

Access Arrangement Information

Contributions Policy revisions

Demonstration of Code Compliance

**ELECTRICITY NETWORKS CORPORATION
("WESTERN POWER")**

ABN 18 540 492 861

{Outline: This document is included in Western Power's access arrangement information in accordance with section 4.2 of the Code.}

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1 Introduction

Western Power's approved Capital Contributions Policy (CCP) describes the circumstances where an augmentation is required to the network to provide covered services sought by an applicant in a connection application, and there is a need to determine whether a contribution is required and the amount of any contribution. The approved CCP will now take the form of a "Contributions Policy" (CP) in accordance with the revised provisions of the Electricity Networks Access Code 2004 (the Code) including the revisions proposed in the Electricity Networks Access Code Amendments (No 2) 2008, (as described on the Office of Energy website in its advice dated 11 July 2008). It is expected that these revisions will be gazetted in October, 2008. Should those revisions be changed prior to being gazetted, then there may be required changes to both the CP and to this appendix.

This document explains how the revisions to the CCP comply with the Code and, where applicable, how the revisions differ from the model contributions policy in Appendix 4 of the Code.

Western Power's CP is consistent with sections 2.10 to 2.12, and 5.12 to 5.17D of the Code. Whilst it is broadly consistent with the model CP, a number of changes have been made relative to the model to facilitate the practical application of the policy.

The main changes from the approved CCP are as follows:

- The CP now explicitly deals with contributions related to capital costs, non-capital costs, alternative option costs and headworks. Thus the definition of "works" has been modified to include headworks.
- Under clause 2, "application of this policy" reference is now made to "appendix 8 contributions" (clause 2(b)) instead of the previous reference to the "extensions and expansions policy", which was replaced by appendix 8 in the Code.
- Clause 2(c) now explicitly refers to capital costs, alternative option costs, non-capital costs, and headworks.
- Clause 4.3 has been expanded to provide additional flexibility for security for new revenue where the cost of the works exceeds \$1,000,000.
- Clause 5.2 has been expanded to include headworks contributions and contributions related to technical code compliance.
- Clause 5.4 (c) has been modified to allow Western power greater discretion in the period over which it can take into account an expectation of receiving future tariff income for works undertaken in response to a connection application.
- Clause 6 describes the distribution headworks scheme.

- Clause 8.1 has been expanded to allow for an adjustment to the contribution to reflect actual costs incurred rather than forecast costs, where the cost of the works exceed \$1,000,000.
- Clause 8.3 has been expanded to allow for Western Power to seek security over periodic payments.
- Clause 9.1 has been added to make it clear that the rebate provisions do not apply to headworks contributions.
- Clause 9.2 has been expanded to allow for more flexibility in negotiations for rebates where the contribution is in excess of \$1,000,000. In addition the previous threshold of \$100,000 has been increased to \$200,000 to reflect the increase in costs that now apply to works.

Section 5.17A of the Code allows for contributions to be determined in accordance with Appendix 8 of the Code, including for assets that otherwise meet the new facilities investment test (NFIT). The CP allows for contributions to be determined under the Appendix 8 if that policy applies. In all other circumstances capital contributions are determined under this CP.

2 Code Compliance

This section demonstrates that the revisions to the approved CCP meet the requirements of the Code. The revised CCP now takes the form of the CP.

2.1 Clause 1.1 - Definitions

Definitions have been inserted to support the introduction of the distribution headworks scheme into the CP. These include definitions for; “adjusted capacity requirement”, “feeder diversity factor”, “mixed zone”, “nominated capacity requirement”, “price components”, “relevant area”, “relevant connection point”, “relevant zone substation”, “rural zone”, and “works”.

The definition for alternative option has been broadened from that in the Code to take into account alternative options that are not in relation to a major augmentation.

The definitions of “distribution system” and “transmission system” have been included, but differ from that in the Code in that all assets within zone substations are treated as transmission assets, consistent with the asset definitions that apply to the determination of the regulated asset bases for transmission and distribution.

