

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” has the same meaning given to "access agreement" in the *Code*.

{Note: Under the *Code* "access agreement" has the meaning given to it in part 8 of the *Act*, and under section 13.4 (d) of the *Code* includes a "*deemed access contract*". The definition of **“access agreement”** under the *Act* is "an agreement under the *Code* between a network service provider and another person (a "network user") for that person to have access to services".}

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

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

“additional revenue” has the same meaning as given to it in the *Code*.

{Note: Under the *Code* "additional revenue" has the meaning given to it in section 6.42 of the *Code* when used in section 6.41 of the *Code*.}

“alternative options” has the same meaning given to it in the *Code*.

{Note: Under the *Code* "alternative options" in relation to a *major augmentation*, means "alternatives to part or all of the *major augmentation*, including demand-side management and *generation* solutions (such as *distributed generation*) either instead of or in combination with *network augmentation*".}

“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*.

“anticipated incremental revenue” has the same meaning given to it in the *Code*.

{Note: Under the *Code* "anticipated incremental revenue" for a new facility means "the present value (calculated at the *rate of return* over a reasonable period) of the increased *tariff* income reasonably anticipated to arise from the increased sale of *covered services* on the *network* to one or more users (where "increased sale of *covered services*" means sale of *covered services* which would not have occurred had the *new facility* not been commissioned),

minus

the present value (calculated at the *rate of return* over the same period) of the best reasonable forecast of the increase in *non-capital* costs directly attributable to the increased sale of the covered services (being the covered services referred to in the expression "increased sale of *covered services*" in paragraph (a) of this definition)".}

“applicant” means a person (who may be a *user*, a *customer* or a *developer*) who has lodged, or intends to lodge, a *connection application*, and includes a person who does so on behalf of another person.

“applications and queuing policy” means the applications and queuing policy (as defined in the *Code*) in the *access arrangement*.

“approved extensions and expansions policy” has the same meaning given to it in the *Code*.

{Note: Under the *Code* "approved extensions and expansions policy" in relation to a *covered network*, "has the meaning given to "approved policy" in section 60 of the *Act*".}

“augmentation” has the same meaning as given to it in the *Code*.

{Note: Under the *Code* "augmentation" in relation to a *covered network*, means "an increase in the capability of the *covered network* to provide *covered services*, including by the development, construction, acquisition or commissioning of new *network assets*".}

“capital contributions policy” has the same meaning given to it in the *Code*.

{Note: Under the *Code* "capital contributions policy" in relation to a *covered network*, means "a policy in an access arrangement under section 5.1(h) dealing with capital contributions by users in respect of augmentations".}

“Code” means the *Electricity Networks Access Code 2004* (as amended).

“connect” has the same meaning given to it in the *Code*.

{Note: Under the *Code* "connect" means "to form a physical link to or through a *network*".}

“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 assets” has the same meaning given to it in the *Code*.

{Note: Under the *Code* "connection assets" for a *connection point*, means "all of the *network assets* that are used only in order to provide *covered services* at the *connection point*".}

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

“**consume**” has the same meaning given to it in the *Code*.

{Note: Under the *Code* "consume" means "to consume electricity".}

“**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*.

“**covered service**” has the same meaning given to it in the *Code*.

{Note: Under the *Code* "covered service" means "a service in relation to the *transportation* of electricity provided by means of a *covered network*, including:

- (a) a *connection service*; or
- (b) an *entry service* or *exit service*; or
- (c) a network use of system service; or
- (d) a *common service*; or
- (e) a *service* ancillary to a *service* listed in paragraph (a) to (d) above,

but does not include an *excluded service*".}

“**cpi**” means the “all capitals consumer price index” as defined by the Australian Bureau of Statistics.

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

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

{Note: Under the *applications and queuing policy* "entry point" means "a single, indivisible (except as allowed under this *applications and queuing policy*) point, that for purposes under the *access arrangement* involving the transfer of electricity, is deemed to consist of a single *attachment point*, connected to or to be connected to a *user’s connection point*, with a single *meter* (regardless of the actual configuration of *network assets* making up the entry point), at which electricity is more likely to be transferred into the *network* than out of the *network*".}

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

{Note: Under the *applications and queuing policy* "exit point" means "a single, indivisible (except as allowed under this *applications and queuing policy*) point, that for purposes under the *access arrangement* involving the transfer of electricity, is deemed to consist of a single *attachment point*, connected to or to be connected to a *user’s connection point*, with a single *meter* (regardless of the actual configuration of *network assets* making up the entry point), at which electricity is more likely to be transferred out of the *network* than into the *network*".}

“**facilities and equipment**” has the same meaning given to it in the *Code*.

