

Issues Paper on Proposed Revisions to the Access Arrangement for the South West Interconnected Network

Submitted by Western Power

5 November 2008

Economic Regulation Authority



WESTERN AUSTRALIA

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CONTENTS

Key Points	iv
1 Introduction	1
2 Amendments to an Access Arrangement	2
3 Required Content of an Access Arrangement	4
4 Reference Services	5
4.1 Access Code Requirements	5
4.2 Current Access Arrangement	7
4.3 Proposed Revisions	7
5 Standard Access Contract	8
5.1 Access Code Requirements	8
5.2 Current Access Arrangement	9
5.3 Proposed Revisions	9
6 Service Standard Benchmarks	11
6.1 Access Code Requirements	11
6.2 Current Access Arrangement	11
6.3 Proposed Revisions	12
7 Reference Tariffs and The Price Control	14
7.1 Access Code Requirements	14
7.2 Total Costs and Target Revenue	16
7.3 Price Control	30
7.4 Pricing Methods, Price List and Price List Information	32
7.5 Adjustments to Target Revenue in the Next Access Arrangement Period	36
8 Applications and Queuing Policy	38
8.1 Access Code Requirements	38
8.2 Current Access Arrangement	39
8.3 Proposed Revisions	40
9 Contributions Policy	40
9.1 Access Code Requirements	40
9.2 Current Access Arrangement	42
9.3 Proposed Revisions	42

KEY POINTS

- On 1 October 2008, Western Power submitted to the Economic Regulation Authority (“**Authority**”) proposed revisions to its access arrangement for the South West Interconnected Network (“**SWIN**”) (“**proposed revised access arrangement**”).
- Western Power has not proposed any changes to the range of transmission and distribution reference services offered under the current access arrangement, but has proposed two substantive changes to the electricity transfer access contract for all reference services.
 - Inclusion of a provision allowing Western Power to unilaterally reduce a user’s contracted capacity at a connection point, where that contracted capacity is not being used by the user and Western Power is of the opinion that the contracted capacity is unlikely to be used. A similar provision to this was proposed for the current access arrangement, but was required by the Authority to be removed before the access arrangement was approved.
 - Sunset clauses on claims for adjusting payments in respect of payment errors.
- Western Power has proposed very substantial increases in target revenue and reference tariffs – real increases in network charges of 40 per cent from 2008/09 to 2009/10 for both transmission and distribution charges, and subsequent annual real increases in 2010/11 and 2011/12 of 37.2 per cent for transmission charges and 30 per cent for distribution charges.

The proposed increases in reference tariffs result from:

- a substantial increase (56 per cent in real terms) in forecast non-capital costs over the actual costs incurred in the current access arrangement period, particularly for the distribution network;
 - substantial new facilities investment for both the transmission and distribution networks, including a substantial increase in forecast investment for the second access arrangement period (74 per cent in real terms) over that which occurred in the current access arrangement period;
 - an increase in the rate of return from 6.76 per cent (real, pre-tax) for the current access arrangement period to 8.95 per cent; and
 - a change in the regulatory treatment of capital contributions that implies higher network prices in the short term than under the current treatment.
- The role of the Authority is to determine whether Western Power’s proposed revised access arrangement complies with the requirements of the *Electricity Networks Access Code 2004* (“**Access Code**”). In doing so, the Authority is guided by specific provisions of the Access Code relating to particular elements of the access arrangement, as well as the Code objective of promoting economically efficient investment in and operation and use of electricity networks and services of networks in Western Australia, in order to promote competition in markets upstream and downstream of the networks.

1 INTRODUCTION

1. On 1 October 2008, Western Power submitted to the Economic Regulation Authority (“**Authority**”) proposed revisions to its access arrangement for the South West Interconnected Network (“**SWIN**”) (“**proposed revised access arrangement**”).¹ The revised access arrangement was submitted in accordance with the requirements of section 4.48 of the *Electricity Networks Access Code 2004* (“**Access Code**”) and the revisions submission date specified in the current access arrangement.
2. The proposed revised access arrangement and revised access arrangement information are available on the Authority’s web site.²
3. Western Power prepared and submitted the proposed revised access arrangement taking into account several proposed amendments to the Access Code that were under consideration by the Western Australian Government. Western Power makes reference to this in its covering letter to the access arrangement documents. The proposed amendments to the Access Code were gazetted on 22 October 2008.³
4. The Authority invited submissions from interested parties on the revised access arrangement by publishing a notice on 8 October 2008. The closing date for submissions is 19 November 2008.
5. The Authority has prepared this Issues Paper to assist interested parties in understanding the proposed revised access arrangement, the review process and some of the significant issues to be addressed by the Authority in determining whether to approve or not approve the proposed revised access arrangement.
6. The remainder of this Issues Paper addresses the following matters, focussing on the parts of the access arrangement for which revisions are proposed:
 - the process for amendment of an access arrangement;
 - the required content of an access arrangement;
 - reference services under the access arrangement;
 - the standard access contract for reference services;
 - service standard benchmarks;
 - target revenue and the price control;
 - the applications and queuing policy; and
 - the capital contributions policy.

¹ Western Power, 1 October 2008, Proposed Revisions to the Access Arrangement for the South West Network owned by Western Power (hereafter cited as “proposed revised access arrangement”); Western Power, 1 October 2008, Revised Access Arrangement Information for the Network of the South West Interconnected System (hereafter cited as “revised access arrangement information”).

² Economic Regulation Authority web site: http://www.era.wa.gov.au/3/718/48/western_powers_.pm

³ Western Australian Government Gazette, 22 October 2008, No. 180.

7. This Issues Paper is not an exhaustive review of the content of the proposed revised access arrangement, or the matters that the Authority will address in making its determination. While the Authority invites interested parties to make submissions on particular matters identified in this Issues Paper, interested parties are also invited to make submissions on any elements of the proposed revised access arrangement, and on the operation of the access arrangement⁴ more generally during the current access arrangement period (2006/07 to 2008/09).
8. In considering Western Power's proposed revised access arrangement, the Authority must have regard to the objectives and requirements of the Access Code,⁵ and in making its draft and final determinations, the Authority must consult with the public. If it is determined that the proposed revised access arrangement meets these objectives and requirements, the Authority must approve the revised access arrangement, even in the event that there are other revisions that could be made. Public submissions from interested parties therefore are an important part of the decision making process, particularly those submissions that raise matters of concern with respect to the objectives and requirements of the Access Code.

2 AMENDMENTS TO AN ACCESS ARRANGEMENT

9. Chapter 4 of the Access Code establishes the approval and subsequent amendment of an access arrangement.
10. Under section 4.48 of the Access Code, a service provider of a covered network must submit proposed revisions to the access arrangement and revised access arrangement information to the Authority by the revisions submission date specified in the access arrangement.
11. The Authority is required to consider the proposed revised access arrangement and make a decision to either approve or not approve the proposed revisions. The process required to be adhered to by the Authority in making its decision is set out in Chapter 4 of the Access Code, and is essentially the same process that was required in making a decision on the access arrangement for the SWIN for the current access arrangement period (2006/07 to 2008/09). The process involves:
 - a first round of public submissions on the proposed revised access arrangement (sections 4.9 to 4.11);
 - a draft decision by the Authority (sections 4.12 to 4.14);
 - a second round of public submissions on the Authority's draft decision (section 4.15);
 - an opportunity for the service provider to submit revised proposed revisions to the access arrangement subsequent to the Authority's draft decision (section 4.16);
 - a final decision by the Authority to either approve or not approve the proposed revised access arrangement (sections 4.17, 4.18);

⁴ Western Power, 2 April 2007, Amended Proposed Access Arrangement for the South West Interconnected Network owned by Western Power (approved by the Economic Regulation Authority on 26 April 2007).

⁵ Section 4.28 of the Access Code details the criteria for approval, being the "Code objective" and the requirements set out in Chapter 5 (and Chapter 9, if applicable).

- if the Authority's final decision is to not approve the proposed revised access arrangement, an opportunity for the service provider to submit amended proposed revisions (sections 4.19 to 4.20); and
 - a further final decision by the Authority to either approve amended proposed revisions submitted by service provider or, in the absence of the service provider submitting amended proposed revisions or, the amended proposed revisions not complying with the Authority's final decision, to approve revisions drafted by the Authority (sections 4.21 to 4.25).
12. The Access Code prescribes timeframes for this process as well as limited opportunities for extension of timeframes. Under sections 4.64 to 4.76 of the Access Code, the Authority can extend timeframes or suspend deadlines in certain circumstances that include:
- if the Authority determines that a longer time period is essential for due consideration of all matters, and all reasonable steps have been taken to fully utilise the times and processes provided for in Chapter 4 of the Access Code;
 - the Authority exercises its power to obtain information and documents under section 51 of the *Economic Regulation Authority Act 2003*;
 - judicial proceedings commence with respect to the access arrangement;
 - the Authority receives notice from the Coordinator of Energy that the Access Code is to be amended, repealed or replaced.
13. Taking into account the requirements of the Access Code, and subject to extensions of time, the Authority's projected timeframe for its decision on the revised access arrangement is set out as follows:

Assessment process and projected timeframes (subject to extensions of time or suspensions of deadlines as permitted under the Access Code)

Assessment Stage	Projected Timeframe
<ul style="list-style-type: none"> First round public submissions on the revised access arrangement 	Closing date for submissions of Wednesday, 19 November 2008
<ul style="list-style-type: none"> Draft Decision 	Friday, 16 January 2009
<ul style="list-style-type: none"> Second round public submissions on the draft decision 	Closing date for submissions of Monday, 16 February 2009
<ul style="list-style-type: none"> Final Decision 	Tuesday, 31 March 2009
<i>Assessment stages if the final decision is to not approve the revised access arrangement</i>	
<ul style="list-style-type: none"> Submission of amended proposed revisions by the service provider 	Tuesday, 28 April 2009
<ul style="list-style-type: none"> Further Final Decision 	Tuesday, 19 May 2009
<ul style="list-style-type: none"> Commencement of Western Power's revised access arrangement 	Wednesday, 1 July 2009

3 REQUIRED CONTENT OF AN ACCESS ARRANGEMENT

14. The required content of an access arrangement is specified in Chapter 5 of the Access Code. Section 5.1 of the Access Code requires that an access arrangement:
- specify one or more reference services under section 5.2 of the Access Code;
 - include a standard access contract under sections 5.3 to 5.5 for each reference service;
 - include service standard benchmarks under section 5.6 for each reference service;
 - include a price control under Chapter 6;
 - include pricing methods under Chapter 7;
 - include a current price list under Chapter 8 and a description of the pricing years for the access arrangement;
 - include an applications and queuing policy under sections 5.7 to 5.11;
 - include a contributions policy under sections 5.12 to 5.17D;
 - include a transfer and relocation policy under sections 5.18 to 5.24;
 - if required under section 5.25, include efficiency and innovation benchmarks under section 5.26;
 - include provisions dealing with supplementary matters under sections 5.27 and 5.28; and
 - include provisions dealing with:

- the submission of proposed revisions to the access arrangement under sections 5.29 to 5.33, including specification of a revisions submission date and target revisions commencement date; and
 - trigger events under section 5.34 to 5.36 that require the service provider to submit proposed provisions to the access arrangement.
15. Western Power’s existing access arrangement addresses each of these requirements. The remainder of this Issues Paper identifies those parts of the access arrangement for which revisions are proposed and identifies those revisions.

