

# Further Final Decision on Proposed Revisions to the Access Arrangement for the South West Interconnected Network

Submitted by Western Power

19 January 2010

Economic Regulation Authority



WESTERN AUSTRALIA

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## DECISION

1. On 1 October 2008, the Electricity Networks Corporation (**Western Power**) submitted to the Economic Regulation Authority (**Authority**) proposed revisions to its access arrangement for the South West Interconnected Network (**SWIN**) (the “proposed access arrangement revisions”).<sup>1</sup> The proposed access arrangement revisions were 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.<sup>2</sup> The proposed access arrangement revisions and revised access arrangement information are available on the Authority’s web site.<sup>3</sup>
2. Under sections 4.52 and 4.28 of the Access Code, the Authority is required to determine whether the proposed access arrangement revisions meet the “Code objective” and the requirements set out in Chapter 5 of the Access Code and in Chapter 9, if applicable.
3. The Code objective is set out in section 2.1 of the Access Code:
  - 2.1 The objective of the Code (“Code objective”) is to promote the economically efficient:
    - (a) investment in; and
    - (b) operation and use of,  
  
networks and services of networks in Western Australia in order to promote competition in markets upstream and downstream of the networks.
4. Chapter 5 of the Access Code sets out the required content of an access arrangement.
5. Chapter 9 of the Access Code sets out requirements for the regulatory test for major augmentation proposals of electricity networks. Western Power has made no major augmentation proposals under Chapter 9 as part of its proposed access arrangement revisions, and so Chapter 9 is not applicable to the Authority’s determination.
6. On 4 December 2009, the Authority issued a Final Decision in accordance with the requirements of sections 4.52 and 4.17 of the Access Code.<sup>4</sup> The Final Decision of the Authority was to not approve the proposed access arrangement revisions on the grounds that it did not satisfy the requirements of the Access Code. In its reasons

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<sup>1</sup> Western Power, 1 October 2008, Proposed Revisions to the Access Arrangement for the South West Network owned by Western Power (hereafter cited as “proposed access arrangement revisions”); 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”).

<sup>2</sup> The revisions submission date is specified under the current access arrangement as 1 October 2008 (Western Power, 2 April 2007, Amended Proposed Access Arrangement for the South West Interconnected Network owned by Western Power, clause 1.5).

<sup>3</sup> Economic Regulation Authority web site: [http://www.era.wa.gov.au/3/718/48/western\\_powers\\_.pm](http://www.era.wa.gov.au/3/718/48/western_powers_.pm)

<sup>4</sup> Economic Regulation Authority, 4 December 2009, Final Decision on Proposed Revisions to the Access Arrangement for the South West Interconnected Network – Reprinted 17 December 2009 to incorporate corrigenda of notice dated 17 December 2009 (hereafter cited as “final decision”).

for the Final Decision, the Authority provided details of 45 amendments required to the proposed access arrangement revisions before the Authority would approve the revisions.

7. On 24 December 2009, and in accordance with section 4.19 of the Access Code, Western Power submitted to the Authority amended proposed revisions to the access arrangement (the “amended proposed revisions”).<sup>5</sup> The amended proposed revisions and amended access arrangement information are available on the Authority’s web site.<sup>6</sup>
8. With Western Power having submitted amended proposed revisions, the Authority is required by section 4.52 and 4.21 of the Access Code, and subject to section 4.23, to issue a further final decision that either approves or does not approve the amended proposed revisions.
9. During the course of assessing the amended proposed revisions, the Authority was advised by Western Power that the amended proposed revisions contained various minor errors that required correction, but which did not affect the substance of the document (for example, typographical errors).<sup>7</sup> The Authority is satisfied that the corrections identified are required and do not affect the substance of the document. Accordingly, the Authority has assessed the amended proposed revisions incorporating the various minor corrections. Further to these minor corrections, Western Power has made an additional revision to its proposed amendments. The Authority is satisfied that the revision was necessary, for the reasons set out in this decision (refer to paragraph 94).
10. The Further Final Decision of the Authority is to approve Western Power’s amended proposed revisions to the access arrangement for the SWIN on the grounds that the amended proposed revisions either implement the amendments required under the Final Decision, or the Authority is satisfied that the amended proposed revisions adequately address the matters that prompted the Authority to require the amendments.
11. The Authority’s reasons for this Further Final Decision are provided in the following sections of this decision document. These reasons are set out in order of the elements of the proposed access arrangement revisions that the Authority required to be amended under the Final Decision.
12. Under section 4.26 of the Access Code, the Authority is required to specify the “access arrangement start date” on which the amended access arrangement takes effect. The access arrangement start date is required to be consistent with the Code objective and be at least 20 business days after this Further Final Decision, that is, not before 17 February 2010.

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<sup>5</sup> Western Power, 24 December 2009, Amended Proposed Revisions to the Access Arrangement for the South West Network owned by Western Power (hereafter cited as “amended proposed revisions”); Western Power, 24 December 2009, Amended Revised Access Arrangement Information for the Network of the South West Interconnected System (hereafter cited as “amended access arrangement information”).

<sup>6</sup> Economic Regulation Authority web site: [http://www.era.wa.gov.au/3/879/48/western\\_power's.pm](http://www.era.wa.gov.au/3/879/48/western_power's.pm)

<sup>7</sup> Western Power, 13 January 2010, Letter from Mr P. Southwell, General Manager Regulations and Sustainability (Re: Corrigenda).



13. Taking into account business operation processes and the introduction of amended reference tariffs for 2009/10, the Authority considers that the Code objective is best served by the amended access arrangement coming into effect at the start of the next calendar month following 17 February 2010. Accordingly, the Authority determines the access arrangement start date to be 1 March 2010.