{Note: Under the *Code*, "facilities and equipment" in relation to a *connection point*, means "the apparatus, equipment, plant and buildings used for or in connection with *generating, consuming* and *transporting* electricity at the *connection point*".}

"forecast new facilities investment" has the same meaning given to it in the *Code*.

{Note: Under the *Code* "forecast new facilities investment" for a *covered network* means "the capital costs forecast to be incurred in developing, constructing and acquiring new *network assets* for the *covered network*".}

"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.

"good electricity industry practice" has the same meaning given to it in the *Code*.

{Note: Under the *Code* "good electricity industry practice" means "the exercise of that degree of skill, diligence, prudence and foresight that a skilled and experienced person would reasonably and ordinarily exercise under comparable conditions and circumstances consistent with applicable *written laws* and *statutory instruments* and applicable recognised codes, standards and guidelines".}

"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*.

"network" means those parts of the SWIS that are owned and operated by Western Power.

"network assets" has the same meaning given to it in the *Code*.

{Note: Under the *Code* "network assets", in relation to a *network* means "the apparatus, equipment, plant and buildings used to provide or in connection with providing *covered services* on the *network*, which assets are either *connection assets* or *shared assets*".}

"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*.

"reasonable time" means the time determined in accordance with clause 5.3.

"retailer" has the meaning given to it in the *Act*.

"scheme" means an arrangement with respect to the undertaking of *works* developed under a Supply Extension Scheme as set out under clause 4 of the *approved extensions and expansions policy*.

"service provider" has the same meaning given to it in the *Code*.

{Note: Under the *Code* "service provider" in relation to a *network* means "a person who owns or operates the *network*".}

"shared assets" has the same meaning given to it in the *Code*.

{Note: Under the *Code* "shared assets" means "those *network assets* which are not *connection assets*".}

"SWIS" has the meaning given to it in the *Code*.

{Note: Under the *Code* "SWIS" "the interconnected transmission and distribution systems, generating works and associated works

- (a) located in the South West of the State and extending generally between Kalbarri, Albany and Kalgoorlie; and
- (b) into which electricity is supplied by
 - (i) one or more of the electricity generation plants at Kwinana, Muja, Collie and Pinjar; or
 - (ii) any prescribed electricity generation plant"

"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*.

"user" has the same meaning given to it in the *Code*.

{Note: Under the *Code* "user" means "a person, including a *generator* or a *consumer*, who is a party to an [*sic.*] contract for services with a *service provider*, and under section 13.4(e) includes another *business* as a party to a *deemed access contract*".}

"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. 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

- (a) Subject to (b) and (c) below, this *capital contributions policy* applies if it is necessary for Western Power to perform *works* to provide *covered services*.
- (b) If the *approved extensions and expansions policy* applies to *works*, then the *contribution* for those *works* is the amount determined under the *approved extensions and expansions policy*. Where a *contribution* is determined under the *approved extensions and expansions policy*, the provisions of this *capital contributions policy* do not apply.
- (c) In accordance with sections 5.14 and 5.14A of the *Code*, an *applicant* is only required to pay a *contribution* for *works* which:
 - (i) do not satisfy the *new facilities investment test*, or
 - (ii) are *works* for which an *approved extensions and expansions policy* requires an *applicant* to pay such a *contribution*.

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 a *connection application* for a *covered service* until the *applicant* enters into a contract with Western Power under which the *applicant* agrees to provide the *contribution*, including any GST liability, to Western Power in accordance with this *capital contributions policy*.

4.2. Payment of GST

The payment of a *contribution* will be subject to GST and Western Power will request a *customer* to pay an additional amount equal to Western Power's GST liability. Western Power may request payment of this additional amount at the time Western Power's GST liability arises.

4.3. *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 4.3(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 4.3(b)(i).