4 REFERENCE SERVICES

4.1 Access Code Requirements

16. A reference service is a service described in the access arrangement and for which a reference tariff is specified in the access arrangement. A reference service is a service that would typically be sought by a third party seeking access to the network and is in the nature of a ‘benchmark service’ for those seeking to negotiate access. Parties are free to negotiate any service with the service provider, using the reference services in an access arrangement as the benchmark and basis of its negotiations.
17. Section 5.1(a) of the Access Code requires that an access arrangement specify one or more reference services.
18. The requirements for reference services are set out in section 5.2 of the Access Code:
- 5.2 An access arrangement must:
- (a) specify at least one reference service; and
 - (b) specify a reference service for each covered service that is likely to be sought by either or both of:
 - (i) a significant number of users and applicants; or
 - (ii) a substantial proportion of the market for services in the covered network;
- and
- (c) to the extent reasonably practicable, specify reference services in such a manner that a user or applicant is able to acquire by way of one or more reference services only those elements of a covered service that the user or applicant wishes to acquire; and
 - (d) for the Western Power Network – specify one or more reference services such that there is both:
 - (i) a reference service which enables a user or applicant to acquire an entry service at a connection point without a need to acquire a corresponding exit service at another connection point; and
 - (ii) a reference service which enables a user or applicant to acquire an exit service at a connection point without a need to acquire a corresponding entry service at another connection point.

19. Section 1.3 of the Access Code defines a number of terms that are relevant to the Authority's assessment of Western Power's proposed reference services:
- "Contract for services" means an agreement between a service provider and another person for the person to have access to services, and includes an access contract.
 - "Covered service" means a service 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 paragraphs (a) to (d) above, but does not include an excluded service.
 - "Entry service" means a covered service provided by a service provider at an entry point under which the user may transfer electricity into the network at the entry point.
 - "Exit service" means a covered service provided by a service provider at an exit point under which the user may transfer electricity out of the network at the exit point.
 - "Excluded service" means a service 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 paragraphs (a) to (d) above, which meets the following criteria:
 - (f) the supply of the service is subject to effective competition, and
 - (g) the cost of the service is able to be excluded from consideration for price control purposes without departing from the Code objective.
 - "Reference service" means a covered service designated as a reference service in an access arrangement under section 5.1(a) for which there is a reference tariff, a standard access contract and service standard benchmarks.
 - "Non-reference service" means a covered service that is not a reference service.
 - "Reference tariff" means the tariff specified in a price list for a reference service.
20. The designation of any service as an excluded service is subject to determination by the Authority under section 6.33 of the Access Code. Other than as determined by the Authority, all services are covered services.

4.2 Current Access Arrangement

21. The current access arrangement at sections 3.4 to 3.6 includes the following reference services:
 - Anytime Energy (Residential) Exit Service, A1
 - Anytime Energy (Business) Exit Service, A2
 - Time of Use Energy (Small) Exit Service, A3
 - Time of Use Energy (Large) Exit Service, A4
 - High Voltage Metered Demand Exit Service, A5
 - Low Voltage Metered Demand Exit Service, A6
 - High Voltage Contract Maximum Demand Exit Service, A7
 - Low Voltage Contract Maximum Demand Exit Service, A8
 - Streetlighting Exit Service, A9
 - Un-Metered Supplies Exit Service, A10
 - Transmission Exit Service, A11
 - Distribution Entry Service, B1
 - Transmission Entry Service, B2
22. Details of each reference service are provided in Appendix 7 of the access arrangement, including:
 - a description of the reference service;
 - user eligibility criteria;
 - the applicable reference tariff;
 - the applicable standard access contract; and
 - the applicable service standard benchmark.
23. The current access arrangement at section 3.12 also includes a description of a range of non-reference services that are in the nature of ancillary services.
24. The current access arrangement does not specify any services as excluded services.

4.3 Proposed Revisions

25. Western Power has not proposed any revisions to its list of reference services.
26. The specified list of non-reference services has been amended to remove certain works, fees and charges from the list of non-reference services, including:
 - the relocation of transmission assets at the request of a user;
 - relocation of distribution assets at the request of a user;
 - works for jointly owned assets;

- sale of network schematics;
- access billing services fees;
- transition access fees; and
- capital works application fees.

27. Western Power added to its list of non-reference services:

- quotation for relocation of transmission assets at the request of a user; and
- quotation for distribution assets at the request of a user.

Submissions are invited from interested parties on whether the set of reference services included in the current access arrangement have proven to meet the requirements of users, and the requirements of section 5.2 of the Access Code.

Submissions are also invited from interested parties on the proposed revisions to the list of non-reference services.

5 STANDARD ACCESS CONTRACT

5.1 Access Code Requirements

28. A standard access contract sets out the terms and conditions under which a user may obtain access to a reference service at the reference tariff. Section 5.1(b) of the Access Code requires that an access arrangement include a standard access contract for each reference service.

29. The requirements for standard access contracts are set out in sections 5.3 to 5.5 of the Access Code:

5.3 A standard access contract must be:

- (a) reasonable; and
- (b) sufficiently detailed and complete to:
 - (i) form the basis for a commercially workable access contract; and
 - (ii) enable a user or applicant to determine the value represented by the reference service at the reference tariff.

5.4 A standard access contract may:

- (a) be based in whole or in part upon the model standard access contract, in which case, to the extent that it is based on the model standard access contract, any matter which in the model standard access contract is left to be completed in the Access Arrangement, must be completed in a manner consistent with:
 - (i) any instructions in relation to the matter contained in the model standard access contract; and
 - (ii) section 5.3; and

- (iii) the Code objective;
 - and
 - (b) be formulated without any reference to the model standard access contract and is not required to reproduce, in whole or in part, the model standard access contract.
- {Note: The intention of this section 5.4(b) is to ensure that the service provider is free to formulate its own standard access contract which complies with section 5.3 but is not based on the model standard access contract.}
- 5.5 The Authority:
- (a) must determine that a standard access contract is consistent with section 5.3 and the Code objective to the extent that it reproduces without material omission or variation the model standard access contract; and
 - (b) otherwise must have regard to the model standard access contract in determining whether the standard access contract is consistent with section 5.3 and the Code objective.

5.2 Current Access Arrangement

30. The current access arrangement includes a standard access contract (the “electricity transfer access contract”) that applies to all of the reference services offered under the access arrangement.

5.3 Proposed Revisions

31. Western Power has maintained in the proposed revised access arrangement the single electricity transfer access contract for all reference services.⁶ Western Power has proposed revisions to this standard access contract that in part appear to be revisions made for the purposes of clarifying existing provisions and in part substantive changes to, or additions to, the contract.
32. Revisions to the electricity transfer access contract that appear to have been proposed for the purposes of clarification include:
- provision for Western Power to provide a user with a “modified service” on a temporary basis (clause 3.1(d));
 - a requirement that a user comply with “eligibility criteria” in order to obtain a reference service (clause 3.3);
 - updating of information and records for connection points (clauses 3.6(c) to 3.6(e) and 7.1(f));
 - provision for Western Power and a user to agree to a different system of invoicing that is specified in the contract (clause 8.1(d));
 - an indication that provisions of the contract relating to charges for services are subject to sections 65 and 66 of the *Energy Operators (Powers) Act 1979 (WA)*, dealing with improperly functioning meters and meter tests (clause 8.5);

⁶ Proposed revised access arrangement, Appendix 4.

- inclusion of procedural provisions dealing with goods and services tax implications of payment adjustments (clause 8.7(e));
 - clarification that requirements of the user and Western Power to comply with the Technical Rules are subject to any exemptions given to Western Power or the user under Chapter 1 of the Technical Rules (clause 11.1);
 - processes for recording technical characteristics of equipment where exemptions to the Technical Rules are granted (clause 13);
 - provisions dealing with dispute resolution (clause 29.3);
 - the addition of “information about or relating to a Controller” to a list of information required to be kept confidential by Western Power and a user (clause 33.1(f)); and
 - a change in the definition of a bare transfer, to stress that a bare transfer involves no novation of the rights or obligations of the original user under the access contract with Western Power (schedule 1).
33. There are two substantive changes proposed for the electricity transfer access contract.
34. First, Western Power has proposed a provision allowing Western Power to unilaterally reduce a user’s contracted capacity at a connection point, where that contracted capacity is not being used by the user and Western Power is of the opinion that the contracted capacity is unlikely to be used (clause 3.8). A similar provision to this was proposed for the current access arrangement, but was required by the Authority to be removed before the access arrangement was approved.⁷
35. Secondly, Western Power has proposed sunset clauses on claims for adjusting payments in respect of payment errors (clauses 8.6(d) and 8.6(e)).
36. In considering the proposed revised access arrangement, the Authority will also give consideration to whether, in view of practical experience, the terms and conditions of the electricity transfer access contract that are proposed to continue, are consistent with the requirements of the Access Code.

Submissions are invited from interested parties on any practical issues and/or difficulties experienced with the electricity transfer access contract during the current access arrangement period, and whether interested parties foresee any potential issues arising from the revisions proposed by Western Power to the electricity transfer access contract for the second access arrangement period that:

- may impact on a commercially workable access contract, or
- might present difficulties for a user or applicant in determining the value represented by the reference service at the reference tariff.

⁷ Economic Regulation Authority, 2 March 2007, Final Decision on the Proposed Access Arrangement for the South West Interconnected Network, pp. 245 – 251 (hereafter cited as “final decision”).