## REASONS

### Reference Services

#### *Introduction*

14. A reference service is a service described in the access arrangement and for which a reference tariff is specified in the access arrangement.
15. The current access arrangement lists 11 reference services that are exit services (at clause 3.5) and two reference services that are entry services (at clause 3.6). Western Power has maintained these reference services in the proposed access arrangement revisions.
16. In its Final Decision the Authority required that an additional reference service (a bidirectional service) be added to the list of reference services under the access arrangement for the Authority to approve the proposed access arrangement revisions. The Authority's required amendment and Western Power's response to this amendment are addressed below.

#### ***Additional Reference Services – Bidirectional Connection Points***

#### *Final Decision*

17. The Authority determined that the access arrangement should include a reference service that is both an entry and exit service at a single connection point. Such a reference service is necessary where small-scale renewable energy systems are connected to the network and where electricity consumers participate in the Renewable Energy Buyback Scheme. The current access arrangement does not provide a reference service for a connection point that may variously function as an entry or exit point.
18. In a submission to the Authority, Western Power indicated that it will amend the proposed access arrangement revisions to include a reference service for a bidirectional connection point ("Reference Service C1"), which will be available to new and existing users with bidirectional energy flows due to small-scale embedded generation.<sup>8</sup>
19. Taking into account Western Power's submission, the Authority required the following amendment to the proposed access arrangement revisions.

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<sup>8</sup> Western Power submissions of 13 August 2009 and 5 October 2009.

## Final Decision Amendment 1

The proposed access arrangement revisions should be amended such that one or more reference services provide for single connection points to function both as entry points and exit points. The reference service or services must cater for the requirements for network services that arise where small-scale renewable energy systems connect to the network and where electricity consumers participate in the Renewable Energy Buyback Scheme.

### Amended Proposed Revisions

20. Western Power has amended the proposed access arrangement revisions to insert a new clause 3.6A to provide for a new reference service: “Reference Service C1 – Time of Use (Residential) – Bidirectional Service”.

3.6A Western Power offers one bidirectional energy flow service as a reference service for electricity consumers with small scale embedded generation (inverter connected):

1. Time of Use (Residential) – Bidirectional Service C1

21. Western Power has also amended Appendix 7 (reference services) of the proposed access arrangement revisions to specify the following reference service definition for bidirectional services.

#### 4 Reference Services (Bidirectional Services)

Western Power offers 1 bidirectional service as a reference service.

<u>Reference Service Name:</u>	<u>Reference Service C1 – Time of Use (Residential) – Bidirectional Service</u>
<u>Reference Service Description:</u>	<u>A bidirectional service combined with a connection service and a standard metering service at a bidirectional point on the low voltage (415 volts or less) distribution system.</u>
<u>Eligibility Criteria:</u>	<p><u>Users are eligible to use this service if:</u></p> <ol style="list-style-type: none"> <li><u>1. The bidirectional point is located at a residential premise;</u></li> <li><u>2. The consumer’s facilities and equipment include a small scale embedded generation system connected via an inverter system that is rated up to 10 kVA for single phase connections and 30 kVA for three phase connections;</u></li> <li><u>3. The consumer’s inverter system must comply with the requirements of AS 4777 and the Technical Rules;</u></li> <li><u>4. An interval meter having capability for import and export channels and five register information collection is installed at the bidirectional point<sup>1</sup>; and</u></li> <li><u>5. The consumer’s facilities and equipment comply with the Technical Rules, the WA Electrical Requirements and AS 3000.</u></li> </ol>
<u>Applicable Reference Tariff:</u>	<u>“RT12” in the Price List published in Appendix 5 of the Access Arrangement</u>
<u>Applicable Standard Access Contract:</u>	<u>“Electricity Transfer Access Contract” published in Appendix 4 of the Access Arrangement</u>
<u>Applicable Service Standard Benchmarks:</u>	<u>Refer to Section 3.18 and 3.19 of the Access Arrangement</u>

22. The inclusion of a bidirectional reference service requires Western Power to make several consequential changes to the electricity transfer access contract and other policies forming part of the amended access arrangement.<sup>9</sup>
23. The following consequential changes have been made to the proposed electricity transfer access contract.

#### Definitional changes

New definition	<a href="#">“bidirectional point”</a> has the meaning given to ‘bidirectional point’ in the Applications and Queuing Policy*.
New definition	<a href="#">“bidirectional service”</a> means a Covered Service* provided by Western Power* at a Connection Point* under which the User* may transfer electricity into and out of the Network* at the Connection Point*.
Amended definition	<a href="#">“connection point”</a> means a point on the Network* identified, or to be identified, as an Exit Point* or Entry Point* <a href="#">or Bidirectional Point*</a> in the Contract Database*.
Amended definition	<a href="#">“covered service”</a> has the meaning given to ‘covered service’ in the Code* <a href="#">and includes a Bidirectional Service*</a> .
Amended definition	<a href="#">“Service”</a> means an Entry Service* or an Exit Service* <a href="#">or a Bidirectional Service*</a> to be provided under this Contract* in respect of a Connection Point* as specified in the Contract Database*.

#### Other changes

In addition to definitional changes, clauses 3.1(b)(i), 3.1(b)(ii) and 6.2(g)(ii) of the electricity transfer access contract have been amended to support the bidirectional reference service.

Clause 3.1(b)(i)	transfer electricity out of the Network* at a Connection Point* unless it has an Exit Service* <a href="#">or Bidirectional Service*</a> for that Connection Point*; and
Clause 3.1(b)(ii)	transfer electricity into the Network* at a Connection Point* unless it has an Entry Service* <a href="#">or Bidirectional Service*</a> for that Connection Point*.

