



Capital Contributions Policy

Western Power Corporation

ABN 38 362 983 875

{Outline: This *capital contribution policy* is included in Western Power's *access arrangement* in accordance with section 5.1 of the *Code*.}

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1. Definitions and interpretation

1.1 Definitions

In this *capital contributions policy*, unless the contrary intention is apparent:

“access arrangement” means the current *access arrangement* approved in respect of the *network* under the *Code*.

“alternative option contribution” means a contribution made, or to be made, by a *user* in respect of an *alternative option*.

“alternative option test”, in respect of the Network, means the test set out in section 6.41 of the *Code*.

“applications and queuing policy” means the *applications and queuing policy* in the *access arrangement*.

“capacity”, with regards to a part of the *network* (including a *contracted point*), means the maximum rate at which electricity can be transported through that part of the *network* in accordance with *good electricity industry practice*.

“Code” means the Electricity Networks Access Code 2004.

“contracted capacity” means the maximum rate at which the *user* is permitted to transfer electricity at a *contracted point* under the *user’s access contract*.

“contracted point” means an *exit point* or an *entry point* identified or to be identified as such in an *access contract*.

“contribution” means a *capital contribution* or an *alternative option contribution*, or both as applicable.

“contributions rate of return” means the rate of return most recently approved by the *Authority* for use in *price control* for the *network*.

“cost recovery period” has the meaning given to it in clause 8.2(b).

“forecast costs” means, with regards to *works*, the *forecast new facilities investment* or the *alternative option costs*, or both, as applicable.

“interconnection works agreement” means a type of contract under which a *user* agrees to pay a *contribution* to Western Power for the performance of *works*, and which includes terms dealing with Western Power’s and the *user’s* rights and obligations in relation to the *contribution* and the *works*.

“minimum practical works”, with regards to *works* required to provide *covered services* sought by an *applicant*, means the minimum works Western Power must undertake, *efficiently minimising costs*, to provide only those *covered services* to only that *applicant*.

“network” means those parts of the *SWIS* that are owned, operated or owned and operated by Western Power in respect of which access is given or sought under Western Power’s *access arrangement*.

“new revenue” means *anticipated incremental revenue* or *additional revenue* or both, as applicable.

“**reasonable time**” means the time determined in accordance with clause 5.3.

“**reduced demand payment**” has the meaning given to it in clause 8.1.

“**transmission asset**” means a *network asset* operated at 66 kV or above.

“**urban shared network**” means the part of the *network* that consists of all *transmission assets* located within a 50 km radius of the Perth GPO, as shown in Figure 1 and Figure 2.

“**works**”, with regards to *covered services* sought by an *applicant*, means all works that Western Power is required to undertake to provide the *covered services* to the *applicant*, including works associated with:

- (a) *augmentation of connection assets*; and
- (b) *augmentation of shared assets*; and
- (c) *alternative options*.

1.2 Code definitions apply

Unless the contrary intention is apparent, a term with a defined meaning in the *Code* has the same meaning in this *capital contributions policy*.

1.3 Interpretation

- (a) Unless the contrary intention is apparent:
 - (i) a rule of interpretation in the *Code*; and
 - (ii) the Interpretation Act 1984,apply to the interpretation of this *capital contributions policy*.
- (b) A reference to Western Power means a reference to the *network business* of Western Power.

2. Application

2.1 Application of this *capital contributions policy*

This *capital contributions policy* applies:

- (a) when an *applicant* has applied for:
 - (i) a new *covered service*; or
 - (ii) an increase in *contracted capacity* of an existing *covered service*;under the *applications and queuing policy*; and
- (b) when a provision in a *user's access contract* calls upon this *capital contributions policy*; and
- (c) when a person has applied to the Western Australian Planning Commission for approval to subdivide a property, and does not intend to become a *user* or an *applicant*.

2.2 Application of particular clauses

- (a) Clauses 10 and 11 of this *capital contributions policy* does not apply to *applicants* who are, or who act on behalf of, *consumers consuming*, or expected to *consume*, greater than 50 MWh per year and *generators*.
- (b) Clauses 5 to 9 and clause 11 of this *capital contributions policy* do not apply to *applicants* who are, or who act on behalf of, *consumers consuming*, or expected to *consume*, less than 50 MWh per year.
- (c) Clauses 5 to 10 of this *capital contributions policy* do not apply to any person who has applied to the Western Australian Planning Commission for approval to subdivide a property, and who does not intend to become a *user* or an *applicant*.