6 SERVICE STANDARD BENCHMARKS

6.1 Access Code Requirements

37. Service standard benchmarks are the benchmarks (or targets) for reference services, as specified in an access arrangement. A service provider is required to provide reference services at a standard at least equivalent to these benchmarks. “Service standards” is defined under the Access Code as meaning either or both of the technical standard, and reliability, of delivered electricity. Section 5.1(c) of the Access Code requires that an access arrangement include service standard benchmarks for each reference service.
38. The requirements for service standard benchmarks are set out in section 5.6 of the Access Code. A service standard benchmark must be reasonable and must be sufficiently detailed and complete to enable a user or applicant to determine the value represented by the reference service at the reference tariff.

6.2 Current Access Arrangement

39. The current access arrangement contains four types of service standard benchmarks:
- circuit availability;
 - system minutes interrupted;
 - system average interruption duration index (**SAIDI**); and
 - system average interruption frequency index (**SAIFI**)
40. Circuit availability refers to the availability of the transmission network, that is, the transmission network available to users that are directly connected. Essentially, the circuit availability benchmark is used to measure network availability and is measured as a percentage of total possible hours available (i.e. the actual circuit hours available for transmission circuits divided by the total possible defined circuit hours available), where a higher percentage corresponds to a higher service standard.
41. System minutes interrupted records the period of network outages measured in minutes and is recorded for meshed and radial networks separately. A meshed network refers to an electricity network where there is more than one path between network nodes. Specifically, the system minutes interrupted benchmark is the summation of megawatt minutes of unserved energy at substations that are connected to the meshed/radial transmission network divided by the system peak megawatts. A lower value of system minutes interrupted corresponds to a higher service standard.
42. The SAIDI and SAIFI benchmarks are used as reliability measures, where SAIDI measures the average number of minutes per customer of outages on the distribution network in a year, and SAIFI measures the average number of interruptions per customer in a year. For these benchmarks, a lower value corresponds to a higher service standard.

43. The current access arrangement includes these service standard benchmarks against the following performance parameters for transmission and distribution services:
- distribution services –
 - system average interruption duration index (SAIDI);
 - system average interruption frequency index (SAIFI);
 specified separately for urban areas, rural-short and rural-long feeders and the Perth central business district; and
 - transmission services –
 - circuit availability;
 - system minutes interrupted (for the meshed and radial network).
44. A range of exclusions are specified for the service standard benchmarks for both transmission and distribution services.

6.3 Proposed Revisions

45. Western Power has proposed amendments to the service standard benchmarks (at sections 3.15 to 3.23 of the proposed revised access arrangement). The service standard benchmarks for each year of the first and second access arrangement periods are shown as follows.
46. Distribution services – SAIDI:

	SWIN total	CBD	Urban	Rural Short	Rural Long
Current Access Arrangement					
Year ending June 2007	277	21.4	222	425	741
Year ending June 2008	259	20.0	208	398	693
Year ending June 2009	224	17.3	179	343	598
Proposed Revisions					
Year ending June 2010	225	38	161	253	599
Year ending June 2011	210	38	150	233	567
Year ending June 2012	201	38	142	222	548

47. Distribution services – SAIFI:

	SWIN total	CBD	Urban	Rural Short	Rural Long
Current Access Arrangement					
Year ending June 2007	3.44	0.32	3.12	4.89	5.58
Year ending June 2008	3.22	0.30	2.91	4.58	5.22
Year ending June 2009	2.78	0.26	2.51	3.95	4.50
Proposed Revisions					
Year ending June 2010	2.44	0.24	1.88	3.05	4.89
Year ending June 2011	2.29	0.24	1.76	2.83	4.64
Year ending June 2012	2.18	0.24	1.67	2.70	4.47

48. Transmission services:

	Circuit availability (% of total time)	System minutes interrupted (meshed network)	System minutes interrupted (radial network)
Current Access Arrangement			
Year ending June 2007	98.2	7.8	3.9
Year ending June 2008	98.2	7.8	3.9
Year ending June 2009	98.2	7.8	3.9
Proposed Revisions			
Year ending June 2010	98.0	9.3	1.4
Year ending June 2011	98.0	9.3	1.4
Year ending June 2012	98.0	9.3	1.4

49. At sections 3.16 and 3.17 of the proposed revised access arrangement Western Power has proposed additional exclusions for measures of SAIDI and SAIFI for distribution services, being “planned outages” and “single customer interruptions”.
50. At clause 3.21 of the proposed revised access arrangement, Western Power has removed “T configuration circuits” from exclusions for the measure of circuit availability for transmission lines, and has indicated that the duration of planned outages includes periods when availability is temporarily restored.
51. Western Power provides supporting information for the proposed revisions to service standard benchmarks in the revised access arrangement information.⁸ Additional information relevant to the consideration of Western Power’s proposed service standard benchmarks is Western Power’s service standard performance

⁸ Revised access arrangement information, Part A: section 6; Part D: section 3.

report for 2007/08⁹ and the Authority's February 2008 report titled "2006/07 Annual Performance Report: Electricity Distributors" that is available from the Authority's web site.¹⁰

52. The Authority notes that Western Power's actual non-capital and capital expenditures for the current access arrangement period are substantially higher than the expenditures that were originally forecast to occur during the current access arrangement period. Furthermore, Western Power has forecast substantial increases in non-capital costs over actual costs incurred (in the current access arrangement period), particularly for the distribution network, as well as a substantial increase in new facilities investment for the second access arrangement period – these cost increases are further discussed in section 7 of this Issues Paper. In the context of service standard benchmarks, the Authority will give consideration to the level of expenditures undertaken by Western Power during the current access arrangement period and levels of expenditure proposed for the second access arrangement period, and whether Western Power's service standards are reasonable.

Submissions are invited from interested parties on Western Power's proposed revisions to the service standard benchmarks, including:

- the level of service standard benchmarks proposed by Western Power for the second access arrangement period;
- the proposed exclusions for the measures of SAIDI, SAIFI and circuit availability; and
- whether the supporting information provided by Western Power is sufficiently detailed to enable users or applicants to determine the value represented by the reference service at the reference tariff.

Submissions are also invited on whether Western Power's service standards are reasonable, given the levels of actual and forecast expenditures for the current and second access arrangement periods.

7 REFERENCE TARIFFS AND THE PRICE CONTROL

7.1 Access Code Requirements

53. A reference service is a covered service designated as a reference service in an access arrangement, under section 5.1(a) of the Access Code, for which there is a reference tariff, a standard access contract and service standard benchmarks. For

⁹ Western Power, 28 October 2008, Access Arrangement Service Standard Benchmark Report Financial Year Ending June 2008. Available from the Authority's web site: http://www.era.wa.gov.au/2/721/48/service_standar.pm

¹⁰ Economic Regulatory Authority web site: http://www.era.wa.gov.au/2/246/51/reports__decisi.pm

- each reference service specified in the access arrangement, there must be a reference tariff established under the access arrangement.
54. The Access Code requires that reference tariffs are established or constrained by a mechanism termed a “price control”. A price control is a constraint on the level of reference tariffs which specifies the level of tariffs either directly, such as with price caps, or indirectly through constraints on the level of overall revenue able to be earned by the service provider.
55. The specific requirements and objectives for price control are set out in sections 6.1 to 6.5 of the Access Code:
- 6.1 Subject to section 6.3, an access arrangement may contain any form of price control provided it meets the objectives set out in section 6.4 and otherwise complies with this Chapter 6.
- 6.2 Without limiting the forms of price control that may be adopted, price control may set target revenue:
- (a) by reference to the service provider’s approved total costs; or
 - (b) by setting tariffs with reference to:
 - (i) tariffs in previous access arrangement periods; and
 - (ii) changes to costs and productivity growth in the electricity industry;or
 - (c) using a combination of the methods described in sections 6.2(a) and 6.2(b).
- 6.3 The first access arrangement must contain the form of price control described in section 6.2(a).
- 6.4 The price control in an access arrangement must have the objectives of:
- (a) giving the service provider an opportunity to earn revenue (“target revenue”) for the access arrangement period from the provision of covered services as follows:
 - (i) an amount that meets the forward-looking and efficient costs of providing covered services, including a return on investment commensurate with the commercial risks involved;
plus:
 - (ii) for access arrangements other than the first access arrangement, an amount in excess of the revenue referred to in section 6.4(a)(i), to the extent necessary to reward the service provider for efficiency gains and innovation beyond the efficiency and innovation benchmarks in a previous access arrangement;
plus:
 - (iii) an amount (if any) determined under section 6.6 [adjustments for unforeseen events];
plus:
 - (iv) an amount (if any) determined under section 6.9 [adjustments for technical rule changes];
plus:
 - (v) an amount (if any) determined under an investment adjustment mechanism (see sections 6.13 to 6.18);
plus:

- (vi) an amount (if any) determined under a service standards adjustment mechanism (see sections 6.29 to 6.32);
plus –
 - (vii) an amount (if any) determined under section 6.37A;
and
 - (b) enabling a user to predict the likely annual changes in target revenue during the access arrangement period; and
 - (c) avoiding price shocks (that is, sudden material tariff adjustments between succeeding years).
- 6.5 The amount determined in seeking to achieve the objective specified in section 6.4(a)(i) is a target, not a ceiling or a floor.

7.2 Total Costs and Target Revenue

7.2.1 Current Access Arrangement

56. Consistent with the requirements of the Access Code for the first access arrangement period, Western Power determined a level of target revenue by a “building-block” approach, whereby the target revenue is calculated as the sum of components of the total cost that comprised, or are determined with reference to:
- an amount of tariff equalisation contributions;
 - a forecast of non-capital costs;
 - a capital base;
 - forecast new facilities investment notionally added to the capital base;
 - a treatment of capital contributions in determination of the capital base and target revenue;
 - a treatment of redundant assets;
 - a rate of return (weighted average cost of capital); and
 - depreciation allowances.

7.2.2 Proposed Revisions

7.2.2.1 Tariff equalisation contributions

57. Section 6.37A of the Access Code provides for target revenue to include an amount of tariff equalisation contributions, which comprise an amount levied on users of the SWIN to finance amounts paid to Horizon Energy for the provision of electricity services in areas not serviced by the SWIN. Under the current access arrangement, an amount of tariff equalisation contributions of \$177 million (in dollar values at 30 June 2006) was added to the target revenue for the 2006/07 to 2008/09 period.
58. Western Power has not made an allowance in target revenue for tariff equalisation contributions in determination of target revenue for the second access arrangement period. In its covering letter to the access arrangement documents, Western Power has indicated that the absence of an allowance for tariff equalisation contributions is

due to advice from the Office of Energy that the contributions will not be required in the second access arrangement period.

7.2.2.2 Non-capital costs

59. Western Power has made an allowance in target revenue for forecast non-capital costs, indicated as follows, together with the forecasts and estimated actual costs for the current access arrangement period.

