

Capital Contributions Policy

ELECTRICITY NETWORKS CORPORATION ("WESTERN POWER")

ABN 18 540 492 861

{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. Introduction

1.1 Definitions

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

“**access contract**” means an agreement between Western Power and another person for that person to have access to *covered services*.

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

“**Act**” means the *Electricity Industry Act 2004*.

“**alternative option contribution**” means a contribution made, or to be made, by an *applicant* 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*.

“**applicant**” means a person (who may be a *user*, a *customer* or a *developer*) who has lodged, or intends to lodge, a *connection application*.

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

“**Code**” means the *Electricity Networks Access Code 2004*.

“**Code of Conduct**” means the *Code of Conduct for the Supply of Electricity to Small Use Customers 2004*, made under section 79 of the *Act*.

“**connection application**” means an application lodged with Western Power under the *applications and queuing policy* that has the potential to require a modification to the *network*, including an application to:

- (a) *connect facilities and equipment* at a new *connection point*; or
- (b) *increase consumption or generation* at an existing *connection point*; or
- (c) *materially modify facilities and equipment connected* at an existing *connection point*; or
- (d) *augment the network* for any other reason,

{Note: this might be, for example, to service a subdivision.}

and includes any additional information provided by the *applicant* in regard to the application.

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

“consumption”, for a *connection point*, means the amount of electricity *consumed* at the *connection point*, and is measured in Watt-hours.

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

“customer” has the meaning given to it in the *Act*.

“developer” means a person who has applied to the Western Australian Planning Commission for approval to subdivide a property.

“entry point” has the meaning given to it in the *applications and queuing policy*.

“exit point” has the meaning given to it in the *applications and queuing policy*.

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

“generation”, for a *connection point*, means the amount of electricity *generated* at the *connection point*, and is measured in Watt-hours.

“greenfield development” means a new installation of *network assets* without the requirement of significant integration with the existing *network*.

“Metering Code” means the code made under Section 39(1) of the *Act* in respect of a matter referred to in Section 39(2)(a) of the *Act*, and includes any service level agreement, metering data agency agreement, communications rules, metrology procedure, mandatory link criteria and registration process developed under that code.

“minimum practical works” with regard to *covered services* sought by an *applicant*, means the minimum *works* Western Power must undertake, acting efficiently in accordance with *good electricity industry practice*, to provide only those *covered services* required by that *applicant*.

“modified test” means the *modified test* (as defined in the *Code*) approved in respect of the *access arrangement*.

“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 the *anticipated incremental revenue* or *additional revenue* or both, as applicable, with respect to *works*.

“non-capital costs” means the *non-capital costs* (as defined in the Code), but excluding *alternative option costs*, to be incurred by Western Power with regards to *works*.

“pole to pillar connection” means the provision of an underground 415 V or 240 V supply to a *residential customer* in an area otherwise serviced by an overhead network.

“primary producer” means a person assessed as a primary producer under the *Income Tax Assessment Act 1997* or equivalent enactment, and includes 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.

“reasonable time” means the time determined in accordance with clause 6.2.

“residential customer” has the meaning given to it in the *Code of Conduct*.

“retailer” has the meaning given to it in the *Act*.

“scheme”, means an extension of the *network* beyond the normal range of the *network* under section 61 of the *Energy Operators (Powers) Act 1979*.

“technical rules” means the *technical rules* (as defined in the Code) applying from time to time to the *network* under Chapter 12 of the Code, as modified in accordance with the Code.

“unmetered connection”, with respect to a *connection point*, has the same meaning as the term “type 7 connection point” when that term is used in the *Metering Code*.

“user” has the meaning given to it in the Code.

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

- (a) *augmentation of connection assets*; and
- (b) *augmentation of shared assets*; and

- (c) *alternative options*; and
- (d) other non-capital works.

1.2 Where *new facilities investment* meets *modified test*

Where Western Power is required to make a *new facilities investment* in response to an *access application*:

- (a) for a new streetlight; or
- (b) for an *unmetered connection*; or
- (c) for a *pole to pillar connection*; or
- (d) by, or on behalf of, a *primary producer* or *residential customer* seeking to connect to a *scheme*; or
- (e) by, or on behalf of, a *developer* in relation to the *distribution system*,

then the *new facilities investment* meets the *modified test* under section 6.53 of the *Code*.

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) Unless:

- (i) the *contrary* intention is apparent: or
- (ii) the term has been redefined in clause 1.1,

a term with a defined meaning in the *Code* has the same meaning in this *capital contributions policy*.

