that Synergy has made no further submissions to the Authority in relation to the proposed variation.
61. For the reasons set out above, the Authority considers that the proposed DLVCHS meets the requirements of section 5.12 (a) and (b) of the Access Code.

Specific Requirements for a Contribution Policy

Section 5.13

62. Section 5.13 of the Access Code states as follows:

5.13 A contributions policy must facilitate the operation of this Code, including:

- (a) sections 2.10 to 2.12; and
- (b) the test in section 6.51A;²⁶, and
- (ba) sections 5.14 and 5.17D; and
- (c) the regulatory test.

63. Section 2.10 to 2.12 of the Access Code states as follows:

2.10 Subject to section 2.11, the service provider must undertake and fund any required work.

2.11 If one or more contributions are required to be made under the contributions policy or under section 5.17A in respect of required work, then the service provider may refuse to undertake and fund any relevant required work under section 2.10 until either:

- (a) the applicant provides the contributions; or
- (b) the applicant and the service provider reach agreement on, or the arbitrator determines, the terms on which the applicant will make the contributions.

²⁶ Section 6.51A relates to the new facilities investment test.

2.12 If work:

- (a) is of a class which is or has been identified as headworks under any current or past headworks scheme; and
 - (b) is necessary in accordance with good electricity industry practice,
- then the service provider must undertake and fund the work, despite section 2.11 and whether or not the work is required work.

64. Western Power considers that the proposed revisions comply with this requirement as the revisions do not vary the compliance of the existing contributions policy with these clauses.²⁷

65. The Authority notes that Section 4.1(b) of the existing Contributions Policy states:

If the work *falls* within the class of *headworks*, Western Power must undertake and fund the *work* whether or not the *work* is *required work*. This does not excuse the *applicant* from any obligations to make a *contribution* under this *contributions policy*.

66. The existing contributions policy includes a definition of “headworks” as “enhancements required to the existing HV three-phase distribution system that provides for an increase in capacity of that system”. It also includes a definition of “headworks scheme” as “means the scheme described in clause 6 of this contributions policy”. The Authority notes that these definitions only apply to the existing headworks scheme and do not include the proposed DLVCHS.

67. In order to ensure compliance with section 2.12 of the Access Code, the Authority included the following requirement of Western Power in the draft decision.

Draft Decision Required Amendment 1

Western Power must amend definitions of “headworks” and “headworks scheme” in the Contributions Policy to cover both the distribution headworks scheme and the DLVCS, and make any consequential amendments.

68. Western Power accepted this required amendment in its submission to the draft decision. Western Power noted that a number of changes were required given the highly interconnected nature of the contributions policy and the distribution headworks methodology. Western Power has proposed the following changes in order to give effect to required amendment 1 in the draft decision:

- The existing defined term “headworks” has been amended to “distribution headworks”. There are 11 changes to the Contributions Policy, and 41 changes to the Distribution Headworks Methodology as a result of this change. The DLVCHS Methodology is unaffected.
- The existing defined term “headworks scheme” has been amended to “distribution headworks scheme”. There are three changes to the Contributions Policy, and ten changes to the Distribution Headworks Methodology as a result of this change. The DLVCHS Methodology is unaffected.
- A new definition has been created in both the Contributions Policy and the Distribution Headworks Methodology. “Headworks” now has the same definition given to it in the Access Code. This definition covers both the DLVCHS and the Distribution Headworks Scheme. This change has been made in both the Contributions Policy and the Distribution Headworks Methodology. The DLVCHS Methodology is unaffected.

²⁷ Western Power, Variation proposal, Attachment E, p.1.

- A new definition has been created in both the Contributions Policy and the Distribution Headworks Methodology. "Headworks scheme" now has the same definition given to it in the Access Code. This definition covers both the DLVCHS and the Distribution Headworks Scheme. This change has been made in both the Contributions Policy and the Distribution Headworks Methodology. The DLVCHS Methodology is unaffected.
 - Section 4.1 (b) of the Contributions Policy has been amended to include a reference to both "distribution headworks" and the DLVCHS.²⁸
69. The Authority is satisfied that Western Power's proposal complies with required amendment 1 of the draft decision.