**Table 1 Non-capital costs for the transmission network
(real \$ million at 30 June 2009)**

	Year	Year	Year
Current access arrangement period	2006/07	2007/08	2008/09
Forecast for current access arrangement period ¹¹	73.9	76.2	76.8
Estimated actual for current access arrangement period ¹²	76.0	75.6	74.5
Second access arrangement period	2009/10	2010/11	2011/12
Forecast for second access arrangement period ¹³	100.9	106.0	112.8

**Table 2 Non-capital costs for the distribution network
(real \$ million at 30 June 2009)**

	Year	Year	Year
Current access arrangement period	2006/07	2007/08	2008/09
Forecast for current access arrangement period ¹⁴	209.1	210.7	214.7
Estimated actual for current access arrangement period ¹⁵	254.0	259.5	263.0
Second access arrangement period	2009/10	2010/11	2011/12
Forecast for second access arrangement period ¹⁶	394.0	416.5	436.4

60. Western Power has provided supporting information for the forecasts in Appendix 1 of the revised access arrangement information.

¹¹ Economic Regulation Authority, 2 March 2007, Final Decision, Appendix B Revenue Model (forecast values of 30 June 2006 divided by 0.91 to derive values in dollars of 30 June 2009).

¹² Revised access arrangement information, Appendix 1, Table 6.2.

¹³ Revised access arrangement information, Appendix 7 (Revenue Model).

¹⁴ Economic Regulation Authority, 2 March 2007, Final Decision, Appendix B Revenue Model (forecast values of 30 June 2006 divided by 0.91 to derive values in dollars of 30 June 2009).

¹⁵ Revised access arrangement information, Appendix 1, Table 8.2.

¹⁶ Revised access arrangement information, Appendix 7 (Revenue Model).

61. Western Power’s actual non-capital costs for the current access arrangement period were similar to the forecast (in real dollar terms) for the transmission network, but substantially (22 per cent in real dollar terms) in excess of the forecast for the distribution network.
62. Western Power has forecast substantial real increases in non-capital costs over the actual costs incurred in the current access arrangement period, with forecast increases of 41 per cent for the transmission network and 61 per cent for the distribution network. These increases are attributed to:¹⁷
- increases in the quantity of assets requiring inspection and operation;
 - increases in external labour and material costs (“cost uplift”);
 - increases in maintenance, management and testing activities to prudent levels (from levels previously constrained by budget and resource constraints);
 - maintenance requirements identified from inspection activities; and
 - new activities identified as improving customer service and safety.

Submissions are invited from interested parties on the level of actual non-capital costs for the current access arrangement period, and whether or not the actual costs are consistent with a service provider efficiently minimising costs.

Submissions are also invited from interested parties on the forecast non-capital costs, and the adequacy of Western Power’s supporting information for this forecast.

7.2.2.3 Capital Base and New Facilities Investment

63. The capital base values for each of the transmission and distribution networks have been calculated by Western Power for the beginning of the second access arrangement period using a roll-forward method that involves commencing with the opening value at the beginning of the first access arrangement period and:
- adding the actual values of new facilities investment during the first access arrangement period that Western Power considers to meet the requirements of the new facilities investment test under section 6.52 of the Access Code, and/or that were financed by capital contributions under section 6.51A of the Access Code¹⁸ (including values forecast for 2008/09);
 - deducting values of redundant assets;

¹⁷ Revised access arrangement information, Appendix 1, pp. 97, 98, 157 – 160.

¹⁸ This treatment of new facilities investment was previously implemented under Section 6.56 of the Access Code, which was deleted by amendments gazetted on 22 October 2008.

- deducting values of depreciation as allowed for in target revenue for the first access arrangement period; and
 - adjustment for inflation to be expressed in dollar values at 30 June 2009.
64. Western Power's calculated values of the capital base for the transmission and distribution networks at the commencement of the second access arrangement period (1 July 2009) are as follows.¹⁹

Table 3 Capital base at 30 June 2009 for the transmission network (real \$ million at 30 June 2009)²⁰

	2006/07	2007/08	2008/09	2009/10
Opening asset value	1,523.2	1,776.5	2,035.2	2,415.5
New facilities investment	306.9	317.0	443.6	
Redundant assets	0	0	0	
Depreciation	-53.6	-58.3	-63.3	
Closing asset base	1,776.5	2,035.2	2,415.5	

Table 4 Capital base at 30 June 2009 for the distribution network (real \$ million at 30 June 2009)²¹

	2006/07	2007/08	2008/09	2009/10
Opening asset value	1,751.7	2,088.7	2,454.1	2,911.7
New facilities investment	448.0	481.3	582.9	
Redundant assets	-4.2	-4.0	-3.9	
Depreciation	-106.8	-111.9	-121.4	
Closing asset base	2,088.7	2,454.1	2,911.7	

65. Details of forecast and actual new facilities investment for the current access arrangement period and second access arrangement period are as follows.

¹⁹ Proposed revised access arrangement, section 6.1.

²⁰ Revised access arrangement information, Appendix 7 (Revenue Model).

²¹ Revised access arrangement information, Appendix 7 (Revenue Model).

**Table 5 New facilities investment for the transmission network
(real \$ million at 30 June 2009)**

	Year	Year	Year
Current access arrangement period	2006/07	2007/08	2008/09
Forecast for current access arrangement period ²²	230.8	252.3	190.8
Estimated actual for current access arrangement period ²³	306.9	317.0	443.6
Second access arrangement period	2009/10	2010/11	2011/12
Forecast for second access arrangement period ²⁴	730.0	869.9	593.8

**Table 6 New facilities investment for the distribution network
(real \$ million at 30 June 2009)**

	Year	Year	Year
Current access arrangement period	2006/07	2007/08	2008/09
Forecast for current access arrangement period ²⁵	278.5	342.8	355.5
Estimated actual for current access arrangement period ²⁶	448.0	481.3	582.9
Second access arrangement period	2009/10	2010/11	2011/12
Forecast for second access arrangement period ²⁷	708.0	758.7	823.0

66. Western Power has provided supporting information for the forecasts of new facilities investment in Appendix 1 of the revised access arrangement information.
67. Western Power's actual new facilities investment for the current access arrangement period was substantially greater than forecast – 58 per cent greater for the transmission network and 55 per cent greater for the distribution network (in real dollar terms).
68. Western Power has forecast substantial real increases in new facilities investment over the actual costs incurred in the current access arrangement period, with forecast increases of 105 per cent for the transmission network and 51 per cent for the distribution network. These increases are attributed by Western Power to:

²² Economic Regulation Authority, 2 March 2007, Final Decision, Appendix B Revenue Model (forecast values of 30 June 2006 divided by 0.91 to derive values in dollars of 30 June 2009).

²³ Revised access arrangement information, Appendix 7 (Revenue Model).

²⁴ Revised access arrangement information, Appendix 7 (Revenue Model). Figures include capital expenditure to be financed by capital contributions.

²⁵ Economic Regulation Authority, 2 March 2007, Final Decision, Appendix B Revenue Model (forecast values of 30 June 2006 divided by 0.91 to derive values in dollars of 30 June 2009).

²⁶ Revised access arrangement information, Appendix 7 (Revenue Model).

²⁷ Revised access arrangement information, Appendix 7 (Revenue Model). Figures include capital expenditure to be financed by capital contributions.

- for the transmission network, predominantly capacity expansion expenditure for one key substation development in the Perth CBD area, and six major transmission line projects;²⁸ and
 - for the distribution network, predominantly growth-related demand, but also asset replacement practices, network reliability improvements, changing standards, and compliance with changing safety, statutory and environmental requirements.²⁹
69. Given the substantial increases in actual new facilities investment for the current access arrangement period over forecasts for that period, and substantial increases in forecast new facilities investment for the second access arrangement period over actual investment in the current period, the Authority will be giving substantial consideration to whether the actual and forecast investment meets the requirements of the Access Code, and that forecasts for the second access arrangement period are reasonable with regard to other factors, such as Western Power's ability to finance the investment costs.

Submissions are invited from interested parties on the substantial increases in new facilities investment recorded by Western Power for the current access arrangement period (as actual investment over forecasts for the period), and for the second access arrangement period (as forecast investment over actual investment for the current access arrangement period).

70. In order to have the actual new facilities investment in the current access arrangement period added to the capital base, Western Power must satisfy the Authority that the new facilities investment either meets the new facilities investment test under section 6.52 of the Access Code, or was financed by contributions and can be added to the capital base under section 6.51A of the Access Code.
71. Western Power variously claims in the revised access arrangement information either that the entire amount of new facilities investment for the transmission and distribution networks in the current access arrangement period meets the new facilities investment test, or that the new facilities investment comprises a combination of that which passes the new facilities investment test and that which is financed by capital contributions.³⁰
72. There are several matters that the Authority will examine in Western Power's application of the new facilities investment test, including the following:
- The absence of distinction by Western Power between the new facilities investment that is rolled into the capital base by virtue of meeting the new facilities investment test, from that rolled into the capital base by virtue of being financed by capital contributions.

²⁸ Revised access arrangement information, Appendix 1, p. 64.

²⁹ Revised access arrangement information, Appendix 1, p 111.

³⁰ Revised access arrangement information, pp. 91, 134, 135 and Appendix 5.

- The potential inconsistency of claims by Western Power that the entire amount of new facilities investment meets the new facilities investment test, with the charging by Western Power of capital contributions — the latter only being possible in respect of new facilities investment that does not pass the new facilities investment test, with some limited exceptions.
- The claim by Western Power that some new facilities investment meets the new facilities investment test by virtue of incremental revenue exceeding the cost of the investment (under section 6.52(b)(i)A) of the Access Code), which is not substantiated by presentation of values of costs and revenues.
- A consultant report provided by Western Power, in support of its claim that new facilities investment meets the new facilities investment test,³¹ states that it is unnecessary to apply the new facilities investment test to any new facilities investment that is not covered by the investment adjustment mechanism under the access arrangement (and Western Power has not done so).
- The consultant report provided by Western Power, in support of its claim that new facilities investment meets the new facilities investment test,³² examines a sample of projects for detailed examination of whether project documentation is adequate to support claims that the new facilities investment test is met, but these projects comprise less than one per cent of the new facilities investment for the current access arrangement period.

Submissions are invited from interested parties on Western Power's calculation of the capital base values at the start of the second access arrangement period and, in particular, on whether Western Power has adequately demonstrated that new facilities invested in the first access arrangement period meets the requirements of the Access Code to be added to the capital base.