2. Application of this capital contributions policy

This *capital contributions policy* applies if it is necessary for Western Power to perform *works to provide covered services*.

3. Lowest sustainable cost

A *contribution* with respect to *covered services* sought by an *applicant* must not exceed the amount that would be required by a prudent *service provider* acting efficiently, in accordance with *good electricity industry practice* seeking to achieve the lowest sustainable cost of providing the *covered services*.

4. Applicant must make contribution

4.1 *Applicant* must make *contribution*

If the application of this *capital contributions policy* in relation to the *works* produces a *contribution* amount that is greater than zero, Western Power is not required to undertake *works* in respect of an *application* for a *covered service* until the *applicant* enters into a contract with Western Power under which the *applicant* agrees to provide the *contribution* to Western Power in accordance with this *capital contributions policy*:

4.2 *Applicant* must provide security for *new revenue*

- (a) Where the *forecast costs* are greater than \$50,000, Western Power may require the *applicant* to procure before the commencement of the *works*, and maintain for a period of 12 months after the commencement of the associated *exit service* or *entry service*, an unconditional, irrevocable bank guarantee, or equivalent financial instrument, in terms acceptable to Western Power (acting as a *reasonable and prudent person*), guaranteeing the portion of *new revenue* that is expected to come from providing an *exit service* or *entry service* using the *works*, and that was used to calculate the *contribution*.
- (b) Where an *applicant* has provided security under clause 4.2(a), then after 12 months, Western Power may:
 - (i) redetermine the *contribution* under this *capital contributions policy*, and recover from, or rebate, to the *applicant* any difference from the amount of the original *contribution*; or
 - (ii) require the *applicant* to maintain the bank guarantee or equivalent financial instrument for a further 12 months before redetermining the *contribution* in accordance with clause 4.2(b)(i).

5. Amount of Contribution

- (a) Where the *modified test* does not apply in respect of the *forecast costs* of any *works*, the *contribution* for that part of the *forecast costs* which does not meet the *new facilities investment test* or the *alternative option test*, as applicable, in part or in whole, is calculated under clause 6 and clause 8.

- (b) Where the *modified test* applies in respect of the *forecast costs* of any *works*, the *contribution* is calculated under clause 7 and clause 8.

6. Where modified test does not apply

6.1 Calculation of *contribution*

The *contribution* is calculated by:

- (a) determining the appropriate portion of the *forecast costs* of the *works* to allocate to the *applicant* under clause 6.3; and
- (b) 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*.

6.2 *Reasonable time*

For the purposes of this clause 6, 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 5 year operating life, then the *reasonable time* might be 5 years.}

6.3 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* for the purposes of clause 6.1(a) is:
 - (i) the full amount of the *forecast costs*; or
 - (ii) an amount determined under clauses 6.3(b) to 6.3(e).
- (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 will 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 will apportion the *forecast costs* based on the relative use of the *works* by the *applicant* compared to the relative use of the *works* expected to be sought by those future *applicants*.
- (d) If Western Power has received more than one *application* requiring the same *works*, 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 will determine that the costs to be allocated to the *applicant* are the *forecast costs* less the amount saved.

7. Calculation of contribution where modified test applies

7.1 Supply extension *scheme applicants*

The *contribution* to be paid by an *applicant* who is, or acts on behalf of, a *primary producer* or *residential customer* seeking to establish a new *exit point* within a *scheme* is an amount calculated under section 61 of the *Energy Operators (Powers) Act 1979* plus any rebate due to previous *applicants* who have paid a *contribution* in respect of the *scheme*.

7.2 Residential customers 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 customer* qualifying for a *pole to pillar connection* is the amount published by Western Power on its website for a *pole to pillar connection*.

7.3 Public road street lighting

The *contribution* to be paid by an *applicant* who seeks a modified or new streetlight is an amount equal to the full *forecast costs* of the required *works*, including the provision of the streetlight asset.

7.4 Subdivisions

A *developer* who seeks to augment the *distribution system* to service a subdivision, and who does not qualify for a *pole to pillar connection*, may, at the *developer's* election:

- (a) if the subdivision is a *greenfield development*, procure the *augmentation* itself, in which case the developer shall vest the *network assets* comprised in that *augmentation* 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, and
- (c) clauses 9 and 10 of this *capital contributions policy* do not apply.

8. General provisions

8.1 Connection assets

The *applicant* must pay the full *forecast costs* of any *works* to provide *connection assets*.

