

# Issues Paper on Proposed Variations to Western Power's Access Arrangement for 2012/13 to 2016/17

17 May 2013

**Economic Regulation Authority**

WESTERN AUSTRALIA

This document is available from the Economic Regulation Authority's website at [www.erawa.com.au](http://www.erawa.com.au). For further information, contact:

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

© Economic Regulation Authority 2013

The copying of this document in whole or part for non-commercial purposes is permitted provided that appropriate acknowledgment is made of the Economic Regulation Authority and the State of Western Australia. Any other copying of this document is not permitted without the express written consent of the Authority.

#### **Disclaimer**

This document has been compiled in good faith by the Economic Regulation Authority (Authority). The document contains information supplied to the Authority from third parties. The Authority makes no representation or warranty, express or implied, as to the accuracy, completeness, reasonableness or reliability of the information supplied by those third parties.

This document is not a substitute for legal or technical advice. No person or organisation should act on the basis of any matter contained in this document without obtaining appropriate professional advice. The Authority and its staff members make no representation or warranty, expressed or implied, as to the accuracy, completeness, reasonableness or reliability of the information contained in this document, and accept no liability, jointly or severally, for any loss or expense of any nature whatsoever (including consequential loss) arising directly or indirectly from any making available of this document, or the inclusion in it or omission from it of any material, or anything done or not done in reliance on it, including in all cases, without limitation, loss due in whole or part to the negligence of the Authority and its employees.

This notice has effect subject to the *Competition & Consumer Act 2010* (Cwlth), the *Fair Trading Act 1987* (WA) and the *Fair Trading Act 2010* (WA), if applicable, and to the fullest extent permitted by law.

Any summaries of the legislation, regulations or licence provisions in this document do not contain all material terms of those laws or obligations. No attempt has been made in the summaries, definitions or other material to exhaustively identify and describe the rights, obligations and liabilities of any person under those laws or licence provisions.

## Contents

<b>1</b>	<b>Introduction</b>	<b>2</b>
<b>2</b>	<b>Access Code Requirements</b>	<b>3</b>
<b>3</b>	<b>Reasons for Amending Price Control</b>	<b>4</b>
<b>Appendix 1</b>	<b>Required Amendments to the Access Arrangement for the Western Power Network based on Revenue Profile Option 1 (Step Change in 2013/14)</b>	<b>10</b>
<b>Appendix 2</b>	<b>Required Amendments to the Access Arrangement for the Western Power Network based on Revenue Profile Option 2 (Smooth Profile)</b>	<b>13</b>

## Invitation to make submissions

Interested parties are invited to make submissions on the Authority's issues paper by **4:00 pm (WST) Friday, 31 May 2013** via:

Email address: [publicsubmissions@erawa.com.au](mailto:publicsubmissions@erawa.com.au)

Postal address: PO Box 8469, PERTH BC WA 6849

Office address: Level 4, Albert Facey House, 469 Wellington Street, Perth WA 6000

Fax: 61 8 6557 7999

### CONFIDENTIALITY

In general, all submissions from interested parties will be treated as being in the public domain and placed on the Authority's website. Where an interested party wishes to make a submission in confidence, it should clearly indicate the parts of the submission for which confidentiality is claimed, and specify in reasonable detail the basis for the claim. Any claim of confidentiality will be considered in accordance with the provisions of sections 14.12 to 14.15 of the Access Code.

The publication of a submission on the Authority's website shall not be taken as indicating that the Authority has knowledge either actual or constructive of the contents of a particular submission and, in particular, whether the submission in whole or part contains information of a confidential nature and no duty of confidence will arise for the Authority.