24. The following consequential changes have been made to the proposed applications and queuing policy.

#### Definitional changes

New definition	<a href="#">“bidirectional point”</a> means a single, indivisible (except as allowed under this <i>applications and queuing policy</i> ) point, that for purposes under the <i>access arrangement</i> involving the transfer of electricity, is deemed to consist of a single <i>attachment point</i> , <i>connected</i> or to be <i>connected</i> to a user’s connection point, with a
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<sup>9</sup> These consequential changes were indicated by Western Power to the Authority in its submission of 5 October 2009.

	<a href="#">single meter</a> (regardless of the actual configuration of <i>network assets</i> making up the <i>bidirectional point</i> ), at which electricity is to be transferred into and out of the <i>network</i> .
New definition	<b>“bidirectional service”</b> means a <i>covered service</i> provided by Western Power at a <i>connection point</i> under which the <i>user</i> may transfer electricity into and out of the <i>network</i> at the <i>connection point</i> .
Amended definition	<b>“connection point”</b> means: (a) an exit point; or (b) an entry point; or (c) <a href="#">a bidirectional point</a> ; identified or to be identified as such in an electricity transfer access contract.
Amended definition	<b>“covered service”</b> means a <i>covered service</i> (as defined in the Code) provided by Western Power under the <i>access arrangement</i> , including: (a) an exit service; or (b) an <i>entry service</i> ; or (c) <a href="#">a bidirectional service</a> ; or (d) a service to facilitate an <i>exit service</i> or <i>entry service</i> <a href="#">or bidirectional service</a> , including by the performance of <i>works</i> .
Amended definition	<b>“electricity transfer application”</b> means an application lodged with Western Power under this applications and queuing policy seeking to obtain or modify an <i>entry service</i> or an <i>exit service</i> <a href="#">or a bidirectional service</a> , and includes any additional information provided by the <i>applicant</i> in regard to the application.
Amended definition	<b>“electricity transfer access contract”</b> means a type of access contract that provides the <i>user</i> with an <i>entry service</i> , or <i>exit service</i> , <a href="#">or bidirectional service</a> , or <a href="#">any combination of all three</a> <del>both</del> , at a <i>connection point</i> or <i>connection points</i> .

### Other changes

In addition to definitional changes, clauses 3.3, 3.4(a) and (b), 7.2(a) and 14.1(f) of the applications and queuing policy have been amended to include the bidirectional service where reference is made to “exit service or entry service”.

25. The following consequential changes have been made to the proposed transfer and relocation policy.

### Definitional changes

New definition	<b>“bidirectional point”</b> has the meaning given to it in <a href="#">the applications and queuing policy</a> .
Amended definition	<b>“connection point”</b> means an <i>exit point</i> or an <i>entry point</i> <a href="#">or bidirectional point</a> identified or to be identified as such in an <i>access contract</i> .

26. The following consequential changes have been made to the proposed contributions policy.

**Definitional changes**

New definition	<b>“bidirectional point”</b> has the meaning given to it in <a href="#">the applications and queuing policy</a> .
Amended definition	<b>“connection point”</b> means an <i>exit point</i> or an <i>entry point</i> or <a href="#">bidirectional point</a> identified or to be identified as such in an <i>access contract</i> .
Amended definition	<b>“covered service”</b> has the meaning given to it in the <i>Code</i> <a href="#">and includes a bidirectional service</a> .

**Other changes**

In addition to definitional changes, clauses 4.3(a) and 4.3(c) of the contributions policy have been amended to include the bidirectional service where reference is made to “exit service or entry service”.

**Further Final Decision**

27. Western Power has incorporated amendments in the proposed access arrangement revisions that provide a reference service for a bidirectional connection point, and has made consequential changes to the standard access contract and other policies that form part of the access arrangement (that is, the applications and queuing policy, transfer and relocation policy and contributions policy).
28. The amendments are consistent with amendments that Western Power previously proposed to the Authority, and that were taken into account by the Authority in making its final decision.
29. The Authority is satisfied that the amendments made to the proposed access arrangement revisions, including consequential amendments to the standard access contract and other access arrangement policies, implement Final Decision Amendment 1.

**Standard Access Contracts****Introduction**

30. The current access arrangement includes, at Appendix 4, a standard access contract (the “electricity transfer access contract”) that applies to all reference services under the access arrangement. In the proposed access arrangement revisions, Western Power has maintained the single electricity transfer access contract for all reference services (the “proposed electricity transfer access contract”).
31. In the Final Decision, the Authority required several amendments to the proposed electricity transfer access contract that are necessary for the Authority to approve the proposed access arrangement revisions. The Authority’s required amendments and Western Power’s response to these amendments are addressed below.

## Eligibility Criteria (clause 3.3)

### Final Decision

32. Clause 3.3 of the proposed electricity transfer access contract requires that the user comply with the eligibility criteria applicable to the reference service provided at a connection point.
33. The Authority determined that the requirement to comply with eligibility criteria should be subject to Western Power meeting its obligations to, as necessary, change the reference service applicable to a connection point and electricity customer. Accordingly, the Authority determined that clause 3.3 should be subject to operation of the applications and queuing policy, which allows for the change of a reference service.
34. In a submission to the Authority, Western Power accepted that the requirement to comply with the eligibility criteria should be subject to Western Power meeting its obligations to change the reference service applicable to a connection point and electricity customer, and that clause 3.3 should be subject to operation of the applications and queuing policy, which allows for the change of a reference service.<sup>10</sup> Western Power further indicated that it will add a new clause 3.3(b) to the electricity transfer access contract to indicate this.
35. Taking into account Western Power's submission, the Authority required the following amendment to the proposed access arrangement revisions.