2.2 Requirement to undertake work and funding of work

Under sections 2.10 and 2.11 of the Code Western Power must undertake and fund the work if the work is required work, and where a contribution is required, the applicant provides the contribution.

Clause 4.1(a) of the CP complies with sections 2.10 and 2.11 of the Code

Where Western Power has determined that part of the new facility meets the NFIT, based on forecast new revenue, there may be a requirement for the applicant to provide security for the forecast new revenue under clause 4.3 of the CP.

Under section 2.12 of the Code Western Power is required to undertake headworks as necessary under the headworks scheme. Clause 4.1(b) of the CP complies with this section.

Therefore, the CP meets the requirements of sections 2.10 to 2.12 of the Code.

2.3 Objectives of the CP

Section 5.12 of the Code defines the objectives of the CP. In particular, it requires the policy to strike a balance between the interests of the applicant, other users and consumers. In addition, it must not constitute a barrier to entry.

Clause 2 of the CP is designed so that the CP covers all cases where Western Power is required to perform works in response to an application seeking covered services. This clause ensures that all contributions that Western Power receives are determined in accordance with the CP and, thus, ensures that the CP is applied consistently across all applicants. This ensures a balance between individual applicants, and between applicants and users.

Clause 3 of the CP ensures that the amount of the contribution cannot exceed the amount that would be required by a prudent service provider seeking to achieve the lowest sustainable cost of providing covered services. This ensures that the amount of the contribution is as low as practicable in the circumstances and, thus, assists in the CP not constituting a barrier to entry.

Clause 4.3 of the CP provides Western Power with the opportunity to require security for the 'new revenue' associated with a forecast cost in excess of \$50,000. This security requirement is generally limited to two years where forecast costs are less than \$1M, but where forecast costs exceed \$1M, there is greater flexibility for the applicant and Western Power to negotiate an appropriate security arrangement. This provision encourages applicants to accurately assess their forecast energy consumption and, therefore, accurately forecast new revenue. In this way, the policy is not left open to abuse and the determination of the contribution will be equitable across applicants. The provision also ensures that there is no cross subsidy between existing and new users.

Clauses 5.2 and 5.3 of the CP require Western Power to calculate the contribution over a reasonable period of time (up to a maximum of 15 years), taking into account the nature of the connection. Clause 5.4 (b) ensures that only the cost of the minimum practical works is allocated to the applicant. Works above the minimum practical works would be funded by Western Power and included in the approved costs only if it meets the NFIT. Clause 5.4(c) requires Western Power to take into account forecast future use of the new facility in allocating costs to the applicant. Clause 5.4(d) allows for a negotiated outcome where more than one

applicant applies for connection requiring the same works. Clause 5.4(e) requires any saving generated by the works to be taken into account in the determination of a contribution.

Each of the sub-clauses under 5.4 ensures a balance between the applicant and other users (including future users) and customers. They also act to avoid any barrier to entry.

Clause 6 describes the distribution headworks scheme under which eligible applicants all pay a headworks charge which reflects a sharing of the cost of headworks over time on an equitable basis.

Clause 7 sets out the general provisions that apply to all applicants.

Clause 7.1 states that Western Power may require the applicant to pay the full cost of connection assets. In reality, this applies to transmission customers and large distribution customers where there is a clearly identified dedicated asset that connects the applicant to the existing network. In many cases, the applicant could choose to provide this asset itself or elect for Western Power to provide the asset. The decision to request Western Power to provide the asset is generally made on economic or practical grounds. On this basis, Western Power requires the applicant to fund the full cost. This is not seen as a barrier to entry and strikes a balance between the interests of existing users and applicants.

Clause 7.2 requires applicants to pay the full cost of non-capital costs associated with the works. This requirement ensures that costs that cannot be capitalised are paid by the applicant and not passed onto other users.

Under clause 7.3, customers who require works above the standard normally provided in accordance with the relevant technical standards, must fund the cost of the difference between the works required and the standard works. This ensures that other users do not meet any part of the cost to provide works that a particular applicant requires to satisfy an individual need. This ensures a balance between the applicant and other users.

Clause 7.4 is included for clarity. This provision ensures that applicants fund the cost of works that are required, to meet technical compliance. This ensures a balance between the applicant and other users.