#### General Enquiries

Tyson Self

Economic Regulation Authority

Ph: 08 6557 7900

[records@erawa.com.au](mailto:records@erawa.com.au)

#### Media Enquiries

Richard Taylor

Riley Mathewson Public Relations

Ph: 61 8 9381 2144

Fax: 61 8 9381 3877

# 1 Introduction

1. The Economic Regulation Authority (**Authority**) is proposing to revise the price control, in accordance with section 4.38 of the *Electricity Networks Access Code 2004* (**Access Code**), in Western Power's Access Arrangement for the third access arrangement period (2012/13 to 2016/17).
2. On 26 April 2013, Western Power submitted a proposed 2013/14 Price List and Price List Information to the Authority for approval. Western Power's proposed price list incorporates significant adjustments compared with the assumptions in the third access arrangement which results in 2013/14 tariffs increasing on average by 20 per cent (transmission and distribution combined), rather than broadly in line with CPI as was forecast at the time of the Authority's Final Decision.<sup>1</sup>
3. The forecast price increase includes 2.5 per cent in relation to CPI. Taking account of information provided by Western Power, the Authority has calculated that the increase above CPI comprises:
  - 2.5 per cent in relation to a \$36 million increase in the gazetted Tariff Equalisation Contribution (**TEC**)<sup>2</sup> for 2013/14 gazetted subsequent to the Final Decision;
  - 7.5 per cent relates to a \$95 million forecast under-recovery in revenue for 2012/13 based on Western Power's latest forecast, compared with the approved 2012/13 revenue cap; and
  - 7.5 per cent in relation to revisions to energy consumption growth forecasts for 2013/14 and other revenue charge parameters Western Power has made compared with the Final Decision assumptions.<sup>3</sup>
4. On 26 April 2013, the Western Australian Government gazetted revised amounts for the TEC for 2013/14 and the remaining years of the third access arrangement period. Western Power is now required to pay an additional \$169 million (27 per cent increase) for the TEC during the remaining four years of the access arrangement period (the increases are: 2013/14, \$36 million (21 per cent); 2014/15, \$56 million (34 per cent); 2015/16, \$37 million (25 per cent); 2016/17, \$40 million (28 per cent)).
5. The allowable revenue approved by the Authority for Western Power's third access arrangement period included \$53 million to be recovered for the transmission system and \$398 million for the distribution system (real dollar values at 30 June 2012) in relation to revenue deferred during the previous access arrangement period. As set out in the Final Decision, the Authority was of the view that the deferred revenue should be recovered over the life of the assets to which it related. However, modelling and forecasts at the time of the decision showed that reducing the recovery period to ten years resulted in average tariffs increasing broadly in line

---

<sup>1</sup> 5 September 2012, Economic Regulation Authority, *Final Decision on Proposed Revisions to the Access Arrangement for the Western Power Network*.

<sup>2</sup> An amount levied on users of the Western Power distribution network which is used to fund Horizon Power in its provision of electricity services at a uniform tariff across the State.

<sup>3</sup> Western Power is subject to a revenue cap price control as permitted under section 6.2 of the Access Code. Consequently, tariffs are set each year to recover target revenue adjusted for any over or under recovery in previous years.