#### Final Decision Amendment 2

The proposed access arrangement revisions should be amended to include a new clause 3.3(b) of the electricity transfer access contract that reads: "Where the user has sought to change the reference service in respect of a connection point under clause 3.2(a), its obligation under clause 3.3(a) in relation to that connection point is subject to compliance by Western Power with clause 3.2(b)".

### Amended Proposed Revisions

36. Western Power has amended clause 3.3 of the electricity transfer access contract to insert a new clause 3.3(b).

#### 3.3 Eligibility Criteria\*

(a) The User\* must in relation to each Reference Service Point\*, comply with the Eligibility Criteria\* applicable to the Reference Service\* provided, or to be provided, at the Reference Service Point\*.

(b) Where the User\* has sought to change the Reference Service\* in respect of a Connection Point\* under clause 3.2(a), its obligation under clause 3.3(a) in relation to that Connection Point\* is subject to compliance by Western Power\* with clause 3.2(b).

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<sup>10</sup> Western Power submissions of 13 August 2009.

### Further Final Decision

37. Western Power has amended clause 3.3 of the electricity transfer access contract to make the clause subject to Western Power meeting its obligations to, as necessary, change the reference service applicable to a connection point and electricity customer.
38. The Authority is satisfied that Western Power's amendment to clause 3.3 implements Final Decision Amendment 2.

### Deletion of a Connection Point (clause 3.6)

#### Final Decision

39. Clause 3.6 of the proposed electricity transfer access contract provides for the user to request the deletion of a connection point from the electricity transfer access contract and sets out the circumstances in which Western Power is obliged to comply with the request.<sup>11</sup>
40. The Authority determined that clause 3.6 should be amended to include explicit protection for users against an unrequested deletion of a connection point.
41. In a submission to the Authority, Western Power accepted that a connection point should not be deleted from an electricity transfer access contract, except when requested by the user, or when the connection point has been transferred in accordance with the *Electricity Industry Customer Transfer Code (Customer Transfer Code)*.<sup>12</sup> Western Power further indicated that it will add a new clause 3.6(d) to the electricity transfer access contract to indicate this.
42. Taking into account Western Power's submission, the Authority required the following amendment to the proposed access arrangement revisions.

#### Final Decision Amendment 3

The proposed access arrangement revisions should be amended to include a new clause 3.6(d) of the electricity transfer access contract that reads: "Subject to the Customer Transfer Code, Western Power must not delete a connection point other than in accordance with a notice given by a user under clause 3.6".

43. The Authority further determined that Western Power should be liable for indirect losses arising from the deletion of a connection point, where the deletion of a connection point other than allowed for under clause 3.6 is wilful or deliberate.
44. In a submission to the Authority, Western Power accepted that indirect loss can be claimed where it has wilfully or deliberately breached its obligation not to delete a connection point other than as allowed in clause 3.6. However, Western Power indicated that this should not be the case where the deletion was a result of an error of judgement, mistake, act or omission, whether negligent or not, which is made in good faith.<sup>13</sup> Western Power further indicated that it intends to respond to the

<sup>11</sup> Clause 3.6 corresponds to clause 3.5 of the current electricity transfer contract.

<sup>12</sup> Western Power submission of 13 August 2009.

<sup>13</sup> Western Power submission of 13 August 2009.



requirements of the Authority by the addition of a new clause 3.6(e), which is accompanied by a definition of “wilful default”.

45. Taking into account Western Power’s submission, the Authority required the following amendment to the proposed access arrangement revisions.

**Final Decision Amendment 4**

The proposed access arrangement revisions should be amended to include a new clause 3.6(e) of the electricity transfer access contract that reads: “If Western Power commits a breach of clause 3.6(d) in circumstances that constitute wilful default it is liable to the user for any damage caused by, consequent upon or arising out of the wilful default. In this case, the exclusion of indirect damage in clause 19.3 does not apply”.

The electricity transfer access contract should also be amended to include a definition of wilful default as:

- a) *a deliberate and purposeful act or omission carried out with a calculated regard for the consequences of the act or omission, or*
- b) *a reckless or wilful disregard for the consequences of the act or omission, but does not include any error of judgment, mistake, act or omission, whether negligent or not, which is made in good faith.*

**Amended Proposed Revisions**

46. Western Power has amended clause 3.6 of the electricity transfer access contract to insert new clauses 3.6(d) and 3.6(e).

3.6 Deletion of a Connection Point\*

...

(d) Subject to the Customer Transfer Code\*, Western Power\* must not delete a Connection Point\* other than in accordance with a notice given by a User\* under clause 3.6.

(e) If Western Power\* commits a breach of clause 3.6(d) in circumstances that constitute Wilful Default\* it is liable to the User\* for any damage caused by, consequent upon or arising out of the Wilful Default\*. In this case, the exclusion of Indirect Damage\* in clause 19.3 does not apply.

47. Western Power has added the following definition of “wilful default” to schedule 1 (dictionary) of the electricity transfer access contract.

Wilful Default\* means:

(a) a deliberate and purposeful act or omission carried out with a calculated regard for the consequences of the act or omission; or

(b) a reckless or wilful disregard for the consequences of the act or omission,

but does not include any error of judgment, mistake, act or omission, whether negligent or not, which is made in good faith.



### Further Final Decision

48. Western Power has amended the electricity transfer access contract to include new clauses 3.6(d) and 3.6(e) and a new definition of “wilful default”.
49. The amendments are consistent with the amendments that Western Power previously proposed to the Authority in a submission, and that were taken into account by the Authority in making its final decision.
50. The Authority is satisfied that Western Power’s amendments to the electricity transfer access contract implements Final Decision Amendments 3 and 4.