3. Lowest sustainable cost

The *forecast cost* of *works* required to provide *covered services* sought by an *applicant*, must not exceed the costs that would be incurred by a *service provider efficiently minimising costs*.

4. Applicant must make contribution

4.1 *Applicant must make contribution*

Western Power is not required to undertake *works* in respect of an *application* for a *covered service* until:

- (a) if the application of this *capital contributions policy* in relation to the *works* produces a *contribution* amount that is greater than zero, the *applicant* signs an *interconnection works agreement* to provide the *contribution* to Western Power in accordance with this *capital contributions policy*; and
- (b) where the *forecast costs* are greater than \$50,000, any portion of the *new revenue* that is expected to come from providing the *covered service* to the *applicant*, and that was used to calculate the *contribution*, is guaranteed under a signed *access contract*.

4.2 *Applicant may provide security for new revenue*

Clause 4.1(b) is satisfied if the *applicant* procures and at all times maintain an unconditional, irrevocable bank guarantee in terms acceptable to Western Power (acting as a *reasonable and prudent person*) guaranteeing the portion of *new revenue* referred to in clause 4.1(b).

5. Contribution

5.1 Amount of *contribution*

A *contribution* is required in respect of any *works* which are necessary to provide *covered services* to an *applicant*, and the costs of which do not meet the *new facilities investment test* or the *alternative option test*, as applicable, in part or in whole, and is calculated under clause 5.2.

5.2 Calculation of contribution

Where a *contribution* is required under this capital contributions policy, it is calculated by:

- (a) determining the appropriate portion of the *forecast costs* of the *works* to allocate to the *applicant* under clause 5.4; and

- (b) deducting any costs likely to be recovered by *new revenue* gained from providing the *covered services* to the *applicant*, as calculated over the *reasonable time*, at the *contributions rate of return*.

5.3 *Reasonable time*

For the purposes of clause 5.2, the *reasonable time* is to be determined by Western Power, as a *reasonable and prudent person*, having regard to:

- (a) the anticipated commercial life of the *works*, up to a maximum of 15 years; and
- (b) the purpose for which the *applicant* requires the *covered services*.

{Note: For example, if the *applicant* is proposing to build a plant with an expected five year operating period, then the reasonable time might be 5 years.}

5.4 Amount of *forecast costs*

- (a) Western Power may, acting as a *reasonable and prudent person* determine that the amount of the *forecast costs* to be allocated to the *applicant* under clause 5.2(a) is:
 - (i) the full amount of the *forecast costs*; or
 - (ii) an amount determined under clauses 5.4(b) to 5.4(e); or
 - (iii) an amount determined in any other way required to meet the *Code objective*.
- (b) If Western Power chooses to undertake works in excess of the *minimum practical works* to provide *covered services* sought by an *applicant*, then Western Power may determine that the amount of costs allocated to the *applicant* are the *forecast costs* of the *minimum practical works*.
- (c) If Western Power reasonably expects to receive *tariff* income from future *applicants*, because of *works* to provide *covered services* sought by an *applicant*, within a period of 5 years of the original *applicant's application*, then Western Power may apportion the *forecast costs* based on the *contracted capacity* sought by the *applicant* relative to total *contracted capacity* expected to be sought by those future *applicants*.
- (d) If Western Power has received more than one *application* requiring the same *works* to provide similar *covered services*, then Western Power may negotiate with the *applicants* under the *applications and queuing policy* to apportion the *forecast costs* of the *works* between the *applicants*, based on the relative use of the *works* sought by each *applicant*.
- (e) If *works* to provide *covered services* to an *applicant* provide specific savings to Western Power in performing its legal obligations, then Western Power may determine that the costs to be allocated to the *applicant* are the *forecast costs* less the amount saved.

5.5 *Connection assets*

The *applicant* must pay the full *forecast costs* of any *works* to provide dedicated *connection assets* where the provision of such *works* is subject to effective competition.