5. Amount of Contribution

5.1. Interpretation

- (a) For the avoidance of doubt, this clause 5 is to be read subject to the provisions of clause 2 of this *capital contributions policy*.
- (b) For the purposes of this clause 5: -
 - (i) the definition of '*new facilities investment test*' is that set out in section 6.52 of the *Code*, but without having regard to subsection 6.52(b)(i) thereof; and
 - (ii) the definition of '*alternative option test*' is that set out in section 6.41 of the *Code*, but without having regard to subsection 6.41(b)(i) thereof.

5.2. Calculation of *contribution*

The *contribution* for that part of the *forecast costs* of the *works* which does not meet the *new facilities investment test* or the *alternative option test*, as applicable, in part or in whole, 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 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

- (c) adding any applicable amount calculated under clause 6.

5.3. *Reasonable time*

For the purposes of clause 5.2(b), 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.}

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* for the purposes of 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).
- (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:
 - (i) 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 10 years of the original *applicant's connection application*; or
 - (ii) an *applicant* seeks a *covered service* that will make use of *works* undertaken to provide *covered services* to a previous *applicant*, within a period of 10 years of the original *applicant's connection application*, and for which the original *applicant* paid a *contribution* calculated under clause 5.4(c)(i),

then Western Power will apportion the *forecast costs* (as forecast at the time of the original *applicant's connection application*) 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*, or the relative use of the *works* sought by previous *applicants*, or both, as applicable.

- (d) If Western Power has received more than one *connection 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.

6. General provisions

For the avoidance of doubt, this clause 6 is to be read subject to the provisions of clause 2 of this *capital contributions policy*.

6.1. Connection assets

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

6.2. 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.}

6.3. 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}

6.4. 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*.

6.5. 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*.

7. Manner of contribution

7.1. 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 7.2; or
- (ii) an upfront financial payment;

or

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

or

(c) by the *applicant* undertaking the *augmentation* and transferring ownership of the *augmentation*, subject to clause 7.4.

7.2. When *applicant* may choose periodic payment

The *applicant* may not elect under clause 7.1(a)(i) to make the *contribution* by way of a periodic financial payment unless the total amount of the *contribution* exceeds \$30,000.

7.3. Terms and amount of periodic payment

(a) If the *applicant* elects to make a *contribution* by way of periodic financial payment under clause 7.2, 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*.

7.4. *Augmentations* undertaken by *applicants*

(a) An *applicant* may, with Western Power's approval, construct an *augmentation* of the *network*.

- (b) Where an *applicant*, in accordance with (a) above, constructs an *augmentation* of the *network*, the *applicant* shall agree to transfer the ownership of the *augmentation* to Western Power on such reasonable terms and conditions as may be stipulated by Western Power (after Western Power has tested the *augmentation* and certified that it meets the applicable technical standards) but in no circumstance will Western Power become obliged to make any payment to the *applicant* or any other person with respect to the *augmentation*.

{Note: An *applicant* is required to pay to Western Power the fees set by Western Power from time to time associated with Western Power testing the *augmentation* to establish that it meets the applicable technical standards for the *augmentation* to connect to the *network*.}

8. Rebates and recoupment

8.1. Parties may negotiate a rebate

- (a) 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 5.4; and
 - (ii) the value of the *contribution* is in excess of \$100,000,

then Western Power and the *applicant* may negotiate to require Western Power to provide a rebate in circumstances where a subsequent *applicant* associated with a different *connection point* benefits from the *works* or a part of the *works* in respect of the original *connection point*.

- (b) 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) the value of the *contribution* is less than or equal to \$100,000,

then Western Power and the *applicant* may negotiate to require Western Power to provide a rebate in circumstances where a subsequent *applicant* associated with a different *connection point* benefits from the *works* or a part of the *works* within 10 years of the date that the *contribution* was paid, or periodic payments of the *contribution* began, in respect of the original *connection point*.

- (c) 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.

- (d) The amount of a rebate given to a *user* or *customer* under clause 8.1(b) 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 10 years.
- (e) 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 clause 8.1(a) and (b).

8.2. 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 8.1, each subsequent *applicant* that triggers such a rebate must pay to Western Power an upfront amount equivalent to the rebate.

8.3. *Scheme* rebates under *approved extensions and expansions policy*

Nothing in this clause 8 affects the obligations of Western Power to pay a member of a *scheme* a rebate in accordance with an *approved extensions and expansions policy*.