### Connection Point Data (clause 3.7)

#### Final Decision

51. Schedule 3 of the proposed electricity transfer access contract comprises a database of connection points for which services are provided to the user. Clause 3.7 of the proposed electricity transfer access contract provides for this database to be maintained and updated.
52. Under clause 3.7(b) of the proposed electricity transfer access contract, if the user is a “metering code participant” (within the meaning of the *Electricity Industry Metering Code (Metering Code)*), Western Power has responsibility for updating the “metering database” that forms schedule 3 of the electricity transfer access contract in accordance with relevant provisions of the Metering Code. Western Power also has an obligation to provide the user with secure access to this information.
53. The Authority determined that clause 3.7 is ambiguous as to whether the user may directly update schedule 3 and the metering database, and required this ambiguity to be resolved. The Authority also determined that ambiguity exists in the data that will be used for determining tariffs and charges, where there are inconsistencies between schedule 3, the metering database and the price list.
54. In a submission to the Authority, Western Power indicated that it will make substantial amendments to clause 3.7 of the proposed electricity transfer access contract.<sup>14</sup> Western Power indicated that these amendments seek to address the requirements of the Authority and retain a level of flexibility with respect to the databases in which information is recorded, so as to meet the different expectations and demands of users.
55. Taking into account Western Power’s submission, the Authority required the following amendments to the proposed access arrangement revisions.

#### Final Decision Amendment 5

The proposed access arrangement revisions should be amended such that clause 3.7 of the electricity transfer access contract is clear on whether schedule 3

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<sup>14</sup> Western Power submission of 13 August 2009, including Attachment A.

and, where relevant, the metering database, is to be updated only by Western Power, or by either Western Power or the user.

#### Final Decision Amendment 6

The proposed access arrangement revisions should be amended such that clause 3.7 of the electricity transfer access contract requires Western Power to provide the user with such access to schedule 3 and the metering database as is reasonably required for the user to obtain information or to change relevant information.

#### Final Decision Amendment 7

The proposed access arrangement revisions should be amended so that the electricity transfer access contract indicates which records of connection point data will have precedence, to the extent of any inconsistency between schedule 3 of the electricity transfer access contract, the metering database and any connection point data contained in the price list.

### Amended Proposed Revisions

56. Western Power has amended clause 3.7 of the electricity transfer access contract as follows.

- 3.7 Amendment to Connection Point\* data ~~Schedule 3~~
- (a) Unless the Parties\* otherwise agree, Western Power must record the information referred to in Part 1 of Schedule 3, with respect to each Connection Point\*, in the Connection Point Database\*. ~~Subject to clauses 3.7(b) and 3.7(d), the Parties\* must update the information contained in Schedule 3 following any variation made under this clause 3;~~
- (b) Subject to clauses 3.7(g) and 3.7(h), Western Power\* must update the information contained in a Connection Point Database\* following any variation made under this clause 3. ~~If the User\* is a Metering Code Participant\*, then the User\* and Western Power\* agree that Western Power\* will, subject to clause 3.7, in accordance with the provisions of the Metering Code\* record and update in the Metering Database\* the information in Part 1 of Schedule 3, and will provide the User\* with secure access to this information. For the purposes of this Contract\*, a reference to Part 1 of Schedule 3 or the information contained within it shall be read as a reference to the information recorded in the Metering Database\*.~~
- (c) Upon request by the User\* for information referred to in the Connection Point Database\*, Western Power\* will provide to the User\* the most up-to-date version of that information. ~~Western Power\* will record and update the CMD\* and DSOC\* information in Part 1 of Schedule 3 within a database maintained by Western Power\* and provide the User\* with reasonable access to the information upon request by the User\*.~~
- (d) The Parties\* acknowledge that if the User\* is a Metering Code Participant\*, for each Connection Point\* Western Power\* must also record and update the relevant information required under Part 1 of Schedule 3 in the Metering Database\* in accordance with the provisions of the Metering Code\*. ~~Subject to clause 3.7(e), where Western Power causes a Permanent Reconfiguration\* of the Network\* which results in the information contained in Schedule 3 having to be updated:~~
- (i) ~~Western Power\* is not required to update the information contained in Schedule 3 before the next 1 July following the Permanent Reconfiguration\* of the Network\*; and~~

- (ii) ~~Western Power\* must update the information contained in Schedule 3 before the next 21 July following the Permanent Reconfiguration\* of the Network\*.~~
- (e) Nothing in this Contract\* restricts or prohibits Western Power\* from maintaining and updating the Metering Database\* in accordance with the Metering Code\*. Where a Permanent Reconfiguration\* of the Network\* occurs as a result of, or arising from, a notice or application by the User\* under clause 3.4, 3.5 or 3.6 which results in the information contained in Schedule 3 having to be updated:
- (i) ~~clause 3.7(d) does not apply; and~~
- (ii) ~~each Party\* must update the information contained in Schedule 3 as soon as reasonably practicable after the Permanent Reconfiguration\* of the Network\*.~~
- (f) Western Power\* will provide the User\* with access to the information in the Metering Database\* in accordance with the Build Pack\*.
- (g) Subject to clause 3.7(h), where Western Power causes a Permanent Reconfiguration\* of the Network\* which results in the information contained in the Contract Database\* having to be updated:
- (i) Western Power\* is not required to update the information contained in the Connection Point Database\* before the next 1 July following the Permanent Reconfiguration\* of the Network\*; and
- (ii) Western Power\* must update the information contained in the Connection Point Database\* before the next 21 July following the Permanent Reconfiguration\* of the Network\*.
- (h) Where a Permanent Reconfiguration\* of the Network\* occurs as a result of, or arising from, a notice or application by the User\* under clauses 3.4, 3.5 or 3.6 which results in the information contained in the Contract Database\* having to be updated:
- (i) clause 3.7(g) does not apply;
- (ii) Western Power\* must update the information contained in the Connection Point Database\* as soon as reasonably practicable after the Permanent Reconfiguration\* of the Network\*; and
- (iii) where the information to be updated is contained in Part 1 of Schedule 3, then the information must be updated in accordance with clause 37.2.
- (i) The Parties\* must notify each other of any errors discovered in the Connection Point Database\* as soon as reasonably practicable after becoming aware of the error.
- (j) Western Power\* must amend any error in the Connection Point Database\* as soon as reasonably practicable after becoming aware of the error, provided that if Western Power\* becomes aware of an error otherwise than by notice from the User\* under clause 3.7(i), no amendment shall be made until Western Power\* has given notice to the User\* of the error.
- (k) Where under this Contract\* Western Power\* has recorded information in more than one of Part 1 of Schedule 3, the Metering Database\* and any other database maintained by Western Power for the purposes of this Contract\* and there is an inconsistency or conflict between the information in the databases in which the information is recorded, then the following order of precedence applies, from highest to lowest:
- (i) where the circumstances in clauses 3.7(g) or 3.7(h) apply:

- (A) Part 1 of Schedule 3;
- (B) any other database;
- (C) the Metering Database\*; and

(ii) in all other circumstances:

- (A) the Metering Database\*;
- (B) Part 1 of Schedule 3;
- (C) any other database.

57. In addition to the amendments to clause 3.7, the following definitions have been added to schedule 1 (dictionary) of the electricity transfer access contract.<sup>15</sup>

Build Pack\* means:

the ‘Build Pack’ developed under the *Electricity Industry Customer Transfer Code 2004 Communication Rules* (made under Part 5 of the *Customer Transfer Code\**) and/or the *Electricity Industry Metering Code 2004 Communication Rules* (made under Part 6 of the *Metering Code\**), as applicable in the circumstances.

Connection Point Database\* means:

- (a) Part 1 of Schedule 3; or
- (b) another database or databases containing information relating to this Contract\* and maintained by Western Power\* as agreed between the Parties\*, which for the avoidance of doubt can include the Metering Database\* if the User\* is not a Metering Code Participant\* and this is agreed by the User\* and Western Power\*.

Contract Database\* means:

the Connection Point Database\* or, if the Metering Database\* is not included within the Connection Point Database\* and clause 3.7(k)(ii) applies, then it means the Metering Database\*.

58. The following consequential amendments have been made to clauses 6.1(c) and 7.1(f) of the electricity transfer access contract. Consequential amendments have also been made to the definitions of “connection point”, “contracted capacity”, “start date”, “end date” and “services”.

Clause 6.1(c)	The Parties* must amend <u>the Connection Point Database*</u> <del>Schedule 3</del> following any variation made under this clause 6.1.
Clause 7.1(f)	For the purposes of calculating Tariffs* and Charges* for a Service*: (i) Western Power* is entitled to rely on the information contained in <u>the Contract Database*</u> <del>Schedule 3</del> (as updated from time to time in accordance with this Contact*); and

<sup>15</sup> These incidental changes were indicated by Western Power to the Authority in its submission of 13 August 2009.

	(ii) where information contained in <a href="#">the Contract Database</a> *Schedule 3 is updated, or to be updated, in accordance with this Contract*, the updated ...
Connection point	Reference to “Schedule 3” replaced with “the Contract Database” (i.e. <a href="#">the Contract Database</a> *Schedule 3)
Contracted capacity	References to “Part 1 of Schedule 3” replaced with “the Connection Point Database” (i.e. <a href="#">the Connection Point Database</a> *Part 1 of Schedule 3)
Start date	Reference to “Part 1 of Schedule 3” replaced with “the Connection Point Database” (i.e. <a href="#">the Connection Point Database</a> *Part 1 of Schedule 3)
End date	Reference to “Part 1 of Schedule 3” replaced with “the Connection Point Database” (i.e. <a href="#">the Connection Point Database</a> *Part 1 of Schedule 3)
Service	Reference to “Part 1 of Schedule 3” replaced with “the Contract Database” (i.e. <a href="#">the Contract Database</a> *Part 1 of Schedule 3)

### Further Final Decision

59. Western Power has amended clause 3.7 of the electricity transfer access contract, including a number of consequential amendments to definitions and other clauses of the contract.
60. The amendments are consistent with amendments that Western Power previously proposed to the Authority, and that were taken into account by the Authority in making its final decision.
61. The Authority is satisfied that Western Power’s amendments to clause 3.7 of the electricity transfer access contract, including consequential amendments, implements Final Decision Amendments 5, 6 and 7.

### Contracted Capacity Not Utilised (clause 3.8)

#### Final Decision

62. Clause 3.8 of the proposed electricity transfer access contract provides for Western Power to reduce a user’s contracted capacity in circumstances where part or all of the contracted capacity is not being used by the user, and the user has not demonstrated that the unused capacity will be utilised.
63. The Authority determined that a user should be able to maintain a level of contracted capacity regardless of whether this capacity is used or unused. The Authority expressed the view that market mechanisms should be preferred over administrative processes to resolve situations where one user holds contractual rights to unused capacity that may be used by another user, and that may in turn enable a network augmentation to be avoided. Further, given the existence of mechanisms to deal with the holding of unused capacity for anticompetitive reasons, the Authority considered that the right of a user to hold unused capacity is consistent with efficient investment in, and use of, the network in accordance with the Code objective.

64. The Authority required amendment of the proposed access arrangement revisions to delete clause 3.8 of the electricity transfer access contract.

#### **Final Decision Amendment 8**

The proposed access arrangement revisions should be amended to delete clause 3.8 of the electricity transfer access contract.