Clause 7.5 provides for applicants to fully fund any temporary works required by an applicant. Such works cannot be capitalised and as such, this provision ensures a balance between the applicant and other users.

Clause 8 describes the manner of payment of a contribution. It provides for three options, those being:

- Up-front capital contribution,
- Time payment of a capital contribution, or

- The applicants may, with the approval of Western Power, construct the asset themselves and transfer ownership of that asset to Western Power.

The time payment option is available where the contribution is in excess of \$50,000. The time payment option is designed to reduce any barrier to entry. Western Power does not seek to be a provider of credit but accepts that time payment may be an appropriate component of an applicant's financial arrangements. The threshold has been increased from \$30,000 to reflect movements in costs over the first access arrangement period. Western Power does not routinely require security over periodic payments but has the option to do so should circumstances suggest that is appropriate.

The option for applicants to construct the asset themselves allows for the applicant to seek a competitive price for provision of the connection. This option provides assurance to the applicant that the cost of connection reflects a fair market price for the service.

Clause 9 provides for the payment of a rebate to an applicant where a subsequent applicant gains a benefit from works associated with the previous applicant (this does not apply to contributions under the headworks scheme). This issue has been highlighted over the years as being a particular barrier to entry for rural customers where the contribution can be large. The promise of a rebate from likely future users may enhance the viability of a rural project. This clause reduces any barrier to entry and provides for a balance between the applicant and future users.

Therefore, the CP meets the requirements of section 5.12 of the Code.

2.4 Contribution policy must facilitate operation of the Code

Section 5.13 of the Code requires the CP to facilitate the operation of the Code including sections 2.10 to 2.12, NFIT, sections 5.14 to 5.17D, and the regulatory test.

As described in section 2.2 of this Appendix, the CP facilitates the requirements of sections 2.10 to 2.129 of the Code.

Sections 5.14, 5.17A and 5.17B of the Code provide for the circumstances under which a contribution is to be made. Clauses 2 and 5 of the CP describes the circumstances when and the method by which the amount of a capital contribution is to be determined and the approach is entirely consistent with the requirements of these sections of the Code.

Nothing in the CP prevents the operation of the regulatory test. This includes any alternative option that may be the outcome of a regulatory test determination. Equally the CP facilitates the operation of the NFIT because the capital contributions calculated under the CP relate only to assets that do not meet the NFIT.

Therefore, the CP meets the requirements of section 5.13 of the Code.

2.5 Contribution policy and the NFIT

Section 5.14(a) of the Code provides that the CP must not require a contribution for any part of a new facility that meets the NFIT. Section 5.17A of the Code allows for capital contributions to be charged whether or not the investment meets the NFIT, provided the capital contribution is determined under Appendix 8 of the Code.

The CP has been designed to meet the requirements of both sections 5.14(a) and 5.17A of the Code. This is achieved through clauses 2(b) and 5 of the CP in which a contribution can only be determined under the CP, or under Appendix 8 (or both).

Therefore, the CP meets the requirements of section 5.14 and 5.17A of the Code.

2.6 Contribution policy must set out certain matters

Section 5.15 of the Code requires the CP to set out the circumstances in which an applicant is required to make a contribution, the method to calculate the contribution and the terms under which the contribution is to be made.

Clause 2 describes the application of the CP, including the circumstances under which a contribution is determined under the Appendix 8, and clause 5 describes the circumstances under which a contribution will be required under the provisions of the CP.

Clauses 5, 6, and 7 describe the method by which a contribution is to be calculated.

Clause 8 describes the terms under which the contribution is to be made.

Clause 9 describes the circumstances under which a rebate may be determined.

Therefore, the CP meets the requirements of section 5.15 of the Code.

2.7 Basis for contribution policy

Section 5.16 of the Code provides that the CP may be based in part, or whole, on the model CP, or be prepared without any reference to the model CP.

The CP is based in part on the model CP. Therefore the CP meets the requirements of section 5.16 of the Code. Section 3 below describes the differences between this CP and the model CP.