- with CPI. On this basis the Authority considered that a recovery period of ten years could be accommodated without a price shock to customers.
6. As outlined above, subsequent to the final decision, the amount to be recovered from Western Power's customers in relation to the Tariff Equalisation Contribution (**TEC**) (an amount levied on users of the Western Power distribution network which is provided to Horizon Power to provide electricity services at a uniform tariff across the State) has been increased by \$169 million (or 27 per cent) from \$628 million over the four years from 2013/14. In addition, Western Power is forecasting further significant reductions in revenues, in addition to those already taken account of for 2011/12, much of which is attributable to the impact of lower energy demand as a result of domestic photovoltaic systems, revenue which must now be recovered from all users. Under a revenue cap form of regulation, Western Power's revenue is fixed and demand risk is faced by the users of the network. As a result, the expected under-recovery of revenue in 2012/13 must now be recovered. If the size of the forecast reduction in demand and increase in costs had been known at the time of the decision, the Authority would not have shortened the period over which the deferred revenue is to be recovered.
  7. The Authority is proposing to vary the price control in Western Power's Access Arrangement such that the deferred revenue is to be recovered over the life of the assets to which it relates. In relation to Western Power's proposed 2013/14 Price List submitted on 26 April 2013, further information required to support forecast revenues was provided on 13 May 2013. In accordance with section 8.6 of the Access Code the Authority is required to finalise its decision by 4 June 2013. However, as the Authority intends to vary the price control, it does not intend to approve Western Power's proposed 2013/14 Price List as it will not comply with the amended price control.
  8. The proposed revision to the recovery period of deferred revenue will reduce the average price increase in 2013/14 from the 20 per cent<sup>4</sup> proposed by Western Power in its 2013/14 Price List. The Authority is considering two options. The first option, a step change in 2013/14, would result in an average increase in network charges of 10.3 per cent (including CPI)<sup>5</sup> in 2013/14, followed by increases of around 1 per cent below CPI in the following three years. The second option is to smooth the price increase and would result in network charges increasing by around 2 per cent above CPI over each of the next four years.

## 2 Access Code Requirements

9. Under section 4.38 of the Access Code, the Authority in certain circumstances may, by notice to a service provider, vary the price control or pricing methods in an access arrangement before the next revisions commencement date.
  - 4.38 The Authority may by notice to a service provider vary the price control or pricing methods in an access arrangement before the next revisions commencement date, but only if the Authority determines that:
    - (a) its approval of the access arrangement was based on materially false, misleading or deceptive information provided to it by the service provider, and the Authority considers that the impact of the materially false, misleading or

<sup>4</sup> Includes CPI of 2.5 per cent.

<sup>5</sup> Includes CPI of 2.5 per cent.

deceptive information is of a sufficient magnitude to warrant making the variation before the end of the access arrangement period; or

- (b) either:
- (i) its approval of the access arrangement contains a material error or was based on materially false, misleading or deceptive information provided to it by a person other than the service provider; or
  - (ii) significant unforeseen developments have occurred that are:
    - A. outside the control of the service provider; and
    - B. not something that the service provider, acting in accordance with good electricity industry practice, should have been able to prevent or overcome,

and the impact of the error, materially false, misleading or deceptive information or unforeseen developments is so substantial that the Authority considers that the advantages of making the variation before the end of the access arrangement period outweigh the disadvantages, having regard to the impact of the variation on regulatory certainty.

10. Section 4.39 of the Access Code requires that before giving a notice under section 4.38, the Authority must consult the public in accordance with Appendix 7. Appendix 7 requires that the Authority undertake public consultation within a minimum period of 10 business days to a maximum period of 20 business days. Section 4.40 requires that the Authority must publish a notice under section 4.38.
11. In accordance with section 4.41B of the Access Code, the Authority is not required to undertake a complete review of Western Power's access arrangement in considering and implementing revisions under section 4.38.

### 3 Reasons for Amending Price Control

12. As noted above, Western Power submitted its 2013/14 Price List which would result in 2013/14 tariffs increasing on average by 20 per cent (transmission and distribution combined), rather than broadly in line with CPI as was forecast at the time of the Authority's Final Decision for the third access arrangement period in September last year.
13. In the second access arrangement period, Western Power proposed an alternative treatment of capital contributions from its approach in the first access arrangement period, which had the effect of significantly increasing the revenue requirement. To avoid price shocks and considering the change in treatment of capital contributions policy should have a neutral commercial effect on Western Power's business in present value terms, an amount of revenue was deferred from the second access arrangement period to subsequent access arrangement periods.
14. As noted in its considerations throughout the review process on the price control for the third access arrangement period, the Authority was very mindful to ensure that the average prices during the period did not result in a price shock as per section 6.4(c) of the Access Code. In particular, the Authority determined the recovery period for the deferred revenue which, based on the forecasts at the time, would avoid a price shock to customers.
15. Under section 4.38 of the Access Code, the Authority may, by notice to a service provider, vary the price control or pricing methods in an access arrangement before

the next revisions commencement date for a number of reasons, including if it determines that the decision was based on materially false, misleading or deceptive information or significant unforeseen developments have occurred that are outside the control of the service provider and not something that it should have been able to overcome, and the impact is so substantial that the Authority considers the advantages of making the variation before the end of the access arrangement period outweigh the disadvantages, having regard to the impact of the variation on regulatory certainty.