8.2 Non-capital costs

The *applicant* must pay to Western Power the full amount of any *non-capital costs* that Western Power incurs in performing *works*, which in any case must not exceed such costs that would be incurred by a prudent *service provider* acting efficiently in accordance with *good electricity industry practice*.

{Note: these costs might include, for example, adjusting protection settings, reprogramming computer equipment and so on.}

8.3 Works over and above standard works

If an *applicant* seeks a *covered service* that is better or different in some respect than an equivalent *service* in the *technical rules* or an equivalent *reference service* in the *access arrangement*, then the *applicant* must pay to Western Power:

- (a) a *contribution* calculated under this *capital contributions policy* for the equivalent *service*; and
- (b) the difference between the *forecast costs* of the *works* required to provide the equivalent *service* and the *forecast costs* of the *works* required to provide the better or different *service*, to the extent that the better or different *service* does not otherwise meet those parts of the *new facilities investment test* dealing with *net benefit*, safety or reliability.

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

8.4 Costs related to *technical rules* compliance

- (a) The *applicant* must pay a *contribution* calculated under this *capital contributions policy* in respect of any *works* required to upgrade the fault level ratings of *network assets*, or any other *works* required to ensure that Western Power complies with the *technical rules* with respect to the *network assets*.
- (b) The *applicant* must pay all of its own costs in relation to ensuring that its *facilities and equipment* comply with the *technical rules*.

8.5 Temporary supplies

The *contribution* to be paid by an *applicant* who seeks a temporary supply is, if no applicable amount is published on Western Power's website, an amount equal to the full *forecast costs* of the required *works*.

8.6 Relocation or underground of *network assets*

Subject to clause 7.2, the *contribution* to be paid by an *applicant* who seeks to have existing *network assets* relocated, including the undergrounding of overhead *network assets*, is an amount equal to the full *forecast costs* of the required *works*.

9. Manner of *contribution*

9.1 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 9.2; or
 - (ii) an upfront financial payment;

or

- (b) by the Western Australian Government under any appropriate government policy.

9.2 When *applicant* may choose periodic payment

The *applicant* may not elect under clause 9.1(a)(i) to make the *contribution* by way of a periodic financial payment unless the total amount of the *contribution* exceeds \$30,000

9.3 Terms and amount of periodic payment

- (a) If the *applicant* elects to make a *contribution* by way of periodic financial payment under clause 9.2, then:

- (i) the maximum term over which the periodic payments may be made is 5 years; and
- (ii) interest will be payable on each periodic payment, at a reasonable commercial rate to be negotiated between Western Power and the *applicant*.

10. Rebates and recoupment

10.1 Parties may negotiate rebate

(a) Subject to clause 10.1(c), where:

- (i) an *applicant* has paid a *contribution*, or is paying a *contribution* in the form of periodic payments, for *works* with respect to a *connection point* for which the full *forecast costs* of the *works* were allocated to the *applicant* under clause 6.3; and
- (ii) a subsequent *applicant* associated with a different *connection point* benefits from the *works* or a part of the *works* within 5 years of the date that the *contribution* was paid in respect of the original *connection point*,

then Western Power and the *applicant* may negotiate to require Western Power to provide a rebate.

- (b) Any negotiated rebate will be payable to the *customer* or the *user* associated with that *connection point* at the time of the *rebate* being payable.
- (c) A rebate under clause 10.1(a) will not be payable to a *developer*.
- (d) The amount of a rebate given to a *user* or *customer* under clause 10.1(a) is determined by apportioning the amortised *contribution* paid in respect of the original *connection point* between the *user* or *customer* associated with the original *connection point* 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.
- (e) Where:
 - (i) an *applicant* paid an *contribution* in respect of an *exit point* within a *scheme*; and
 - (ii) a person who is, or acts on behalf of, a *primary producer* or a *residential customer*, associated with a different *exit point* within the *scheme*, subsequently benefits from the *works*,

then Western Power must provide a rebate to the *customer* associated with the original *exit point* calculated under section 61 of the *Energy Operators (Powers) Act 1979*.

- (f) Western Power is not under any obligation to pay any rebate for a *contribution* to any *user* or *customer* under any circumstance other than that expressly provided for under clauses 10.1(a) and 10.1(e).

10.2 New *applicants* must pay rebate

Where Western Power must pay a rebate to a *user* or a *customer* in respect of a *connection point* under clause 10.1, each subsequent *applicant* that triggers such a rebate must pay to Western Power an upfront amount equivalent to the rebate.