2.8 Headworks charges

Section 5.17C and 5.17D of the Code provide for the inclusion of a distribution headworks scheme within the Contributions Policy. Clauses 2(c)(iv), 5.2(b), and 6 describe the application and determination of the headworks charge.

Section 5.17D(a) of the Code requires the headworks scheme to identify the class of works that fall within the definition of headworks. This is defined in Clause 6.1(a) of the CP.

Section 5.17D(b) of the Code requires the headworks charges to be less than 1% of target revenue. This forecast revenue from headworks charges is less than 0.3% of target revenue which comfortably meets this requirement.

Section 5.17D(c) of the Code requires identification of the class of users required to pay this charge. That requirement is met in clause 6.1(b) of the CP.

Section 5.17D(d) of the Code sets out the requirements for calculating the headworks charges. Those requirements are met in clauses 6.2 to 6.8 of the CP. In addition section 5.17D(d)(v) of the Code allows for the headworks charge to exclude the provisions of rebates. Clause 9.1 of the CP specifically excludes the headworks contribution from the rebate provisions of the CP. Therefore, the CP meets the requirements of sections 5.17C and 5.17D of the Code.

3 Differences between CP and the Model CP

3.1 Definitions

The definitions in the CP are generally consistent with:

- the model CP,
- other proposed policies and contracts, and
- the Code.

All defined terms used in the CP that have definitions the same as in the Code have the definition repeated in the CP for ease of use.

In addition the following items have been further defined for clarity:

“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".}

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

“adjusted capacity requirement” means the capacity requirement determined in accordance with clause 6.3(a) with respect to a *connection application*.

“alternative options” means "alternatives to part or all of a *network* enhancement, including demand-side management and generation solutions (such as distributed generation) either instead of or in combination with a *network* enhancement.

“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*, 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*.

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

“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” has the same meaning given to it in the *Code*, but also includes an *alternative option contribution*.

{Note: Under the *Code* "contribution" in relation to a *covered network*, means “a *capital contribution*, a *non-capital contribution* or a *headworks charge*”.

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

“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*.

“distribution system” has the same meaning given to it in the *Code*, but excludes equipment within zone substations used for the transportation of electricity at nominal voltage of less than 66 kV.

“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*".}

“feeder diversity factor” means the factor applied to the *capacity requirement* that reflects the effective contribution of the *connection capacity* to the feeder peak load.

“forecast costs” means any or all of the *forecast new facilities investment* or the forecast *alternative option costs*, 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 kilowatts.

“headworks” means enhancements required to the existing *HV* three-phase *distribution system* that provides for an increase in capacity of that system.

“headworks scheme” means the *scheme* described in clause 6 of this *contributions policy*.

“HV” means the high voltage level of the distribution network where the voltage is greater than 6kV and less than 66kV.

“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*.

“mixed zone” has the meaning given to it in section 4.3 of the price list information in the *access arrangement*.

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

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

“nominated capacity requirement” means the capacity requirement nominated under clause 6.4 in a *connection application* with respect to that *connection application*.

“non-capital contribution” means a payment or provision in kind made, or to be made, by a *user* in respect of any *non-capital costs* (or forecast *non-capital costs*) of *required work*

“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*.

“price components” means the price components in clause 6.8.

“reasonable and prudent person” means a person acting in good faith and in accordance with *good electricity industry practice*.

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

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

“relevant area” with respect to *connection applications* in relation to the *distribution system* means any area where the *relevant connection point* is located at a distance along the line feeder route equal to or greater than 25 km from the *relevant zone substation* within the *network* in the *rural zone* or *mixed zone*.

“relevant connection point” means, with respect to a *connection application*, the appropriate *connection point* as determined under clause 6.5.

“relevant zone substation” means the zone substation to which the new or upgraded *connection* will be connected under normal system operating conditions.

“required work” means *work* which is necessary in order to provide a *covered service* sought in a *connection application*.

“**rural zone**” has the meaning given to it in section 4.3 of the price list information in the *access arrangement*.

“**scheme**” has the same meaning as given to it in Appendix 8 of the *Code*.

“**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*.