16. The Authority considers that significant unforeseen developments have occurred which are outside the control of Western Power and not something Western Power should have been able to overcome. The \$169 million increase in the gazetted TEC over the four years from 2013/14 is a Western Australian Government decision and outside of Western Power's control.
17. In its proposed Price List for 2013/14, Western Power notes the 2012/13 Price List (published with the Further Final Decision), was based on its 2011 demand forecasts. Western Power notes the following issues in relation to those forecasts:
  - Forecast energy consumption was much higher than actual energy consumed since the forecasts were produced. It considers that photovoltaic penetration and customer behaviour due to increasing retail tariffs are the main causes. It estimates this has led to revenue under-recovery of approximately \$40 million.
  - Actual peak and off-peak energy consumption is considerably lower than forecast. As more off-peak energy (which is lower priced) has been consumed compared to peak energy, the revenue collected is lower. Western Power notes the main cause has been identified as an incorrect allocation in reporting of some weekend energy consumption to peak which contributed \$20 million to the 2012/13 revenue under-recovery.
  - Due to the 2012/13 Price List not taking effect until 1 February 2013, the CPI increase in relation to the first 7 months was effectively deferred until the following year, which contributed \$22 million to the revenue under-recovery.
  - The factors contributing to the remaining \$12 million under-recovery for 2012/13 have not been specifically identified but Western Power has noted other possible contributors such as energy efficiency and movement of customers between tariffs categories.
18. Western Power's proposed 2013/14 Price List is based on an "interim refresh" of its 2012 demand forecast energy and customer numbers undertaken in March 2013. Western Power notes the forecast refresh was triggered due to the following factors becoming apparent:
  - energy consumption was lower on consumption based tariffs despite it being a very hot summer;
  - the number of photo-voltaic systems being installed has been increased to 2,250 systems per month consistent with recent applications and what is being used by the IMO for the 2013 Statement of Opportunities (instead of 2,000 per month); and
  - the significant under-recovery in 2012/13 revenue compared to that forecast which, if unaddressed would grow over time.

19. Western Power is now forecasting total distribution energy consumption of 14,456 GWh in 2013/14 which is 1.2 per cent lower than the forecast underpinning the 2012/13 Price List. However, as outlined above, the reduction in the revenue forecast is significantly higher than this.
20. Whilst it is concerning that the forecasts provided in relation to the third access arrangement review and the 2012/13 Price List have proved to be considerably overstated, the Authority accepts that customer demand is mainly outside the control of Western Power, particularly in relation to the take-up of photovoltaic systems, and much of the significant reductions would have been difficult to foresee. However, the Authority notes the incentives to forecast revenue accurately are not as strong under a revenue cap price control compared with other price control mechanisms such as a price cap.
21. The Authority considers that the impact of the revised revenue forecasts and increased TEC on customer charges, particularly the proposed 20 per cent average increase in 2013/14 tariffs (transmission and distribution combined), is so substantial that the price control should be varied before the end of the access arrangement period, as the advantages outweigh the disadvantages (including the impact on regulatory certainty. The Authority considers that if the proposed large price increases were approved, this would have a significant negative impact on competition in upstream and downstream markets due to the instability and lack of certainty for participants in these markets from what was expected (or likely to be expected).
22. The Authority notes that the Western Australian Government has already announced its decision to increase retail electricity prices by 4 per cent for residential customers for 2013/14. While the Authority's proposed decision to amend Western Power's price control will not affect this price increase, it will immediately impact all generators and around 21,000 contestable customers<sup>6</sup> which together make up an estimated 40 per cent to 60 per cent of the total market by volume.
23. The Authority considers that the requirements of section 4.38(b)(ii) of the Access Code are met, which allows the Authority to vary Western Power's price control.
24. As noted above, the Authority's view prior to the third access arrangement period was that the deferred revenue should be recovered over the life of the assets. However, modelling conducted at the time of the final decision showed that reducing the recovery period to ten years resulted in forecast tariff increasing broadly in line with CPI. On this basis the Authority considered that a recovery period of ten years could be accommodated without a price shock to customers. This represented an amount of \$53 million to be recovered for the transmission system and \$398 million for the distribution system (in real dollar values at 30 June 2012) for deferred revenue during the third access arrangement period.
25. If the Authority had known at that time that significant tariff increases resulting from revenue under-recovery, lower demand forecasts and increases in costs would be required, it would not have shortened the recovery period.
26. The Authority proposes to vary the price control to adopt a life of asset recovery period for deferred revenue to limit the price shock that would otherwise occur in