5.6 *Non-capital costs*

The *applicant* must pay to Western Power any *contribution* regarding *alternative options costs* calculated under this *capital contributions policy*, and the full amount of any other *non-capital costs* that Western Power incurs in providing *covered services* to the *applicant* that Western Power reasonably determines is payable by the *applicant*.

5.7 *Works over and above standard works*

If an *applicant* seeks:

- (a) a *connection* that is better in some respect than that described in the *technical rules*; or

{Note: this could be, for example, a design philosophy delivering increased security of supply}

- (b) a *reference service* at a *service standard* better than that specified by Western Power for the *reference service* in its *access arrangement*,

then the *applicant* must pay to Western Power the full *forecast costs* of any *works* needed to comply with that request.

6. **Manner of contribution**

6.1 Options for payment

A *contribution* may be made:

- (a) by the *applicant* by way of a financial payment comprising either:
 - (i) periodic financial payments, subject to clause 6.2; or
 - (ii) an up-front financial payment;or
- (b) by the Western Australian Government under any appropriate policy.

6.2 When *applicant* may choose periodic payment

- (a) The *applicant* may not elect under clause 6.2(a) to make the *contribution* by way of a periodic financial payment unless:
 - (i) a material proportion of the *works* will involve *transmission assets*; and
 - (ii) the total amount of the *contribution* exceeds \$1,000,000.

6.3 Terms and amount of periodic payment

- (a) If the *applicant* elects to make a *contribution* by way of periodic financial payment under clause 6.2(a), then:
 - (i) the maximum term over which the periodic payments may be made is 5 years; and
 - (ii) the minimum amount for each periodic payment is \$200,000 per annum; and

- (iii) interest of 15% per annum, calculated each calendar month, will be added to each periodic payment.

7. Rebates and recoupment

7.1 Where Western Power must provide rebate

- (a) Western Power must provide a rebate equal to a portion of a *contribution* paid by a *user* for *works* where:
 - (i) a subsequent *user* benefits from the *works* or a part of the *works* within 5 years of the date that the original *user* paid the *contribution*; and
 - (ii) the total *contribution* paid by the original *user* was greater than \$1,000,000; and
 - (iii) the amount to be rebated to the original *user* as determined under clause 7.4 is greater than \$100,000.
- (b) Western Power is not under any obligation to pay any rebate for a *contribution* to any *user* under any circumstance other than that expressly provided for under clause 7.1(a).

7.2 Western Power must adjust periodic payment

Western Power must adjust the periodic payments made by a *user* under clause 6.1(a)(i) such that the *user* is relieved of the obligation to pay a portion of a *contribution* for *works* where:

- (a) a subsequent *user* benefits from the *works* within 5 years of the date that the original *user* paid the first period payment of the *contribution*; and
- (b) the amount to be rebated to the original *user* as determined under clause 7.4 is greater than \$100,000.

7.3 New applicants must pay rebate

Where Western Power must pay a rebate to a *user* under clauses 7.1 or 7.2, each subsequent *applicant* that benefits from *works* within 5 years of the date that the original *user* paid the *contribution* must pay to Western Power an upfront amount equivalent to the rebate.

7.4 Rebate and amount recouped to be based on relative *contracted capacity*

The amount of a rebate given to a *user* under clauses 7.1 or 7.2, and an amount to be recouped from an *applicant* under clause 7.3, is determined by apportioning the amortised original *contribution* between the original *user* and each subsequent *applicant* based on the relative *contracted capacity* of each party, where the *contribution* is amortised completely in a straight line over 5 years.

8. Reduced demand payment

8.1 Western Power may recover *reduced demand payment*

If:

- (a) a *user* gives notice to Western Power seeking to:
 - (i) delete a *contracted point* from the *user's access contract*; or
 - (ii) reduce the *contracted capacity* at a *contracted point*; or

(iii) terminate the *user's access contract*,

within the *cost recovery period*, such that the *user's access charges* are reduced; and

- (b) no other *user* is likely to pay *access charges* in respect of that *contracted point* within the *cost recovery period*;

then Western Power may require the *user* to pay a “**reduced demand payment**”.