#### *Amended Proposed Revisions*

65. Western Power has amended the electricity transfer access contract to delete clause 3.8.

#### *Further Final Decision*

66. The Authority is satisfied that Western Power's amendment to delete clause 3.8 implements Final Decision Amendment 8.

### **Controllers (clause 6)**

#### *Final Decision*

67. Clauses 6.1 and 6.2 of the proposed electricity transfer access contract set out the rights of Western Power and obligations of the user where the user is not the controller at a connection point.
68. Clause 6.1(a) of the proposed electricity transfer access contract requires that the user must nominate to Western Power the controller of a connection point, where the equipment at the connection point or operation of the connection point exceeds certain thresholds. Clause 6.1(e) provides for Western Power to require the user to procure that the controller of a connection point enters into a connection contract directly with Western Power.
69. Clause 6.2 is relevant to the circumstance where the user is not also the controller of a connection point and Western Power does not have a connection contract directly with the controller. In this circumstance, clause 6.2(a) requires that the user ensure that the controller complies with obligations under the electricity transfer access contract, including obligations arising from "good electricity industry practice" (under clause 11); the Technical Rules (under clause 12); technical characteristics of facilities and equipment (under clause 13); cooperation (under clause 14); access to premises (under clause 15); directions from the system operator (under clause 16); removal of equipment (under clause 17); and curtailment (under clause 25).
70. In relation to clause 6.1(a), the Authority noted that under the terms of the applications and queuing policy, a connection point cannot normally be added to the access contract with a user other than pursuant to an application from the user. There are circumstances, however, where a connection point may be added to an access contract other than by an application from the user and subsequent to the commencement of a service, most notably under the default supplier provisions of sections 35 to 38 of the *Electricity Industry (Customer Contracts) Regulations 2005*. The Authority noted that it would be impractical, in these circumstances, for the user to nominate the controller of a connection point prior to the commencement of the service.

71. The Authority determined that clause 6.1 of the electricity transfer access contract should accommodate the circumstances where a connection point is added to an access contract other than by an application from the user and subsequent to the commencement of a service.
72. In a submission to the Authority, Western Power indicated that it will amend clause 6.1(a) of the proposed electricity transfer access contract to address the requirements of the Authority and proposed a period of 30 business days as a reasonable period for the user to notify Western Power of the identity of the controller.<sup>16</sup>
73. Taking into account Western Power's submission, the Authority required the following amendment to the proposed access arrangement revisions.

#### **Final Decision Amendment 9**

The proposed access arrangement revisions should be amended such that clause 6.1(a) of the electricity transfer access contract provides for the user to nominate a controller as soon as reasonably practical, but in all cases within 30 business days, after the commencement of the service.

74. In relation to clause 6.1(e) of the electricity transfer access contract, the Authority determined it unreasonable for Western Power to require the user to procure that the controller of a connection point enter into a connection contract with Western Power. The Authority observed that the user is required to provide Western Power with details of the controller at a connection point, and after receiving such information, Western Power itself has the ability to require the controller to enter into a connection contract by the ability to cease supply of the reference service; that is, by disconnection of the connection point. The user does not have such a power to cease supply of an electricity service and hence, in the absence of action by Western Power, has a limited ability to enforce the requirement for the controller to enter into a connection contract.
75. The Authority required the following amendment to the proposed access arrangement revisions.

#### **Final Decision Amendment 10**

The proposed access arrangement revisions should be amended such that clause 6.1(e) of the electricity transfer access contract requires only that the user uses reasonable endeavours to procure that a controller enter into a connection contract with Western Power.

76. In relation to clause 6.2 of the electricity transfer access contract, the Authority determined it unreasonable for the user to procure compliance of a controller, noting that Western Power has the ability to require that the controller at a connection point enter into a connection contract with Western Power in circumstances where the facilities at the connection point have potential to disrupt the network. As such, the Authority determined it reasonable for Western Power to bear the costs potentially arising from such a requirement.

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<sup>16</sup> Western Power submission of 13 August 2009.



77. The Authority required the following amendment to the proposed access arrangement revisions.

**Final Decision Amendment 11**

The proposed access arrangement revisions should be amended such that clause 6.2(a) of the electricity transfer access contract is made subject to a provision that, for a connection point other than as contemplated by clause 6.1 of the electricity transfer access contract, the user is not required to commence, maintain or continue legal proceedings to procure compliance of a controller with obligations under the access contract, unless Western Power provides an indemnity for all of the user's costs of and relating to such proceedings.

*Amended Proposed Revisions*

78. Western Power has amended clauses 6.1(a), 6.1(e) and 6.2 of the electricity transfer access contract as follows.

6.1 User\* must nominate Controller\* where Connection Point\* exceeds threshold

- (a) If the User\* is not the Controller\* of a Connection Point\* then the User\* must, by notice to Western Power\* before the Start Date\* of the relevant Services\*, [or as soon as reasonably practicable thereafter \(but in all cases no later than 30 Business Days\\* after the Start Date\\* of the relevant Services\\*\)](#), nominate a person as the Controller\* for a Connection Point\* where:

- (i) the Generating Plant\* with installed capacity exceeding 30 kVA is connected at the Connection Point\*; or
- (ii) the Connection Assets\* for the Connection Point\* are operated at 66 kV or greater; or
- (iii) the rating of the largest motor connected at the Connection Point\* is greater than 0.4% of the three phase short circuit fault level at the Attachment Point\*.

...

- (e) If Western Power\* requires, the User\* must [use reasonable endeavours to](#) procure that the person nominated by the User\* as a Controller\* enters into a Connection Contract\* with Western Power\* in respect of the Connection Point\*.

...