73. For the purposes of determining target revenue for the second access arrangement period, Western Power has forecast values of the capital base for the transmission and distribution networks at the commencement of each year in accordance with section 6.50 of the Access Code.
74. Under section 6.50 of the Access Code, the capital base values determined for the second access arrangement period are able to include forecasts of new facilities investment that:
- is expected to occur during the second access arrangement period; and
 - is reasonably expected to satisfy the requirements of section 6.51A of the Access Code, requiring in turn that a reasonable expectation that the new facilities investment —
 - meets the new facilities investment test under section 6.52, or

³¹ Revised access arrangement information, Appendix 5.

³² Revised access arrangement information, Appendix 5.

- where the new facilities investment will be financed by contributions, satisfies with first part of the new facilities investment test under section 6.52(a) and the access arrangement contains a mechanism designed to ensure that there is no double recovery of costs as a result of addition of the new facilities investment to the capital base.

75. Western Power's forecast capital base values are as follows.

Table 7 Capital base values for the second access arrangement period for the transmission network (real \$ million at 30 June 2009)³³

	2009/10	2010/11	2011/12
Opening asset value	2,415.5	3,021.2	3,720.5
New facilities investment	680.0	785.5	530.3
Redundant assets	0	0	0
Depreciation	-74.3	-86.1	-100.4
Closing asset base	3,021.2	3,720.5	4,150.5

Table 8 Capital base values for the second access arrangement period for the distribution network (real \$ million at 30 June 2009)³⁴

	2009/10	2010/11	2011/12
Opening asset value	2,911.7	3,282.0	3,679.8
New facilities investment	520.9	566.3	636.2
Redundant assets	-3.8	-3.7	-3.6
Depreciation	-146.8	-164.7	-183.2
Closing asset base	3,282.0	3,679.8	4,129.2

76. Western Power has provided a description of forecast capital expenditure and the drivers for capital expenditure in the revised access arrangement information.³⁵ Western Power has not, however, provided information in support of any claim that the forecast capital expenditure is reasonably expected to either meet the new facilities investment test, or be financed by contributions and able to be rolled into the capital base under section 6.51A(b) of the Access Code.

³³ Revised access arrangement information, Appendix 7 (Revenue Model).

³⁴ Revised access arrangement information, Appendix 7 (Revenue Model).

³⁵ Revised access arrangement information, Part B: section 4, Part C: section 3.

Submissions are invited from interested parties on whether information provided by Western Power in the revised access arrangement information is sufficient for the Authority to be satisfied that the forecast new facilities investment may be reasonably expected to either meet the new facilities investment test, or the test under section 6.51A(b) of the Access Code where the new facilities investment has been financed by contributions.

7.2.2.4 Treatment of Capital Contributions

77. Western Power obtains capital contributions from users of the SWIN and from end-users of electricity for some capital works, as allowed for and determined by sections 5.12 to 5.17B of the Access Code, and by the capital contributions policy under the access arrangement.
78. The regulatory scheme of the Access Code provides for capital contributions to be treated in the determination of target revenue, so that the receipt of capital contributions (reflecting new facilities investment that is not financed by Western Power) does not give rise to any net benefit to Western Power through regulated charges.
79. Under the current access arrangement, Western Power has adopted a treatment of capital contributions whereby (i) capital contributions are added to the capital base, and (ii) the amount of the capital contribution is deducted from the approved total revenue in the year in which the capital contribution is made.
80. For the second access arrangement period, Western Power proposes to apply a different treatment of capital contributions whereby new facilities investment that is financed by capital contributions is not added to the capital base and, accordingly, Western Power does not earn a return on, or of, capital for new facilities investment that it does not itself finance.³⁶
81. The two treatments of capital contributions have the same implications, in present value terms over the life of the assets, for tariff revenue and prices for network services. However, the two treatments have significantly different implications over time for target revenue and prices for network services:
 - The treatment of capital contributions under the current access arrangement lowers target revenue and prices in the short term (as capital contributions are deducted from target revenue), but leads to higher target revenue and prices in the long term (as Western Power receives a return on and of the value of the assets funded by capital contributions).
 - The treatment of capital contributions proposed for the second access arrangement period increases target revenue and prices in the short term (as capital contributions are not deducted from target revenue), but leads to lower target revenue and prices in the long term (as Western Power does not receive a return on and of the value of the assets funded by capital contributions).

³⁶ Revised access arrangement information, pp. 109, 110, 145, 146.

82. All other things being equal, the proposed change in Western Power's treatment of capital contributions has been estimated by the Authority to increase the target revenue for the second access arrangement period (in present value terms) by approximately 17 per cent in real terms for transmission services, and 28 per cent in real terms for distribution services, with corresponding increases in reference tariffs.
83. Western Power indicates in the revised access arrangement information that it has offset the effect of the change in treatment of capital contributions on target revenue and network tariffs by deferring recovery of part of target revenue until the third or subsequent access arrangement periods. The amount of deferred revenue is \$14 million for transmission services and \$177 million for distribution services (in present value terms).³⁷ Even with this deferral of revenue, the change in treatment of capital contributions is estimated by the Authority to increase the target revenue (in present value terms) over the full amount of target revenue under the previous treatment of capital contributions by approximately 15 per cent for transmission services, and 17 per cent for distribution services.

Submissions are invited from interested parties on the change in treatment of capital contributions that is proposed by Western Power.

7.2.2.5 Rate of Return

84. Section 6.64 of the Access Code requires that an access arrangement set out a rate of return, the weighted average cost of capital (**WACC**), for a covered network.
85. For the current access arrangement, the target revenue was determined in real dollar-value terms and by applying a real pre-tax WACC. This WACC value was set by reference to a range of WACC values derived from ranges of values determined by the Authority for input parameters to the capital asset pricing model (**CAPM**) and market observations of risk free rates and costs of debt. The real pre-tax WACC was set at 6.76 per cent.
86. In the proposed revised access arrangement, Western Power has applied a real pre-tax WACC of 8.95 per cent. This value was derived by Western Power using a similar method to that applied by the Authority for the purposes of the current access arrangement.
87. The values of input parameters to the determination of the WACC values for both the current access arrangement and revised access arrangement are as follows:³⁸

³⁷ Revised access arrangement information, pp. 10 – 14.

³⁸ Economic Regulation Authority, 2 March 2007, Final Decision, pp. 123 – 130; Revised access arrangement information, Part B: section 7.

Table 9 WACC Determinations for the Current Access Arrangement and Revised Access Arrangement

Parameter	Current Access Arrangement (Determined by the Authority) ³⁹	Revised Access Arrangement (Proposed by Western Power) ⁴⁰
Nominal risk free rate (%)	5.81	6.45
Real risk free rate (%)	2.63	3.62
Inflation rate (%)	3.10	2.73
Capital structure (equity to total value, %)	40	40
Capital structure (debt to total value, %)	60	60
Equity beta	0.8 – 1.0	0.90 – 1.10
Market risk premium (%)	5.0 – 6.0	6.0 – 7.0
Debt margin (%)	1.225 to 1.445 (including debt establishment costs of 0.125%)	3.37 – 3.66
Value of imputation credits (gamma, %)	30 – 60	0 – 50
Range for the real pre-tax WACC (%)	5.57 – 6.85	8.50 – 11.12
Applied real pre-tax WACC (%)	6.76	8.95

88. Western Power has included in the revised access arrangement information a report from KPMG that establishes the values of input parameters to the WACC calculation and establishes the range of WACC values.⁴¹
89. Western Power established its proposed WACC value on the basis of a nominal risk free rate and a debt margin established from capital market data over a 60 trading-day period to 23 June 2008. Western Power indicates that the determination is subject to revision to reflect a prevailing risk free rate and updated inflation outlook at a time closer to the approval of the proposed revised access arrangement. However, it is not clear from the access arrangement how Western Power intends to make such revisions given that the proposed WACC value is selected from within a broad range of values rather than being a calculated value.
90. Western Power has further indicated that it will seek an agreement with the Authority on the date at which the values of these market parameters are to be determined and the “sampling period” of capital-market data (the number of trading days over which average values for the risk free rate and debt margins are determined), with the agreed date and period to be kept confidential.⁴² The

³⁹ Economic Regulation Authority, 2 March 2007, Final Decision, Appendix B Revenue Model.

⁴⁰ Revised access arrangement information, Appendix 7 (Revenue Model).

⁴¹ Revised access arrangement information, Appendix 6.

⁴² Revised access arrangement information, pp. 104, 141.

Authority notes that provision for such an agreement by a regulator exists under the *National Electricity Rules* (sections 6.5.2(c) and 6A.5.2(c)), but that there is no explicit provision for such an agreement under the Access Code.

Submissions are invited from interested parties on the rate of return (WACC), and various parameters, proposed by Western Power.

7.2.2.6 Adjustments

91. The current access arrangement provides for several adjustments to be made to target revenue in the second access arrangement period to account for revenue and cost outcomes in the current access arrangement period. These adjustments occur under the following mechanisms:
 - Unforeseen events adjustment – an adjustment to account for costs incurred in the current access arrangement period as a result of *force majeure* events.
 - Technical rule change revenue adjustment – an adjustment to account for costs incurred as a result of changes to the Technical Rules that could not have reasonably been foreseen at the commencement of the current access arrangement period.
 - Investment adjustment mechanism – an adjustment to account for differences between forecast and actual costs of certain classes of new facilities investment.
 - Capital contributions adjustment mechanism – an adjustment to account for differences between forecast and actual revenue from capital contributions (under the treatment of capital contributions applying in the current access arrangement period, whereby the amount of capital contributions is deducted from target revenue).
92. In addition, the revenue-cap price control applying under the current arrangement makes provision for year-on-year adjustments to allowed revenue under the price control to account for under-recovery, or over-recovery of revenue under the revenue-cap.
93. Western Power has not proposed any adjustments in respect of unforeseen events or changes to the Technical Rules.
94. Western Power has forecast adjustments to target revenue in the second access arrangement period in respect of the investment adjustment mechanism and capital contributions adjustment mechanism.
95. Under the investment adjustment mechanism, Western Power proposes increments to target revenue for the first access arrangement period, reflecting actual new facilities investment in relevant asset classes in excess of forecasts for the current access arrangement period. The amounts of the adjustments are \$16.4 million for

the transmission network and \$32.9 million for the distribution network (in dollar values of 30 June 2009).⁴³

96. Under the capital contributions adjustment mechanism, Western Power proposes deductions from target revenue for the first access arrangement period, reflecting actual capital contributions in excess of forecast capital contributions for the current access arrangement period. The amounts of adjustments are –\$45.0 million for the transmission network and –\$91.6 million for the distribution network.⁴⁴
97. Western Power has not indicated in its access arrangement any adjustment to target revenue under the price control to account for under-recovery, or over-recovery of revenue under the revenue-cap in 2008/09. The Authority expects that an amount of adjustment will be determined later in 2008/09 and incorporated into required tariff revenue for 2009/10 under the normal operation of the price control.
98. As the various adjustment mechanisms for target revenue are explicitly provided for under the current access arrangement, the role of the Authority in considering the proposed revised access arrangement will be to consider whether the adjustment mechanisms have been appropriately applied.