“**transmission system**” has the same meaning given to it in the *Code*, but also includes equipment within zone substations used for the transportation of electricity at nominal voltage of less than 66 kV.

“**works**” includes *headworks* and all works required to be undertaken to provide an *applicant* with the *covered services* sought by the *applicant* in a *connection application*, including works associated with:

- (a) *augmentation of connection assets*;
- (b) *augmentation of shared assets*;
- (c) *alternative options*; and
- (d) other non-capital works.

In addition the definitions of “Code objective”, “new service”, “non-capital contribution”, “payment contract”, “provision in kind”, “provision in kind contract”, and “relevant applicant”, have been excluded from the CP because the terms have not been used.

The model CP no longer deals with alternative options separately. It now includes alternative options in non-capital costs and contributions under section A4.5(b). The CP is designed to treat non-capital contributions and alternative option contributions separately, primarily for clarity. Alternative options can be tested against the “alternative options test” whereas other non-capital costs are tested against a prudence test under section 5.14(b) of the *Code*. This does not create any inconsistency with the Model CP.

3.2 Application

Clause 2 of the CP sets out the circumstances under which the CP applies. It directly reflects the requirements of sections 5.14, and 5.17A of the *Code*.. This is consistent with the requirement of section A4.4 of the model CP, with the addition that it now reflects the changes to sections 5.14 and 5.17A of the *Code*.

3.3 Lowest sustainable cost

Clause 3 of the CP is directly based on clause A4.6 of the model CP.

3.4 Circumstances where a contribution must be made

Clause 4.1(a) of the CP makes it clear that, if the application of the CP in relation to the works produces a contribution amount that is greater than zero, Western Power is not required to undertake any works relating to an application for a service until the applicant enters into a contract with Western Power in which it agrees to provide the contribution to Western Power in accordance with the CP.

Additionally, where the forecast costs are greater than \$50,000, Western Power may require the applicant to provide security. This provision is designed to ensure that the forecast new revenue that results from the augmentation, and was used to determine the contribution, is achieved

This meets the intent set out in A4.8 of the model CP and section 2.10 to 2.12 of the Code, but expands on these provisions to ensure Western Power can recover the costs of works.

3.5 Contribution

Clauses 5, 6 and 7 of the CP provide guidance as to how a capital contribution is to be determined under the CP. Clause 6 (distribution headworks scheme) is not included in the model CP. However it is consistent with sections 5.17C and 5.17D of the Code and there is provision in the model CP suggesting that the Authority should consider how the CP should differ from the model CP.

With respect to clauses 5 and 7 of the CP, while the CP provides more detail than the model CP the provisions are entirely consistent with sections A4.5, and A4.7.

3.6 Where Appendix 8 contributions applies

Clause 2(b) of the CP defines where the capital contribution is to be determined under the provisions of Appendix 8 of the Code. There is no equivalent clause in the model CP. The clause has been inserted because it reflects the requirements of the new section 5.17A of the Code.

3.7 General Provisions

The clause 7 on general provisions covers the following cases.

- Connection assets
- Non-capital costs
- Works over and above standard works
- Costs related to technical rules compliance
- Temporary supplies

These particular circumstances are not covered in the model CP. However they clarify the approach taken in each of the cases, and as demonstrated in section 2 of this Appendix, they comply with the various provisions of the Code.

3.8 Manner of contribution

Clause 8 of the CP deals with the options for payments of contributions. This clause is consistent with clauses A4.11, A4.12 and A4.14 of the model CP. It should be noted that where the contribution exceeds \$1,000,000, a revised clause 8.1 has been included which provides additional flexibility to allow for reconciliation of the contribution against actual costs, rather than forecast costs. The vast majority of contributions are based on forecast costs, which avoids any requirement for the applicant to bare the risk associated with variations in cost from that which was forecast. The vast majority of applicants prefer this approach.

3.9 Rebates

Rebates are offered under clause 9 of the CP. The provision is consistent with clause A15 of the model CP. It should be noted that where the contribution exceeds \$1,000,000, a new clause 9.2(a) has been included which provides additional flexibility to negotiate appropriate terms.