8.2 Calculation of *reduced demand payment*

- (a) Under this capital contributions policy, a *reduced demand payment* is the foregone *new revenue*, calculated over the *cost recovery period* from the time the *user* gives notice under clause 8.1(a).
- (b) For the purposes of clauses 8.1 and 8.2, the “**cost recovery period**” is the lesser of:
- (i) the *reasonable time*, as calculated when determining the original *contribution*; or
- (ii) the period when the *new revenue*, as calculated when determining the original *contribution*, equals the amount of *forecast costs* use to determine the original *contribution*.
- (c) The formula for calculating the *reduced demand payment* is:

$$\text{reduced termination payment} = \frac{(U_1 - U_2 - cc) \times X}{12} + \sum_{t=1}^n \frac{(U_1 - U_2 - cc) \times (1 + CPI)^{(t-1)}}{(1 + RR)^{(t-1)}}$$

where:

U_1 is the *access charge* applicable immediately prior to the time the *user* gives notice under clause 8.1(a); and

U_2 is the *access charge* applicable immediately after to the time the *user* gives notice under clause 8.1(a); and

cc is the annual connection charge at the time of termination, as published in the *price list* under Western Power's *access arrangement*; and

X is the number of months to the nearest anniversary of the commencement date of the *user's access contract* at the time of termination; and

n is the number of years remaining following the nearest anniversary of the commencement date of the *user's access contract* at the time of termination until the end of the *cost recovery period*; and

RR is the *contributions rate of return*.

9. **Transmission-connected generators**

9.1 Objectives regarding *transmission-connected generating plant*

The objectives of this *capital contributions policy* with regard to *transmission-connected generating plant* are:

- (a) to provide a means of recognising that the *connection* of new *generating plant* to the *network* provides *net benefit* to other *users*, for the purposes of calculating a *contribution* for works required to provide *covered services* to a new *generator*; and
- (b) to ensure that other *users* do not subsidise the cost of *connecting* new *generating plant* in economically inefficient locations, in accordance with the *Code objective*.

9.2 Connection to the urban shared network

Subject to clause 9.4, where an *applicant* seeks to *connect* new *generating plant* to the *urban shared network*, then the amount of the *forecast costs* allocated to an *applicant* for the purpose of calculating a *contribution* under clause 5 are the *forecast costs* of any augmentation regarding dedicated *connection assets* only.

9.3 Connection outside the urban shared network

Subject to clause 9.4, where an *applicant* seeks to *connect* new *generating plant* to a part of the *network* that is outside the *urban shared network*, then the amount of the *forecast costs* allocated to an *applicant* for the purpose of calculating a *contribution* under clause 5 are the *forecast costs* of all required *works*, except *augmentation* to the *urban shared network*.

9.4 Reactive power support

Where Western Power determines, as a *reasonable and prudent person*, that providing *covered services* in relation to *transmission-connected generating plant* requires *works* to provide reactive power support to the *generating plant*, then regardless of the location of the reactive power *works* or the *transmission-connected generating plant*, the *forecast costs* include the *forecast costs* of the reactive power *works*.

9.5 Extent of urban shared network

The extent of the *urban shared network* is shown Figure 1 and Figure 2.