---

<sup>6</sup> A customer is contestable if it can choose its electricity retailer. In Western Australia, a customer can choose its retailer if it consumes more than 50 MWh per year. All other customers are non-contestable.

2013/14 if no change is made to the price control. The Authority has not proposed to undertake a complete review of Western Power's access arrangement, and has limited its consideration to the deferred revenue item and its affect on Western Power's price control as permitted by section 4.41B of the Access Code.

- The Authority has recalculated target revenue for the third access arrangement period taking account of: recovering deferred revenue over the life of the relevant assets;
  - increases in the gazetted TEC; and
  - latest information from Western Power in relation to revenue and demand forecasts.
27. After taking account of these factors, the net present value of total target revenue over the third access arrangement period reduces by \$185.5 million (\$324 million reduction in relation to deferred revenue offset by an increase of \$139 million<sup>7</sup> in relation to the TEC). This net reduction partially reduces the impact of Western Power's latest revised revenue and demand forecasts on customer charges.
28. The Authority considers there are two options for profiling the revised target revenue over the remaining four years of the third access arrangement period. These are:
- Option 1 - a step change in 2013/14 (overall an increase of 7.8 per cent plus CPI) followed by average increases of 1 per cent below CPI over the following three years; or
  - Option 2 - a smooth revenue profile with increases of between 2.1 and 2.5 per cent above CPI in each of the four years.
29. These options are shown in Table 1 below. It is important to note that these projected increases in average charges are dependent on Western Power's latest demand forecasts proving to be accurate. If demand falls below the levels forecast by Western Power, average charges will increase above the amounts shown below. Average charges will decrease if demand increases above the levels forecast by Western Power. Specific customer impacts will vary depending on the tariff which applies.

**Table 1 Forecast change in average tariffs**

Financial year ending	30 June 2014	30 June 2015	30 June 2016	30 June 2017
<b>Option 1:</b>				
Transmission	-6.6%+ CPI	-13.0%+ CPI	-13.1%+ CPI	-13.1%+ CPI
Distribution	14.1%+ CPI	1.6%+ CPI	1.5%+ CPI	1.0%+ CPI
Combined average	7.8%+ CPI	-1.5%+ CPI	-1.3%+ CPI	-1.4%+ CPI
<b>Option 2:</b>				
Transmission	-9.3%+ CPI	-11.0%+ CPI	-11.1%+CPI	-11.1%+ CPI
Distribution	7.3% + CPI	5.8%+ CPI	5.7%+ CPI	5.1%+ CPI
Combined average	2.2%+ CPI	2.1%+ CPI	2.5%+ CPI	2.4%+ CPI

30. Network charges are approximately 40 per cent of regulated retail tariffs. If these charge increases were passed through to regulated retail tariffs, Option 1 would

<sup>7</sup> \$169 million expressed in net present value terms.

increase regulated retail tariffs by around 3 per cent plus CPI in 2013/14 and minus 0.5 per cent plus CPI in the following three years. Option 2 would increase regulated retail tariffs by around 1 per cent plus CPI per annum for the four years from 2013/14.