Section 5.15 of the Access Code

70. Section 5.15 of the Access Code states as follows:

5.15 A contributions policy must set out:

- (a) the circumstances in which a contributing user may be required to make a contribution; and
- (b) the method for calculating any contribution a contributing user may be required to make; and
- (c) for any contribution:
 - (i) the terms on which a contributing user must make the contribution; or
 - (ii) a description of how the terms on which a contributing user must make the contribution are to be determined.

71. Western Power considers that the proposed revisions comply with this requirement. Western Power notes that:

The proposed scheme identifies the circumstances in which a contributing user is required to make a contribution and the method for calculating the contribution, which satisfies clauses 5.15 (a) and 5.15 (b).

Compliance of the contribution policy with clause 5.15 (c) is unchanged by the proposed scheme.²⁹

72. The Authority considers that the proposed DLVCHS meets the requirements of section 5.15 (a) and (b) of the Access Code in describing the circumstances in which a contribution is required (proposed section 7.1 of the Contributions Policy) and the method for calculating any contribution a contributing user may be required to make (proposed section 7.4 of the Contributions Policy and proposed Appendix 10 of the Access Arrangement).
73. The Authority considers that the proposed revisions comply with section 5.15(c) as they do not vary the compliance of the existing contributions policy.

Section 5.16 of the Access Code

74. Section 5.16 of the Access Code states as follows:

5.16 A contributions policy may:

²⁸ Western Power, Submission, section 2.1, p. 6.

²⁹ Western Power, Variation proposal, Attachment E, p.2.

- (a) be based in whole or in part upon the model contributions policy, in which case, to the extent that it is based on the model contributions policy, any matter which in the model contributions policy is left to be completed in the access arrangement, must be completed in a manner consistent with:
 - (i) any instructions in relation to the matter contained in the model contributions policy; and
 - (ii) sections 5.12 to 5.15; and
 - (iii) the Code objective;
- and
- (b) be formulated without any reference to the model contributions policy and is not required to reproduce, in whole or in part, the model contributions policy.

75. Western Power notes that in accordance with clause 5.16 (b) the proposed scheme is not based on the model contributions policy.³⁰
76. The Authority considers Western Power has adequately demonstrated compliance with section 5.16 of the Access Code.

Access Code Requirements for a Headworks Scheme

77. Section 5.17C of the Access Code states as follows:

5.17C Despite section 5.14, the Authority may approve a contributions policy that includes a “headworks scheme” which requires a user to make a payment to the service provider in respect of the user’s capacity at a connection point on a distribution system because the user is a member of a class, whether or not there is any required work in respect of the user.

78. Section 5.17D of the Access Code states that a headworks scheme must:

- (a) identify the class of works in respect of which the scheme applies, which must not include any works on a transmission system or any works which effect a geographic extension of a network;
- (b) not seek to recover headworks charges in an access arrangement period which in aggregate exceed 4 per cent of the distribution system target revenue for the access arrangement period;
- (c) identify the class of users who must make a payment under the scheme;
- (d) set out the method for calculating the headworks charge, which method:
 - (i) must have the objective that headworks charges under the headworks scheme will, in the long term, and when applied across all users in the class referred to in section 5.17D(c), recover no more than the service provider’s costs (such as would be incurred by a service provider efficiently minimising costs) of any headworks; and
 - (ii) must have the objective that the headworks charge payable by one user will differ from that payable by another user as a result of material differences in the users’ capacities and the locations of their connection points, unless the Authority considers that a different approach would better achieve the Code objective; and
 - (iii) may use estimates and forecasts (including long term estimates and forecasts) of loads and costs; and

³⁰ Western Power, Variation proposal, Attachment E, p.3.