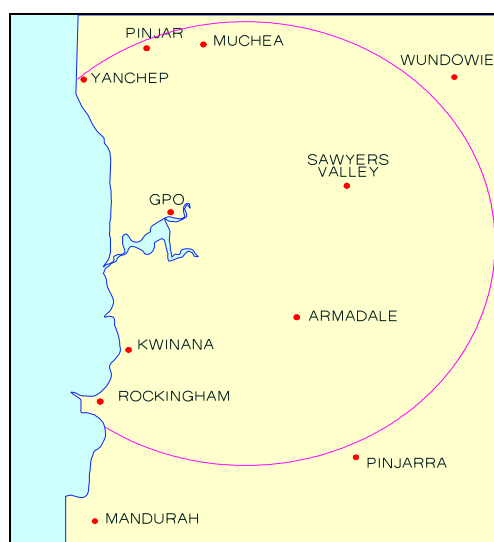


Figure 1: 50 km zone

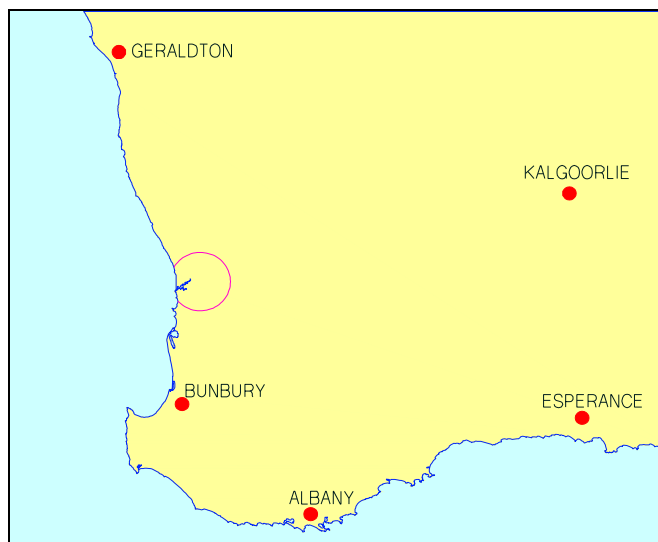


Figure 2: Expanded view of 50 km zone

10. **Consumers consuming less than 50 MWh per year**

10.1 Definitions

In this clause 10, the following terms have the following meanings.

“commercial consumer” means a person who *consumes*, or is expected to *consume*, less than 50 MWh per year of electricity for the purpose of:

- (a) a commercial or industrial business (including units, but excluding subdivisions); or
- (b) a *primary producer* with on-site secondary processing.

“residential consumer” means a person who consumes electricity for a non-commercial purpose.

“pole to pillar connection” means an underground 415 V *connection* from the underground service pillar located at the front of a *residential consumer’s* property to the nearest 415 V power pole.

“primary producer” means a person who carries out or is engaged in the business of farming or grazing on land that is

- (a) zoned for rural purposes under a town planning scheme; and
- (b) used solely or principally for agricultural or grazing purposes or for a combination of those purposes.

“SES contribution”, or “supply extension scheme contribution”, means a *contribution* calculated under clause 10.4.

10.2 Method of payment

Any *contribution* to be made by an applicant under this clause 10 shall be made as an upfront payment.

10.3 *Commercial consumers*

- (a) The *contribution* to be paid by an *applicant* who is, or acts on behalf of, a *commercial consumer* seeking a new *connection service* on an existing lot, is the *forecast costs* less a subsidy based on estimated retail revenue.
- (b) The subsidy is equal to the forecast retail revenue for the first year of operation of the commercial consumer up to 80% of the forecast cost. The forecast retail revenue is based on the appropriate Western Power Retail published retail tariff (excluding GST).

10.4 *Primary producers including rural domestic*

The *contribution* to be paid by an *applicant* who is, or acts on behalf of, a *primary producer* seeking a new *connection service* (an “**SES contribution**”) is calculated as the *forecast costs* x 1.77 x 0.57 plus any rebate due to previous *applicants* who have paid an *SES contribution*.

10.5 *Residential consumers qualifying for a pole to pillar connection*

The *contribution* to be paid by an *applicant* who is, or acts on behalf of, an individual *residential consumer* qualifying for a *pole to pillar connection* is the amount published by Western Power on its website for a *pole to pillar connection*.

10.6 *Unmetered supplies*

The *contribution* to be paid by an *applicant* who seeks a connection to a facility where the location or the size or nature of the load makes the installation of meters inappropriate is an amount equal to the full *forecast costs* of any *works* required to provide the *connection*.

10.7 *Public road street lighting*

The *contribution* to be paid by an *applicant* who seeks a *connection* to a new streetlight is an amount equal to the full *forecast costs* of any *works* required to provide the *connection*.

10.8 *Miscellaneous*

The *contribution* to be paid by an *applicant* who is, or acts on behalf of, a *consumer* seeking any *covered service* not described in clauses 10.2 to 10.6 is an amount equal to the full *forecast costs* of any *works* required to provide the *covered service*.

11. **Subdivisions**

A person who seeks to *augment* the *network* to service a subdivision may, at the person's election:

- (a) procure the *augmentation* itself, in which case the *network assets* comprised in that *augmentation* shall be vested in Western Power upon commissioning of the *network assets*; or
- (b) request Western Power to build the *augmentation*, in which case the *contribution* to be paid is an amount equal to the full *forecast costs* of any *works* required to provide the *augmentation*, to be paid as an upfront payment.