31. Option 1, although resulting in a higher increase in 2013/14, would reduce the risk of future charges increasing significantly above CPI, if Western Power's revenue and demand forecasts prove to be too optimistic. Option 2 provides a smoother price profile over the four remaining years of the access arrangement period but there is increased risk that future charges will be significantly above CPI if Western Power's revenue demand forecasts prove to be too optimistic.

The Authority invites stakeholder feedback on the proposed options under consideration to amend transmission and distribution revenue over the remaining four years of the third access arrangement period.

32. The Authority notes that while the decision to change the recovery period will result in less revenue recovered in the third access arrangement period, the full amount of revenue deferred in the second access arrangement period will be recovered in future access arrangements to ensure Western Power is financially neutral (which is also in accordance with section 6.5C of the Access Code).
33. Appendices 1 and 2 of this Issues Paper lists all of the sections in Western Power's access arrangement which will require amendments as a result of the proposed change to the recovery of deferred revenue based on the two options in relation to the revenue profile. In summary, this change affects target revenue, the side constraint formula and the service standard adjustment mechanism rewards and penalties (due to the change in target revenue).
34. In relation to Western Power's proposed 2013/14 Price List submitted on 26 April 2013, further information required to support forecast revenues was provided on 13 May 2013. In accordance with section 8.6 of the Access Code, the Authority is required to finalise its decision by 4 June 2013. However, as the Authority intends to vary the price control, it does not intend to approve Western Power's proposed 2013/14 Price List as it will not comply with the amended price control.

## Appendices

<b>Appendix 1</b>	<b>Required Amendments to the Access Arrangement for the Western Power Network based on Revenue Profile Option 1 (Step Change in 2013/14)</b>	<b>10</b>
<b>Appendix 2</b>	<b>Required Amendments to the Access Arrangement for the Western Power Network based on Revenue Profile Option 2 (Smooth Profile)</b>	<b>13</b>

## Appendix 1 Required Amendments to the Access Arrangement for the Western Power Network based on Revenue Profile Option 1 (Step Change in 2013/14)

### Section 5.5.3 (a)

Remove “a ten year period” in section 5.5.3 (a) replace with “a 50 year period”.

### Section 5.5.3 (b)

Remove “a ten year period” in section 5.5.3 (b) and replace with “a 42 year period”.

### Section 5.5.4 Table 27

Replace the amounts to be added to the target revenue due to the recovery of deferred revenue (\$ million real as at 30 June 2012) listed in Table 27 with the following amounts:

Financial year ending	30 June 2013	30 June 2014	30 June 2015	30 June 2016	30 June 2017
Transmission system	3.8	3.8	3.8	3.8	3.8
Distribution system	30.7	30.7	30.7	30.7	30.7

### Section 5.6.6 Table 28

Replace the amounts of the cap for transmission service revenue to be used for calculating  $TR_t$  (\$ million real as at 30 June 2012) listed in Table 28 with the following amounts:

Financial year ending	30 June 2013	30 June 2014	30 June 2015	30 June 2016	30 June 2017
$TR_t$	387.3	339.7	325.6	288.7	256.0

### Section 5.7.6 Table 29

Replace the amounts of the cap for distribution service revenue to be used for calculating  $DR_t$  (\$ million real as at 30 June 2012) listed in Table 29 with the following amounts:

Financial year ending	30 June 2013	30 June 2014	30 June 2015	30 June 2016	30 June 2017
$DR_t$	685.7	744.4	837.0	909.3	946.0