- (iv) must contain a mechanism designed to ensure that there is no double recovery of costs in all the circumstances, including the manner of calculation of other contributions and tariffs; and
 - (v) may exclude a rebate mechanism (of the type contemplated by clauses A4.13(d) or A4.14(c)(ii) of Appendix 4) and may exclude a mechanism for retrospective adjustments to account for the difference between forecast and actual values.
79. Western Power notes that the proposed scheme is a headworks scheme, which the Authority may approve under clause 5.17C.³¹
80. In the draft decision, the Authority noted the issues raised by the Office of Energy in relation to definitions (refer to paragraph 38 of this final decision). The Authority considered there is potential for confusion due to the different definition of “headworks” in the Access Code and contributions policy. This problem has arisen due to the fact that the proposed variation results in two “headworks” schemes as defined under the Access Code. This is further complicated by the fact that the existing scheme is called the distribution headworks scheme, whereas the proposed new scheme was to be called the distribution Low Voltage Connection Scheme. Furthermore, the definition of “headworks” in Western Power’s contribution policy only referred to the distribution headworks scheme.
81. The Authority considered that changing the title of the proposed scheme to ‘distribution low voltage connection headworks scheme’ would aid future interpretation of the Access Code and the contribution policy. Reflecting this, the Authority included the following required amendment in its draft decision.

Draft Decision Required Amendment 2

Western Power must amend the title of the proposed scheme to ‘distribution low voltage connection headworks scheme’.

82. Western Power accepted this proposed amendment, noting that the scheme will now be called the distribution low voltage connection headworks scheme or DLVCHS for short.³²
83. Subsequent to the release of the Authority’s draft decision, the Authority became aware of concerns held by the Office of Energy that, by virtue of section 5.17C, a user may have to pay a headworks charge even if they have not lodged a connection application. The Office of Energy noted that section 7.1 of the proposed contribution policy should operate to ensure that this does not occur.

7.1. Application

Subject to clause 7.5 this distribution low voltage connection scheme applies to a connection applicant that falls within the class of applicant that may make a distribution low voltage connection scheme application and where the works required to meet the requirements of the *connection application* of that *connection applicant* are *distribution low voltage connection scheme works*.

84. However, the Office of Energy further noted that section 7.1 in the proposed contribution policy was flawed because the term ‘*connection applicant*’ is not defined despite being italicised as a defined term in the contribution policy. The terms ‘*applicant*’ and ‘*connection application*’ are currently defined in the contributions policy.

³¹ Western Power, Variation proposal, Attachment E, p.3.

³² Western Power, Submission, section 2.2, p. 7.

85. In order to address this issue, Western Power wrote to the Authority on 1 August 2012 providing a proposed revised version of the contribution policy that had been amended to delete the word 'connection' in front of 'applicant' in sections 7.1 and 7.2. The Authority is satisfied that this ensures that a user can only be required to make a payment to a service provider under the DLVCHS if they have made an application for works.
86. Subject to these amendments, the Authority considers that the proposed DLVCHS complies with section 5.17C and that there are sufficient consumer protection measures in place.
87. Compliance of the proposed revisions with section 5.17D of the Access Code is discussed in the following sections.

Compliance with Section 5.17D(a)

88. Western Power considers that the proposed revisions comply with this requirement on the following basis:

The class of users is defined in the proposed CP in clause 7.1 and refers to the definition of "distribution low voltage connection scheme works". The definition precludes any works on the transmission system (see the definition of "distribution low voltage connection scheme works") as well as a geographic extension of the network (see the definition of "distribution low voltage connection scheme application" which requires that applicants must already have an electricity-serviced lot; that is any new un-serviced lot cannot be included in the proposed scheme).³³

89. The Authority considers Western Power has adequately demonstrated compliance with section 5.17D(a).

Compliance with Section 5.17D(b)

90. Western Power considers that the proposed revisions comply with this requirement on the following basis:

The proposed scheme does not seek to recover headworks charges which exceed 5% of the distribution system target revenue for the access arrangement period. This is in accordance with the proposed variation to the Code (Interim Code Amendment 2) expected to be gazetted imminently³⁴.