7.2.2.7 Target Revenue

99. Western Power has proposed values of target revenue for the transmission and distribution networks as indicated in the following tables.⁴⁵ The values of target revenue translate to proposed real increases in network charges of 40 per cent from 2008/09 to 2009/10 and subsequent annual real increases in 2010/11 and 2011/12 of 37.2 per cent for transmission charges and 30.0 per cent for distribution charges.⁴⁶

⁴³ Revised access arrangement information, Tables 39, 56 (pp. 109, 145).

⁴⁴ Revised access arrangement information, Tables 39, 56 (pp. 109, 145).

⁴⁵ Revised access arrangement information, pp. 11, 13.

⁴⁶ The price increase for 2009/10 is evident from the prices indicated in the proposed revised access arrangement (Appendix 5 and 6, Price List). Expected price increases for 2010/11 and 2011/12 are evident from the side constraint on charges stated in sections 5.35 and 5.46 of the proposed revised access arrangement.

Table 10 Western Power proposed target revenue: transmission network (real \$ million, dollar values at 30 June 2009)⁴⁷

Financial year ending:	30 June 2010	30 June 2011	30 June 2012	Present Value
Non-capital costs	100.9	106.0	112.8	269.1
Depreciation	74.3	86.1	100.4	218.3
Redundant assets (accelerated depreciation)	0	0	0	0
Return on capital base	216.2	270.4	333.0	683.7
Return on working capital	0.2	0.3	2.6	2.5
Gross cost of service	391.6	462.8	548.7	1,173.6
Non-reference services revenue	-6.2	-6.0	-6.3	-15.7
Transmission reference service revenue	385.3	456.8	542.4	1,157.9
Deferred transmission reference service revenue				-14.6
Smoothed transmission reference service revenue	338.0	446.8	590.6	1,143.3
Unforeseen events revenue adjustment	0			0
Technical rule change adjustment	0			0
Investment adjustment mechanism adjustment	16.4			15.0
Capital contribution adjustment	-45.0			-41.3
Total adjustments	-28.6			-26.3
Smoothed total adjustments	-7.8	-10.3	-13.6	-26.3
Revenue cap correction factor	0			
Maximum transmission reference service revenue	330.2	436.5	577.1	1,117.0

⁴⁷ Revised access arrangement information, Table 39.

Table 11 Western Power proposed target revenue: distribution network (real \$ million, dollar values at 30 June 2009)⁴⁸

Financial year ending:	30 June 2010	30 June 2011	30 June 2012	Present Value
Non-capital costs	394.0	416.5	436.4	1,049.9
Depreciation	146.8	164.7	183.2	415.2
Redundant assets (accelerated depreciation)	3.8	3.7	3.6	9.3
Return on capital base	260.6	293.7	329.3	741.3
Return on working capital	4.4	4.9	5.2	12.2
Gross cost of service	809.5	883.5	957.8	2,228.0
Non-reference services revenue	-4.7	-5.6	-6.4	-13.9
Distribution reference service revenue	804.9	878.4	951.4	2,124.0
Deferred distribution reference service revenue				-177.3
Smoothed distribution reference service revenue	640.7	800.8	1,001.0	2,036.7
Unforeseen events revenue adjustment	0			
Technical rule change adjustment	0			
Investment adjustment mechanism adjustment	32.9			30.2
Capital contribution adjustment	-91.6			-84.1
Total adjustments	-58.8			-53.9
Smoothed total adjustments	-17.0	-21.2	-26.5	-53.9
Revenue cap correction factor	0			
Maximum distribution reference service revenue	623.7	779.6	974.5	1,982.8

7.3 Price Control

7.3.1 Access Code Requirements

100. Section 5.1(d) of the Access Code requires that an access arrangement include a price control. A “price control” is defined in the Access Code as meaning the provisions in an access arrangement, under section 5.1(d) and Chapter 6 of the Access Code, which determine target revenue. A note to this definition indicates that a price control can consist of direct or indirect limits, and consists of a limit on the level of tariffs through the control of overall revenue. This note also distinguishes between a price control and pricing methods by indicating that pricing methods deal with the structure of tariffs.

⁴⁸ Revised access arrangement information, Table 56.

101. The specific requirements and objectives for the price control are set out in sections 6.1 to 6.5 to the Access Code. Sections 6.1 and 6.2 state requirements for the form of price control, while sections 6.4 and 6.5 set out the objectives that must be met by a price control.

7.3.2 Current Access Arrangement

102. The current access arrangement applies a “revenue cap” form of price control. Under this form of price control, reference tariffs are set in any year on the basis of an amount of required revenue for that year, plus corrections for under-recovery or over-recovery of required revenue. The “correction factor” for under-recovery or over-recovery of required revenue has effect over two years – a correction is made in the first year following a particular pricing year on the basis of a combination of recorded and forecast actual revenues, and a further correction is made in the second year following a particular pricing year to take into account the complete records of actual revenues.
103. The price control also includes provision for adjustments to revenues from one access arrangement period to the next, including provision for adjustments for unforeseen events and technical rule changes, and adjustments under the investment adjustment mechanism and capital contributions adjustment mechanism.
104. The price control under the current access arrangement is applied subject to a “side constraint” on year-to-year changes to reference tariff charges. Under the current access arrangement, the side constraint comprised a factor of +/- CPI + 5 per cent.⁴⁹

7.3.3 Proposed Revisions

105. Western Power proposes to maintain a revenue cap form of price control for the second access arrangement period with the following changes.
106. First, the revenue cap is proposed to apply only to revenue from reference services and not to revenue from non-reference services. As indicated in section 7.2.2.7 of this Issues Paper, Western Power has excluded an amount in respect of non-references services from the maximum revenues to be applied under the price control.
107. Secondly, Western Power has proposed a revised side constraint for year-to-year changes in reference tariff charges.⁵⁰ The proposed side constraints differ for the transmission and distribution networks and are:
- transmission network – CPI + 37.2 per cent; and
 - distribution network – CPI + 30.0 per cent.

⁴⁹ While expressed in this form, the side constraint is a maximum change in any tariff charge by a factor of plus or minus the sum of the percentage change in the CPI and five percentage points.

⁵⁰ Proposed revised access arrangement, sections 3.11, 5.35, 5.46.

Submissions are invited from interested parties on changes proposed by Western Power to the price control, including:

- application of the price control only to revenue from reference services; and
- the revised side constraint on year-to-year changes in reference tariff charges.

7.4 Pricing Methods, Price List and Price List Information

7.4.1 Access Code Requirements

7.4.1.1 Pricing methods

108. According to the Access Code, “pricing methods” refers to the structure of reference tariffs that are included in an access arrangement (section 7.1 of the Access Code).
109. Section 5.1(e) of the Access Code requires an access arrangement to include pricing methods in accordance with the requirements of Chapter 7 of the Access Code.
110. Section 7.2 of the Access Code indicates that an access arrangement may contain any pricing methods, provided that the pricing methods collectively meet the objectives set out in sections 7.3 and 7.4 and otherwise comply with the requirements of Chapter 7. A note under section 7.2 also indicates a number of examples of tariffs that may result from pricing methods, indicating that tariffs or parts of tariffs may be set to take into account matters, such as, different classes of users, different voltage levels, different connection points, demand levels, energy quantities and times of use.
111. Sections 7.3 and 7.4 of the Access Code set out the objectives for pricing methods, as follows:
- 7.3 Subject to sections 7.5, 7.7 and 7.12, the pricing methods in an access arrangement must have the objectives that:
- (a) reference tariffs recover the forward-looking efficient costs of providing reference services; and
 - (b) the reference tariff applying to a user:
 - (i) at the lower bound, is equal to, or exceeds, the incremental cost of service provision; and
 - (ii) at the upper bound, is equal to, or is less than, the stand-alone cost of service provision.

{Notes:

1. The objective in section 7.3(a) refers to charges paid by an individual user. However in practice reference tariffs will be set, and access arrangements will be assessed, by aggregating together groups of similar users.

2. One implication of section 7.3(b)(i) is that the charges paid by users should increase as the network becomes constrained, reflecting the increased incremental cost of service provision.
 3. The charge paid by a user in respect of a reference service will normally reflect the average cost of service provision}
- 7.4 Subject to sections 7.5, 7.7 and 7.12, the pricing methods in an access arrangement must have the objectives that:
- (a) the charges paid by different users of a reference service differ only to the extent necessary to reflect differences in the average cost of service provision to the users; and
 {Examples of factors which may result in the charges paid by different users of a reference service differing from each other, include:
 - the quantities of reference service supplied or to be supplied; or
 - a user's time pattern of network usage; or
 - the technical characteristics or requirements of the facilities and equipment at the relevant connection point; or
 - the nature of the plant or equipment required to provide the reference service; or
 - the periods for which the reference service is to be supplied; or
 - subject to section 7.7, a user's location.}
 - (b) the structure of reference tariffs so far as is consistent with the Code objective accommodates the reasonable requirements of users collectively; and
 {Example: Users may prefer more of the average cost of service provision to be recovered using tariff components that vary with usage or demand than might otherwise be the case under section 7.6.}
 - (c) the structure of reference tariffs enables a user to predict the likely annual changes in reference tariffs during the access arrangement period; and
 - (d) the structure of reference tariffs avoids price shocks (that is, sudden material tariff adjustments between succeeding years).
 {Note: Price adjustments between succeeding years could include tariff rebalancing to achieve greater cost reflectivity of individual tariffs. The mechanisms to avoid price shocks could include a phased approach or other measures to assist in the management of adjustment costs.}
112. Section 7.5 of the Access Code requires that the Authority, in reconciling any conflicting objectives for the pricing methods, or determining which objective should prevail, should have regard to the Code objective and should permit the objectives of section 7.3 to prevail over the objectives of section 7.4.
113. Section 7.6 provides guidance for establishing components of tariffs:
- 7.6 Unless an access arrangement containing alternative pricing methods would better achieve the Code objective, for a reference service:
 - (a) the incremental cost of service provision should be recovered by tariff components that vary with usage or demand; and
 - (b) any amount in excess of the incremental cost of service provision should be recovered by tariff components that do not vary with usage or demand.
114. Section 7.7 requires that tariffs be established as "postage stamp" tariffs in certain circumstances:

- 7.7 The tariff applying to a standard tariff user in respect of a standard tariff exit point must not differ from the tariff applying to any other standard tariff user in respect of a standard tariff exit point as a result of differences in the geographic locations of the standard tariff exit points.
115. Section 7.9 provides for “prudent discounts” to be made available to some users:
- 7.9 A service provider may propose in its access arrangement to discriminate between users in its pricing of services to the extent that it is necessary to do so to aid economic efficiency, including:
- (a) by entering into an agreement with a user to apply a discount to the equivalent tariff to be paid by the user for a covered service; and
 - (b) then, recovering the amount of the discount from other users of reference services through reference tariffs.
116. Section 7.10 provides for discounts for users connecting distributed generation plant:
- 7.10 If a user seeks to connect distributed generating plant to a covered network, a service provider must reflect in the user’s tariff, by way of a discount, a share of any reductions in either or both of the service provider’s capital-related costs or non-capital costs which arise as a result of the entry point for distributed generating plant being located in a particular part of the covered network by:
- (a) entering into an agreement with a user to apply a discount to the equivalent tariff to be paid by the user for a covered service; and
 - (b) then, recovering the amount of the discount from other users of reference services through reference tariffs.
117. Section 7.11 requires that an access arrangement include a detailed policy setting out how discounts under sections 7.9 and 7.10 are to be applied, including a detailed mechanism for determining when a user will be entitled to receive a discount and for calculating the discount to which the user will be entitled.
118. Section 7.12 requires that the value of any tariff equalisation contributions be recovered as a tariff component for distribution network users:
- 7.12 If an amount is added to the target revenue under section 6.37A and is intended to be recovered from users of reference services through one or more reference tariffs, then the recovery must have the objective of:
- (a) applying only to users of reference services provided in respect of exit points on the distribution system; and
 - (b) being equitable in its effect as between users referred to in section 7.12(a); and
 - (c) otherwise being consistent with the Code objective.

7.4.1.2 Price list and price list information

119. Section 5.1(f) of the Access Code requires an access arrangement to include a price list in accordance with the requirements of Chapter 8 of the Access Code. A “price list” is defined in the Access Code as a schedule of reference tariffs.
120. Chapter 8 of the Access Code sets out the requirements and processes for a service provider to submit price lists to the Authority for approval and for the Authority to approve or not approve a proposed price list.

121. An access arrangement may, or may not, include a requirement on a service provider to submit price lists to the Authority for approval. A determination of whether or not price lists must be approved by the Authority occurs under section 4.36 of the Access Code:
- 4.36 The Authority must, as a condition of approval of a proposed access arrangement, require a service provider to submit each price list under the access arrangement to the Authority under section 8.1 for approval, if:
- (a) the service provider requests such a condition; or
 - (b) the Authority considers that the submission of price lists under the access arrangement to the Authority under section 8.1 for approval would improve the operation of the access arrangement.
122. If a service provider's access arrangement requires the service provider to submit price lists to the Authority for approval, then section 8.1 of the Access Code requires that the service provider must submit a proposed price list to the Authority at least 45 business days before the start of each pricing year other than the first pricing year. A proposed price list must be accompanied by price list information. "Price list information" is defined as a document that would reasonably be required to enable the Authority, users and applicants to understand how the service provider derived the elements of the proposed price list; and assess the compliance of the proposed price list with the access arrangement.
123. Sections 8.2 to 8.6 of the Access Code sets out the process for the Authority to approve or not approve a proposed price list. The Authority is obliged to approve a proposed price list if it determines that the proposed price list complies with the price control and pricing methods in the service provider's access arrangement.
124. Sections 8.7 and 8.8 of the Access Code require a service provider to submit price lists to the Authority, even if the access arrangement does not require the service provider to submit price lists to the Authority for approval. In these circumstances, the role of the Authority is to publish the submitted price list and price list information.

7.4.2 Current Access Arrangement

125. "Pricing methods" are included in the current access arrangement at section 9 and indicate the allocation of costs to particular reference services and particular charges of reference tariffs. Section 9 also includes information to indicate compliance of the reference tariffs with the objectives of sections 7.3 and 7.4 of the Access Code.
126. A price list (2006/07) is included in the current access arrangement at Appendix 5. Subsequent to the Authority's approval of the current access arrangement, this price list was revised to incorporate variations to reference tariff charges made in accordance with the price control for the years 2007/08 and 2008/09.

7.4.3 Proposed Revisions

127. Western Power has not made substantive revisions to the pricing methods set out in section 9 of the proposed revised access arrangement, indicating that reference

tariffs have been scaled to preserve the cost allocations that were established in the first access arrangement period.⁵¹

128. Other than updating certain values to the first year of the second access arrangement period (2009/10), Western Power has not proposed substantive changes to the price list information in Appendix 6 of the proposed revised access arrangement.

7.5 Adjustments to Target Revenue in the Next Access Arrangement Period

7.5.1 Access Code Requirements

129. Sections 6.6 to 6.32 of the Access Code provide for the target revenue for an access arrangement period to be adjusted to reflect certain events, or outcomes of the previous access arrangement period. In the circumstances of the access arrangement for the SWIN, these provisions of the Access Code provide (to the extent enabled by the access arrangement) for the target revenue for the second access arrangement period (due to commence on 1 July 2009) to be adjusted for the relevant events, or outcomes in the first access arrangement period.
130. The events and outcomes that may give rise to adjustments to target revenue under these sections of the Access Code are:
- the service provider incurring certain costs during the first access arrangement period as a result of unforeseen (*force majeure*) events (sections 6.6 to 6.8 of the Access Code);
 - the service provider incurring greater or lesser non-capital costs, or capital related costs as a result of changes in the Technical Rules for the SWIN (sections 6.9 to 6.12 of the Access Code);
 - the amount, nature and timing of new facilities investment in the first access arrangement period being different to that forecast for that period, consistent with an investment adjustment mechanism set out in the access arrangement (sections 6.13 to 6.18 of the Access Code);
 - demand growth and/or efficiency gains achieved by the service provider, consistent with a gain sharing mechanism set out in the access arrangement (sections 6.19 to 6.28 of the Access Code);
 - the service provider achieving service standards during the first access arrangement period that are different to the service standard benchmarks established in the access arrangement, consistent with a service standards adjustment mechanism set out in the access arrangement (sections 6.29 to 6.32 of the Access Code).

7.5.2 Current Access Arrangement and Proposed Revisions

131. As specifically provided for under the Access Code, the current access arrangement includes provisions for period-to-period adjustments of target revenue

⁵¹ Proposed revised access arrangement, section 9.7.

in respect of unforeseen events and changes to the Technical Rules, and through an investment adjustment mechanism. Western Power has retained provisions for these adjustments in the proposed revised access arrangement.

132. In addition, Western Power has proposed revisions to provisions for other adjustments, as follows.
133. First, the current access arrangement also includes provisions for adjustments through a capital contributions adjustment mechanism. Western Power has proposed removing the capital contributions mechanism from the access arrangement in accordance with the revised treatment of capital contributions as described in section 7.2.2.4 of this Issues Paper.
134. Secondly, Western Power has proposed inclusion in the access arrangement of a gain sharing mechanism, as provided for under sections 6.19 to 6.28 of the Access Code.⁵² The gain sharing mechanism operates if Western Power's actual non-capital costs for the whole of an access arrangement period are less than the forecast costs for that period. Where this occurs, the average annual difference (the efficiency bonus) is added to the target revenue for each of the five years commencing from the start of the next access arrangement period.
135. Thirdly, Western Power has proposed inclusion of a service standards adjustment mechanism, as provided for under sections 6.29 to 6.32 of the Access Code.⁵³ The service standards adjustment mechanism provides for specified reward or penalty amounts to be added (or subtracted) from target revenue for the next access arrangement period where service standards fall below, or above the service standard benchmarks for the transmission and distribution networks over and above specified threshold amounts.
136. Fourthly, Western Power has proposed to defer some revenue from the second access arrangement period to the third or subsequent access arrangement periods, as described in section 7.2.2.4 of this Issues Paper. The proposed price control includes provision for the adjustment to maximum allowed revenue in the third access arrangement period to accommodate this deferral of revenue. There is no explicit contemplation of such an adjustment (or deferral of revenue) in the Access Code.
137. Fifthly, Western Power has proposed a further period-to-period adjustment mechanism referred to as the "D factor Scheme".⁵⁴ This mechanism provides for a carryover from one access arrangement period to the next of certain non-capital costs — non-capital costs additional to forecast non-capital costs that are incurred by Western Power as a result of deferring a capital expenditure project or demand-management initiatives. There is no explicit contemplation of such an adjustment in the Access Code.

⁵² Proposed revised access arrangement, sections 5.13 to 5.14(G), Appendix 8.

⁵³ Proposed revised access arrangement, sections 5.24A, 5.24B.

⁵⁴ Proposed revised access arrangement, sections 5.54 to 5.57, Appendix 8.

Submissions are invited from interested parties on proposed revisions to the access arrangement to allow adjustments to target revenue in the next access arrangement period, including by:

- the proposed gain sharing mechanism;
- the proposed service standards adjustment mechanism;
- the deferral of revenue; and
- the “D factor Scheme”.

8 APPLICATIONS AND QUEUING POLICY

8.1 Access Code Requirements

138. The applications and queuing policy is a policy in an access arrangement that sets out the principles and processes for applying for and obtaining a service, and for determining priority for access to a service where there is insufficient capacity of the network to meet all applications for services. Section 5.1(g) of the Access Code requires that an access arrangement include an applications and queuing policy.