### Section 6.5.13 Table 31

Replace the amounts for the annual percentage change in  $TR_t$  (defined as  $TX_t$ ) used to constrain the maximum change in reference tariff revenue for the transmission system with the following amounts:

Financial year ending	30 June 2014	30 June 2015	30 June 2016	30 June 2017
$TX_t$	12.3%	4.2%	11.3%	11.3%

**Section 6.5.14 Table 32**

Replace the amounts for the annual percentage change in  $DR_t$  (defined as  $DX_t$ ) used to constrain the maximum change in reference tariff revenue for the distribution system with the following amounts:

Financial year ending	30 June 2014	30 June 2015	30 June 2016	30 June 2017
$DX_t$	-8.6%	-12.4%	-8.6%	-4.0%

**Section 7.5.11 Table 38**

Replace the amounts for the reward and penalty side incentive rate for the call centre performance SSAM target in Table 38 with the following amounts:

	Reward side incentive rate (\$ per 0.1%)	Penalty side incentive rate (\$ per 0.1%)
Call centre performance (Percentage of calls responded to within 30 seconds)	-40,125	-39,728

**Section 7.5.11 Table 39**

Replace the amounts for the reward and penalty side incentive rate for the circuit availability SSAM target in Table 39 with the following amounts:

	Reward side incentive rate (\$ per 0.1%)	Penalty side incentive rate (\$ per 0.1%)
Circuit availability (Percentage of total possible hours available)	-798,651	-399,326

**Section 7.5.11 Table 40**

Replace the amounts for the reward and penalty side incentive rate for the system minutes interrupted - radial SSAM target in Table 40 with the following amounts:

	Reward side incentive rate (\$ per minute)	Penalty side incentive rate (\$ per minute)
System minutes interrupted – radial (minutes)	103,052	168,137

**Section 7.5.11 Table 41**

Replace the amounts for the reward incentive rate and penalty side incentive rate for the loss of supply event frequency SSAM targets in Table 41 with the following amounts:

	Reward side incentive rate (\$ per event)	Penalty side incentive rate (\$ per event)
Loss of supply event frequency >0.1 system minutes interrupted (number of events)	35,496	26,622
Loss of supply event frequency >1.0 system minutes interrupted (number of events)	159,730	159,730

**Section 7.5.11 Table 42**

Replace the amounts for the reward incentive rate and penalty side incentive rate for the average outage duration SSAM target in Table 42 with the following amounts:

	Reward side incentive rate (\$ per minute)	Penalty side incentive rate (\$ per minute)
Average outage duration (minutes)	3,399	2,439

**Section 7.7.1**

Replace this section with the following “An amount of \$621.3 million (\$ real as at 30 June 2012) of deferred revenue in the distribution system is to be recovered in the fourth and subsequent access arrangement periods.”

**Section 7.7.2**

Replace this section with the following “An amount of \$84.2 million (\$ real as at 30 June 2012) of deferred revenue in the transmission system is to be recovered in the fourth and subsequent access arrangement periods.”

**Section 7.7.3**

Replace “five years” in section 7.7.3 with “average life of assets to which it relates”.

## Appendix 2 Required Amendments to the Access Arrangement for the Western Power Network based on Revenue Profile Option 2 (Smooth Profile)

### Section 5.5.3 (a)

Remove “a ten year period” in section 5.5.3 (a) replace with “a 50 year period”.

### Section 5.5.3 (b)

Remove “a ten year period” in section 5.5.3 (b) and replace with “a 42 year period”.