For clarity the following should be noted:

- The existing distribution headworks scheme (clause 6 of the current CP) recovers no more than 1% of Western Power's distribution system target revenue for the access arrangement period.
- The addition of the proposed scheme will recover no more than 5% of the distribution system target revenue for the access arrangement period.
- While the prices for both the proposed scheme and the distribution headworks scheme are designed to recover the full cost of related works and this is in excess of 5% of the distribution system target revenue for the access arrangement period, clause 5.2 of the CP acts to reduce the actual headworks charges to no more than 5% through a reduction due to forecast incremental revenue.

³³ Western Power, Variation proposal, Attachment E, p.4.

³⁴ This amendment to the Access Code was gazetted on 17 April 2012.

91. The Authority notes that the amendment to section 5.17D(b) of the Access Code, which was gazetted on 17 April 2012, changed the threshold to 4 per cent of the distribution system target revenue.
92. In the draft decision, the Authority took the view that the threshold applies to the actual headwork charges and, therefore, incremental revenue should not be deducted for the purposes of testing whether the threshold is met.
93. In response to the draft decision, Western Power provided further information supporting its view that incremental revenue could be deducted from headworks charges for the purposes of applying the threshold. Western Power considers that the threshold should be applied to the value of headworks charges (as defined in section 5.2 of the proposed contributions policy), which is equal to base headworks charges (as calculated under section 7.3 of the proposed contribution policy) less incremental revenue.
94. Taking account of the additional information provided by Western Power, the Authority accepts that it is a reasonable interpretation of the Access Code that a headworks charge (as defined in section 5.2 of the contributions policy) has incremental revenue deducted from it and, it is to this net amount that the threshold applies. The basis for this conclusion is as follows.
95. As noted above, section 5.17D(b) requires that a headworks scheme must:
- not seek to recover **headworks charges** in an *access arrangement period* which in aggregate exceed 4 per cent of the *distribution system target revenue* for the *access arrangement period*...
96. The term 'headworks charge' is defined in section 1.3 of the Access Code as follows.
- "headworks charge"*, in respect of a *headworks scheme*, means a payment made, or to be made, by a *user* under the *headworks scheme* in respect of a *connection point*.
97. The Authority notes that a headworks charge may also be referred to as a 'contribution' as the term 'contribution' is defined under the Access Code as follows:
- "contribution"* means a capital contribution, a non-capital contribution or a headworks charge.
98. Clause 5.2 of the contribution policy provides for the calculation of a contribution.
- The contribution payable in respect of any works to which this policy applies is calculated by:
- (a) determining the appropriate portion of any of the forecast costs of the works (excluding distribution low voltage connection headworks scheme works but including any works relating to a distribution low voltage connection headworks scheme application excluded from clause 7 by clause 7.5) which do not meet the new facilities investment test or the alternative option test (as applicable) to allocate to the applicant under clause 5.4;
 - (b) adding any applicable amount calculated under clause 6 (*distribution headworks contribution*),
 - (c) adding any applicable amount calculated under clause 7.3 (distribution low voltage connection scheme distribution low voltage connection headworks scheme base charge), and
 - (d) adding any applicable amount calculated under clause 8.4(a),
 - (e) deducting the amount likely to be recovered in the form of new revenue gained from providing covered services to the applicant, or, if the applicant is a customer,

to the customer's retailer, as calculated over the reasonable time, at the contributions rate of return; and

- (f) adding any applicable amount calculated under clauses 8.1, 8.2, to 8.3 inclusive and 8.5.

99. The Authority notes that a contribution or headworks charge for the DLVCHS is arrived at by calculating the applicable amount under section 7.3 of the contributions policy (which gives the DLVCHS base charge) and then deducting the amount likely to be recovered in the form of new revenue gained from providing covered services to the applicant. On this basis, the Authority is satisfied that the threshold should apply to the value of the base headworks charge less incremental revenue.

100. The Authority included the following required amendment in the draft decision.

Draft Decision Required Amendment 3

Western Power must provide evidence that the proposed scheme falls within the threshold of 4 per cent as set out in section 5.17D(b) of the Code.