139. The particular requirements for an applications and queuing policy are set out in section 5.7:

5.7 An applications and queuing policy must:

- (a) to the extent reasonably practicable, accommodate the interests of the service provider and of users and applicants; and
- (b) be sufficiently detailed to enable users and applicants to understand in advance how the applications and queuing policy will operate; and
- (c) set out a reasonable timeline for the commencement, progressing and finalisation of access contract negotiations between the service provider and an applicant, and oblige the service provider and applicants to use reasonable endeavours to adhere to the timeline; and
- (d) oblige the service provider, subject to any reasonable confidentiality requirements in respect of competing applications, to provide to an applicant all commercial and technical information reasonably requested by the applicant to enable the applicant to apply for, and engage in effective negotiation with the service provider regarding, the terms for an access contract for a covered service including:
 - (i) information in respect of the availability of covered services on the covered network; and
 - (ii) if there is any required work:
 - A. operational and technical details of the required work; and
 - B. commercial information regarding the likely cost of the required work;

and

- (e) set out the procedure for determining the priority that an applicant has, as against another applicant, to obtain access to covered services, where the applicants' access applications are competing applications; and
- (f) to the extent that contestable consumers are connected at exit points on the covered network, contain provisions dealing with the transfer of capacity associated with a contestable consumer from the user currently supplying the contestable consumer ("outgoing user") to another user or an applicant ("incoming user") which, to the extent that it is applicable, are consistent with and facilitate the operation of any Customer Transfer Code; and
- (g) establish arrangements to enable a user who is:
 - (i) a 'supplier of last resort' as defined in section 67 of the Act to comply with its obligations under Part 5 of the Act; and
 - (ii) a 'default supplier' under regulations made in respect of section 59 of the Act to comply with its obligations under section 59 of the Act and the regulations; and
- (h) facilitate the operation of Part 9 of the Act, any enactment under Part 9 of the Act and the 'market rules' as defined in section 121(1) of the Act; and
- (i) if applicable, contain provisions setting out how access applications (or other requests for access to the covered network) lodged before the start of the relevant access arrangement period are to be dealt with.

{Note: For the first access arrangement period section 5.7(i) would apply in respect of access applications or requests for access lodged under any prior access regime such as the regimes established under the Electricity Transmission Regulations 1996 (WA) and Electricity Distribution Regulations 1997 (WA). For subsequent access arrangement periods it would apply in respect of access applications lodged in a prior access arrangement period.}

140. Further requirements for the applications and queuing policy and the Authority's assessment of a proposed policy are set out in sections 5.8 to 5.11 of the Access Code.

8.2 Current Access Arrangement

141. An applications and queuing policy is contained in Appendix 1 of the current access arrangement.
142. This applications and queuing policy provides two parallel application processes for electricity transfer applications and connection applications. Queuing rules apply in respect of connection applications and, in general terms, operate on a "first-come first-served" basis.
143. The Authority notes that numerous concerns have been raised by interested parties, with regards to the existing applications and queuing policy, as part of the public consultation process for the 2008 annual wholesale electricity market report for the Minister for Energy. Further information about this report is available on the Authority's web site.⁵⁵

⁵⁵ Economic Regulation Authority web site: http://www.era.wa.gov.au/2/532/42/annual_wholesale.pm

8.3 Proposed Revisions

144. Western Power has proposed only minor revisions to the applications and queuing policy that appear to be for the purposes of clarifying provisions of the existing policy.

Submissions are invited from interested parties on the operation of the applications and queuing policy in the current access arrangement period and whether any revisions to this policy, in addition to those proposed by Western Power, are required to meet the requirements of the Access Code.

9 CONTRIBUTIONS POLICY

9.1 Access Code Requirements

145. The contributions policy sets out the principles and processes for determining when a contribution will be required from a user, including for a network augmentation, and for determining the amount of the contribution. A “contribution” is defined in section 1.3 of the Access Code as a capital contribution, a non-capital contribution or a headworks charge.
146. Section 5.1(h) of the Access Code requires that an access arrangement include a contributions policy, defined in section 1.3 of the Access Code as a policy in an access arrangement under section 5.1(h) dealing with contributions by users.
147. The particular requirements for a contributions policy are set out in sections 5.12 to 5.17D of the Access Code:
- 5.12 The objectives for a contributions policy must be that:
- (a) it strikes a balance between the interests of:
 - (i) contributing users; and
 - (ii) other users; and
 - (iii) consumers; and
 - (b) it does not constitute an inappropriate barrier to entry.
- 5.13 A contributions policy must facilitate the operation of this Code, including:
- (a) sections 2.9 to 2.12; and
 - (b) the test in section 6.51A; and
 - (ba) sections 5.14 and 5.17D; and
 - (c) the regulatory test.
- 5.14 Subject to section 5.17A and a headworks scheme, a contributions policy:
- (a) must not require a user to make a contribution in respect of any part of new facilities investment which meets the new facilities investment test; and

- (b) must not require a user to make a contribution in respect of any part of non-capital costs which would not be incurred by a service provider efficiently minimising costs; and
 - (c) may only require a user to make a contribution in respect of required work; and
 - (d) without limiting sections 5.14(a) and 5.14(b), must contain a mechanism designed to ensure that there is no double recovery of new facilities investment or non-capital costs.
- 5.15 A contributions policy must set out:
- (a) the circumstances in which a contributing user may be required to make a contribution; and
 - (b) the method for calculating any contribution a contributing user may be required to make; and
 - (c) for any contribution:
 - (i) the terms on which a contributing user must make the contribution; or
 - (ii) a description of how the terms on which a contributing user must make the contribution are to be determined.
- 5.16 A contributions policy may:
- (a) be based in whole or in part upon the model contributions policy, in which case, to the extent that it is based on the model contributions policy, any matter which in the model contributions policy is left to be completed in the access arrangement, must be completed in a manner consistent with:
 - (i) any instructions in relation to the matter contained in the model contributions policy; and
 - (ii) sections 5.12 to 5.15; and
 - (iii) the Code objective; and
 - (b) be formulated without any reference to the capital contributions policy and is not required to reproduce, in whole or in part, the model contributions policy.
{Note: The intention of this section 5.16(b) is to ensure that the service provider is free to formulate its own contributions policy which complies with sections 5.12 to 5.15 but is not based on the model contributions policy.}
- 5.17 The Authority:
- (a) must determine that a contributions policy is consistent with sections 5.12 to 5.15 and the Code objective to the extent that it reproduces without material omission or variation the model contributions policy; and
 - (b) otherwise must have regard to the model contributions policy in determining whether the contributions policy is consistent with sections 5.12 to 5.15 and the Code objective.
- 5.17A Despite section 5.14, Electricity Networks Corporation may require a contribution for Appendix 8 work of up to the maximum amount determined under Appendix 8 for the relevant type of Appendix 8 work.
- 5.17B From 1 July 2007 until the first revisions commencement date for the Western Power Network access arrangement, section 5.17A prevails over any inconsistent provisions of the Western Power Network access arrangement.
- 5.17C Despite section 5.14, the Authority may approve a contributions policy that includes a “headworks scheme” which requires a user to make a payment to the service provider in respect of the user’s capacity at a connection point on a distribution system because the user is a member of a class, whether or not there is any required work in respect of the user.

{Example: In 2008 Electricity Networks Corporation adopted a headworks scheme under which new users in certain rural parts of the SWIS who connected more than 25 km along the wires from a zone substation, were required to pay a headworks charge in respect of reinforcement of the 3 phase HV distribution network, whether or not the user's connection made any such reinforcement necessary.}

5.17D A headworks scheme must:

- (a) identify the class of works in respect of which the scheme applies, which must not include any works on a transmission system or any works which effect a geographic extension of a network; and
- (b) not seek to recover headworks charges in an access arrangement period which in aggregate exceed [1]% of the distribution system target revenue for the access arrangement period; and
- (c) identify the class of users who must make a payment under the scheme; and
- (d) set out the method for calculating the headworks charge, which method:
 - (i) must have the objective that headworks charges under the headworks scheme will, in the long term, and when applied across all users in the class referred to in section 5.17D(c), recover no more than the service provider's costs (such as would be incurred by a service provider efficiently minimising costs) of any headworks; and
 - (ii) must have the objective that the headworks charge payable by one user will differ from that payable by another user as a result of material differences in the users' capacities and the locations of their connection points, unless the Authority considers that a different approach would better achieve the Code objective; and
 - (iii) may use estimates and forecasts (including long term estimates and forecasts) of loads and costs; and
 - (iv) must contain a mechanism designed to ensure that there is no double recovery of costs in all the circumstances, including the manner of calculation of other contributions and tariffs; and
 - (v) may exclude a rebate mechanism (of the type contemplated by clauses A4.13(d) or A4.14(c)(ii) of Appendix 4) and may exclude a mechanism for retrospective adjustments to account for the difference between forecast and actual values.

9.2 Current Access Arrangement

148. A capital contributions policy is contained in Appendix 3 of the current access arrangement.

9.3 Proposed Revisions

149. Western Power has proposed several changes to the capital contributions policy.

150. The capital contributions policy has been re-titled as the "contributions policy" that allows for contributions to be required from users in respect of amounts of costs of either a "capital" or "non-capital" nature. This is consistent with the amendments made to the Access Code on 22 October 2008.

151. Where contributions are required in respect of costs of a capital nature, the contributions policy⁵⁶ retains provisions of the current access arrangement that enable Western Power to require a contribution where:
- the costs do not satisfy the new facilities investment test under section 6.52 of the Access Code (clause 2(c)(i)); or
 - the costs relate to certain types of works listed in Appendix 8 of the Access Code that include works for subdivisions; pole-to-pillar connections; development of existing buildings; “supply extensions schemes”; augmentations in excess of standard requirements; temporary connections; streetlights; unmetered connections; asset relocations; and “undergrounding” of assets (clause 2(b)).
152. Western Power has proposed revisions in the contributions policy to also allow contributions to be required in respect of costs of a capital nature where the works form part of a “distribution headworks scheme” (clause 2(c)(iv) and clause 6). Such contributions are intended to comprise “headworks charges” in accordance with Western Power’s “Distribution Headworks Scheme” for upgrading network infrastructure in locations at the edge of the SWIN. Further information on this scheme is available on Western Power’s web site.⁵⁷
153. For contributions required in respect of costs of a non-capital nature, the contributions policy includes new provisions that enable Western Power to require a contribution where the costs do not satisfy the “alternative options test” under section 6.41 of the Access Code (clause 2(c)(ii)). This section of the Access Code establishes a test for inclusion of non-capital costs in the total costs and target revenue for the access arrangement in circumstances where a preferable “alternative option” to augmentation of the network exists and this alternative option gives rise to additional non-capital costs. There is no explicit intent under the Access Code for the test of section 6.41 to be applied to the determination of a contribution from a user, although Western Power has applied it in this way.
154. Further substantive revisions proposed in the new contributions policy comprise a strengthening of provisions allowing for Western Power to require security in respect of the amount of charges for services that were forecast and that were used to calculate the amount of a contribution (clause 4.3).

Submissions are invited from interested parties on operation of the capital contributions policy during the current access arrangement period and on Western Power’s proposed revisions to the capital contributions policy.

⁵⁶ Proposed revised access arrangement, Appendix 3.

⁵⁷ Western Power web site:
http://www.westernpower.com.au/mainContent/projects/EdgeGrid/Edge_of_grid.html