### Section 5.5.4 Table 27

Replace the amounts to be added to the target revenue due to the recovery of deferred revenue (\$ million real as at 30 June 2012) listed in Table 27 with the following amounts:

Financial year ending	30 June 2013	30 June 2014	30 June 2015	30 June 2016	30 June 2017
Transmission system	3.8	3.8	3.8	3.8	3.8
Distribution system	30.7	30.7	30.7	30.7	30.7

### Section 5.6.6 Table 28

Replace the amounts of the cap for transmission service revenue to be used for calculating  $TR_t$  (\$ million real as at 30 June 2012) listed in Table 28 with the following amounts:

Financial year ending	30 June 2013	30 June 2014	30 June 2015	30 June 2016	30 June 2017
$TR_t$	387.3	329.1	323.3	293.1	265.8

### Section 5.7.6 Table 29

Replace the amounts of the cap for distribution service revenue to be used for calculating  $DR_t$  (\$ million real as at 30 June 2012) listed in Table 29 with the following amounts:

Financial year ending	30 June 2013	30 June 2014	30 June 2015	30 June 2016	30 June 2017
$DR_t$	685.7	683.9	815.3	930.5	1,014.6

### Section 6.5.13 Table 31

Replace the amounts for the annual percentage change in  $TR_t$  (defined as  $TX_t$ ) used to constrain the maximum change in reference tariff revenue for the transmission system with the following amounts:

Financial year ending	30 June 2014	30 June 2015	30 June 2016	30 June 2017
$TX_t$	15.0%	1.8%	9.3%	9.3%

**Section 6.5.14 Table 32**

Replace the amounts for the annual percentage change in  $DR_t$  (defined as  $DX_t$ ) used to constrain the maximum change in reference tariff revenue for the distribution system with the following amounts:

Financial year ending	30 June 2014	30 June 2015	30 June 2016	30 June 2017
$DX_t$	0.3%	-19.2%	-14.1%	-9.0%

**Section 7.5.11 Table 38**

Replace the amounts for the reward and penalty side incentive rate for the call centre performance SSAM target in Table 38 with the following amounts:

	Reward side incentive rate (\$ per 0.1%)	Penalty side incentive rate (\$ per 0.1%)
Call centre performance (Percentage of calls responded to within 30 seconds)	-40,186	39,788

**Section 7.5.11 Table 39**

Replace the amounts for the reward and penalty side incentive rate for the circuit availability SSAM target in Table 39 with the following amounts:

	Reward side incentive rate (\$ per 0.1%)	Penalty side incentive rate (\$ per 0.1%)
Circuit availability (Percentage of total possible hours available)	-799,263	-399,631

**Section 7.5.11 Table 40**

Replace the amounts for the reward and penalty side incentive rate for the system minutes interrupted - radial SSAM target in Table 40 with the following amounts:

	Reward side incentive rate (\$ per minute)	Penalty side incentive rate (\$ per minute)
System minutes interrupted – radial (minutes)	103,131	168,266

**Section 7.5.11 Table 41**

Replace the amounts for the reward incentive rate and penalty side incentive rate for the loss of supply event frequency SSAM targets in Table 41 with the following amounts:

	Reward side incentive rate (\$ per event)	Penalty side incentive rate (\$ per event)
Loss of supply event frequency >0.1 system minutes interrupted (number of events)	35,523	26,642
Loss of supply event frequency >1.0 system minutes interrupted (number of events)	159,853	159,853

**Section 7.5.11 Table 42**

Replace the amounts for the reward incentive rate and penalty side incentive rate for the average outage duration SSAM target in Table 42 with the following amounts:

	Reward side incentive rate (\$ per minute)	Penalty side incentive rate (\$ per minute)
Average outage duration (minutes)	3,401	2,440

**Section 7.7.1**

Replace this section with the following “An amount of \$621.3 million (\$ real as at 30 June 2012) of deferred revenue in the distribution system is to be recovered in the fourth and subsequent access arrangement periods.”

**Section 7.7.2**

Replace this section with the following “An amount of \$84.2 million (\$ real as at 30 June 2012) of deferred revenue in the transmission system is to be recovered in the fourth and subsequent access arrangement periods.”

**Section 7.7.3**

Replace “five years” in section 7.7.3 with “average life of assets to which it relates”.