101. Western Power provided the Authority with data on the work that would have met the requirements of the DLVCHS (had it been in place) in 2010/11 and 2011/12.³⁵ Western Power has taken the simple average of the 2010/11 and 2011/12 data to forecast the potential work load under the DLVCHS in 2012/13. Based on this data, it appears that the headworks charges for the DLVCHS will be less than 1 per cent of distribution system target revenue.

³⁵ The historical data includes work that would have been excluded from the DLVCHS under clause 7.5 of the Contribution Policy.

Table 2 Historical and Forecast information for the DLVCHS

	2010/11	2011/12	2012/13 (forecast)
Number of jobs	855	765	810
Average load (kVA)	210.7	215	212.85
Total base charges for all customers (A)	\$65,300,000	\$48,500,000	\$56,900,000
Total revenue offset (B)	\$58,800,000	\$41,000,000	\$49,900,000
Total contributions (C = A – B)	\$6,500,000	\$7,500,000	\$7,000,000
Distribution system target revenue (DSTR)	\$695,900,000	\$865,700,000	\$945,100,000 ³⁶
Proportion of DSTR (C/DSTR)	0.93%	0.87%	0.74%

Source: Western Power, Submission, Attachment A.

102. The Authority considers Western Power has adequately complied with required amendment 3 from the draft decision.
103. The Authority considers that Western Power has adequately demonstrated that the proposed revisions comply with section 5.17D(b) of the Access Code.

Compliance with Section 5.17D(c)

104. Western Power considers that the proposed revisions comply with this requirement. It notes that the class of users is defined in clause 7.1 of the proposed contributions policy and it refers to the definition of "distribution low voltage connection scheme application".³⁷
105. The Authority considers that Western Power has adequately demonstrated that the proposed revisions comply with this requirement.

Compliance with Section 5.17D(d)(i)

106. Western Power considers that the proposed revisions comply with this requirement. Western Power notes that the proposed scheme has the objective required by clause 5.17D(d)(i), which is described in section 2.2 and section 3 of the methodology in Attachment G in its variation proposal.³⁸ In this regard, section 2.2 states that:

With respect to section 5.17D(d)(i), the *distribution low voltage connection scheme* is designed to recover the *forecast costs of distribution low voltage connection scheme works*. The prices of the *distribution low voltage connection scheme* are to be reviewed not less than once every 18 months to reflect the actual costs of the provision of *distribution low voltage connection scheme works*.³⁹

³⁶ Economic Regulation Authority, 29 March 2012, *Draft Decision on Proposed Revisions to the Access Arrangement for the Western Power Network*, p.45.

³⁷ Western Power, Variation proposal, Attachment E, p.4.

³⁸ Western Power, Variation proposal, Attachment E, p.5.

³⁹ Western Power, Variation proposal, Attachment G, p.5 - 6.

107. The Authority notes Western Power's proposed variation states that prices will be updated every 12 months to reflect the actual augmentation costs.⁴⁰ The Authority considers a 12 month period is reasonable and that the methodology set out in Attachment G of the variation proposal should be consistent with a 12 month period. Reflecting this, the Authority included the following required amendment in its draft decision.

Draft Decision Required Amendment 4

The methodology set out in section 2.2 of Attachment G of the variation proposal must use a 12 month period for reviewing the actual costs of provision of distribution low voltage connection scheme works.

108. Western Power accepted this proposed amendment, noting that the DLVCHS methodology has been amended to reflect the use of a twelve month period to review the costs of provision. This ensures that the DLVCHS methodology and the contributions policy are aligned.⁴¹
109. The Authority notes that (as is the case for the current distribution headworks scheme) there are mechanisms in place to ensure that Western Power seeks to ensure it efficiently minimises the costs of network augmentations to support connections under the proposed DLVCHS. The primary mechanism is the application by the Authority of the new facilities investment test (**NFIT**) under sections 6.51A and 6.52 of the Access Code. The NFIT is satisfied if the new facilities investment does not exceed the amount that would be invested by a service provider efficiently minimising costs. Under section 6.52, the Authority would apply the NFIT to headworks costs to assess what portion (net of headworks charges) may be added to the capital base. Only headworks costs that meet the NFIT may be added to the capital base.

Compliance with Section 5.17D(d)(ii)

110. Western Power considers that the proposed revisions comply with this section as:
- The pricing depends on the user's required incremental capacity, and charges therefore differ based on the users' capacities.
- The physical location of the connection point determines the application of the street-feed charge, and charges therefore differ based on the users' locations.⁴²
111. Western Power notes that this is described in clause 7.4 of the contribution policy and in section 2.2 of the methodology in Attachment G of its variation proposal.⁴³
112. The Authority considers that Western Power has adequately demonstrated that the proposed revisions comply with the requirement for the charges payable to vary between users' depending upon their capacities and locations of their connection points.

Compliance with Section 5.17D(d)(iii)

113. Western Power considers that the proposed revisions comply with this requirement. Western Power notes that the proposed scheme is based on estimates and forecasts (including long term estimates and forecasts) of loads and costs, in accordance with

⁴⁰ Western Power, Variation proposal, section 3.2 p.7.

⁴¹ Western Power, Submission, section 2.4, pp. 9.

⁴² Western Power, Variation proposal, Attachment E, p.5.

⁴³ Western Power, Variation proposal, Attachment E, p.5.

clause 5.17D(d)(iii).⁴⁴ This is described in section 2.2 of the methodology in Attachment G of its variation proposal.

114. The Authority considers that Western Power has adequately demonstrated that the proposed revisions comply with this requirement.

Compliance with Section 5.17D(d)(iv)

115. Western Power considers that the proposed revisions comply with this requirement. Western Power notes that:

The existing contribution policy complies with this requirement, and the proposed scheme does not vary this arrangement. Therefore the proposed scheme contains the mechanism described in clause 5.17D (d) (iv).⁴⁵

116. The Authority notes that section 7.2(c) of the contributions policy states:

For the purposes of this *contributions policy* a *distribution low voltage connection scheme contribution* is a *capital contribution*.

117. The Authority notes that the portion of capital works for connections that are funded through a capital contribution are not included in the regulated asset base and this ensures that there is no double recovery of costs. As such, the Authority is satisfied that the proposed revisions comply with section 5.17D(d)(iv) of the Access Code.

Compliance with Section 5.17D(d)(v)

118. Western Power considers that the proposed revisions comply with this requirement. Western Power notes that:

The proposed scheme excludes a rebate mechanism as defined in clause 10 of the CP (which is unchanged by this proposal).

The proposed scheme does not include a mechanism for retrospective adjustments to account for the difference between forecast and actual values.⁴⁶

119. The Authority considers that the proposed revisions comply with this requirement.

Varying Access Arrangement during the current Access Arrangement Period

Access Code Requirements

120. Under the Access Code an approved access arrangement for a covered network continues in effect from the specified start date until the network ceases to be covered. The service provider responsible for the network is, however, required to periodically submit proposed revisions to the access arrangement, which the Authority is required to assess. Such periodic revisions coincide with defined access arrangement periods of three or more (typically five) years.
121. Further to the requirement for a service provider to submit periodic revisions to the access arrangement, the Access Code contains provisions that allow an approved

⁴⁴ Western Power, Variation proposal, Attachment E, p.5.

⁴⁵ Western Power, Variation proposal, Attachment E, p.5.

⁴⁶ Western Power, Variation proposal, Attachment E, p.6.

access arrangement to be varied at other times, including during an access arrangement period. In particular, section 4.41A of the Access Code states:

Subject to section 4.42, if the service provider proposes revisions other than when it is required to do so under this Code and in circumstances where sections 4.38 [“Revision of price control or pricing methods during an access arrangement period”] and 4.41 [“Revision of access arrangement if Code is amended”] do not apply, the Authority may by notice to a service provider vary its access arrangement in accordance with the proposed revisions.

122. Sections 4.42 to 4.44 of the Access Code outline the procedure for amendments to an access arrangement under sections 4.41 and 4.41A of the Access Code.

4.42 Before giving a notice under section 4.41 or 4.41A, the Authority must determine whether the advantages of varying the access arrangement under section 4.41 or 4.41A (as applicable) outweigh the disadvantages, in particular the disadvantages associated with decreased regulatory certainty and increased regulatory cost and delay.

4.43 Before giving a notice under section 4.41 or 4.41A, the Authority:

(a) must consult the public under Appendix 7, unless, in the Authority’s opinion, the proposed variations are not material and will not result in a material change to a reference tariff, a reference service, a standard access contract or the rights of any applicant, in which case the Authority may consult the public under Appendix 7; and

(b) must consult the service provider.

4.44 The Authority must publish a notice given under section 4.41 or 4.41A.

123. Importantly, section 4.41B of the Access Code specifies that, in considering and implementing revisions under section 4.41A, the Authority is not obliged to undertake a complete review of the access arrangement as would occur with proposed revisions that are periodically required to be submitted by the service provider.

Western Power’s Assessment

124. Western Power considers that the required revisions to the contribution policy to accommodate the DLVCHS should be implemented as soon as possible⁴⁷ on the basis that:

- stakeholders have provided overwhelming support for the implementation of this policy as soon as possible and a delay in implementation will unnecessarily delay benefits to customers; and
- introduction of the new scheme assists in achieving the Access Code objective and provides for a more efficient outcome.⁴⁸

125. Western Power considers that its proposal to vary the contributions policy will result in the following advantages.

- Transparent and predictable charges to customers as the contributions are based on information more readily available to the customer, such as the size of the load and location of transformer (as opposed to the capacity of the existing network at a particular location).

⁴⁷ Western Power has proposed from 1 July 2012.

⁴⁸ Western Power, Variation proposal, section 3.4, p.8.

- Minimise first mover disadvantages in the current process as the amount of the contribution would not vary depending on the time the customer connected to the network.
 - Faster and more accurate responses to customer applications because there would be no need to carry out detailed design prior to being able to issue the quote.⁴⁹
126. Western Power did not identify any disadvantages arising from the proposed DLVCHS.
127. Western Power further indicates that the required processes and information technology systems have already been developed. Western Power advises that it will ensure that no customers are disadvantaged as a result of the changes during the transition to the DLVCHS.

Submissions to the Authority

128. No submissions were made to the Authority on the timing of the implementation of the DLVCHS.

Considerations of the Authority

129. The Authority is currently in the process of preparing its final decision on Western Power's proposed revised (third) access arrangement. It is unlikely the proposed revised access arrangement will come into effect before November 2012 and, potentially, may be some time after that. The current (second) access arrangement remains in place until the revised access arrangement comes into effect.
130. Under section 4.42 of the Access Code, the Authority must determine whether the advantages of varying the access arrangement during the current access arrangement period outweigh the disadvantages, and in particular the disadvantages associated with decreased regulatory certainty and increased regulatory cost and delay.
131. The Authority considers the proposed DLVCHS will provide benefits in terms of simplicity, predictability and transparency.
132. The Authority considers that any disadvantages associated with decreased regulatory certainty as a consequence of varying the access arrangement during the current access arrangement period are negligible for the following reasons:
- any changes to the contributions policy would only likely precede the introduction of the next access arrangement by a relatively short period; and
 - interested parties have been consulted on the proposed introduction of the DLVCHS by Western Power and have generally indicated support for the new arrangements.
133. The Authority has not identified any significant additional costs or delays that might arise as a consequence of varying the access arrangement during the current access arrangement period.

⁴⁹ Western Power, Variation proposal, section 3.2, p.7.

134. On balance, the Authority considers that the benefits to stakeholders of introducing the proposed DLVCHS as a mid-term variation outweigh any disadvantages associated with decreased regulatory certainty, increased regulatory cost or delays.