6.2 Where the User\* is not the Controller\*

- (a) [Subject to clause 6.2\(f\), if](#) the User\* is not the Controller\* of a Connection Point\*, and the Controller\* of that Connection Point\* has not entered into a Connection Contract\* with Western Power\* in respect of the Connection Point\*, then the User\* must ensure that the Controller\* of that Connection Point\* complies, and will continue to comply, with the obligations set out in this Contract\*, to the extent that such compliance is reasonably necessary for the Parties\* to satisfy their obligations under this Contract\*, including, but not limited to:

- (i) clause 11 (Good Electricity Industry Practice\*); and
- (ii) clause 12 (Technical Rules\*); and



- (iii) clause 13 (Technical characteristics of Facilities and Equipment\*); and
- (iv) clause 14 (Cooperation); and
- (v) clause 15 (Access to premises); and
- (vi) clause 16 (Directions from System Operator\*); and
- (vii) clause 17 (Removal of equipment); ~~and~~
- (viii) clause 25 (Curtailement\*); and
- (ix) clause 35 (Notices).

...

- (f) Subject to clause 6.2(g), the User\* is required to commence, maintain or continue legal proceedings to procure compliance of the Controller\* with the obligations set out in this Contract\*, to the extent that such compliance is reasonably necessary for the Parties\* to satisfy their obligations under this Contract\*.
- (g) For a Connection Point\* other than as referred to in clause 6.1, the User\* is not required to comply with clause 6.2(f) unless Western Power\* provides an indemnity to the User\* for all of the User\*'s costs of and incidental to the proceedings.
- (h) Nothing in clause 6.2(f) or clause 6.2(g):
  - (i) limits the User\*'s obligations under the remainder of this clause 6.2; or
  - (ii) derogates from Western Power\*'s other rights under this Contract\* including its rights under clause 6.2(d), or requires Western Power\* to pay any compensation to the User\* for exercising any of those rights.

### *Further Final Decision*

79. Western Power has amended clause 6 of the electricity transfer access contract such that:
- clause 6.1(a) of the contract provides for the user to nominate a controller as soon as reasonably practical, but in all cases within 30 business days, after the commencement of the service;
  - clause 6.1(e) of the contract only requires that the user uses reasonable endeavours to procure that a controller enter into a connection contract with Western Power; and
  - clause 6.2(a) of the contract is subject to a provision that, for a connection point other than as contemplated by clause 6.1 of the contract, the user is not required to commence, maintain or continue legal proceedings to procure compliance of a controller, unless Western Power provides indemnity for all of the user's costs of and relating to such proceedings.
80. The Authority is satisfied that Western Power's amendments to clause 6 of the electricity transfer access contract implements Final Decision Amendments 9, 10 and 11.

## Tariffs and Charges (clause 7)

### Final Decision

81. Clause 7.1 of the proposed electricity transfer access contract specifies the tariffs and charges applicable to the services provided under the access contract. Clause 7.1 did not deal with the circumstance of a change in reference tariff charges during a billing period, which was instead dealt with in the price list of the access arrangement.
82. The Authority determined that the circumstance of a billing period spanning a change in charges applying under a reference tariff should be dealt with in the electricity transfer access contract, rather than the price list.
83. The Authority required the following amendment to the proposed access arrangement revisions.

#### Final Decision Amendment 12

The proposed access arrangement revisions should be amended such that clause 7.1 of the electricity transfer access contract includes a provision dealing with the determination of amounts payable by the user where there is a change in the charges payable under a reference tariff during a billing period. The provision must represent a reasonable balance between the interests of the user and Western Power.

### Amended Proposed Revisions

84. Western Power has amended clause 7.1 of the electricity transfer access contract as follows.

#### 7.1 Tariff\*

- (a) The tariff payable under this Contract\* for a Service\* is the tariff, or tariffs, as applicable, specified in the Price List\* from time to time for the Service\*. For the avoidance of doubt, the tariffs specified in the Price List\* apply to all consumption during the Pricing Year\* applicable to the Price List\*. Where consumption is metered with an accumulation meter and the meter reading interval causes some of the metered consumption to lie within the Pricing Year\* applicable to the Price List\* and the remainder within a Pricing Year\* applicable to another Price List\*, the consumption covered by the Price List\* will be determined by prorating the metered consumption uniformly on a daily basis.

### Further Final Decision

85. Western Power has amended clause 7.1 of the electricity transfer access contract to include a provision dealing with the determination of amounts payable by the user, where there is a change in the charges payable under a reference tariff during a billing period.
86. The amendments are consistent with amendments that Western Power previously proposed to the Authority, and that were taken into account by the Authority in making its final decision.

87. The Authority is satisfied that Western Power's revisions to clause 7.1 implements Final Decision Amendment 12.

## Security for Contributions (clause 10)

### Final Decision

88. Clause 10 of the proposed electricity transfer access contract requires a user to provide security to guarantee the present value of any contribution payable to Western Power under the contributions policy of the access arrangement.<sup>17</sup>
89. The Authority noted a discrepancy between clause 10 of the proposed electricity transfer access contract, which provides for a requirement for security to be an automatic requirement, and the proposed contributions policy, which provides for a requirement for security to be determined according to the circumstances of the contribution.
90. The Authority required the following amendment to the proposed access arrangement revisions.

#### Final Decision Amendment 13

The proposed access arrangement revisions should be amended such that clause 10 of the electricity transfer access contract:

- clearly applies only in respect of a contribution to be made by the user; and
- applies where the requirement for security has been determined in accordance with the contributions policy.

### Amended Proposed Revisions

91. Western Power has amended clause 10 of the electricity transfer access contract as follows.

10. Security for Contribution\*

- (a) Without limiting the User\*'s security obligations related to clause 26, where Western Power\* has determined in accordance with the Contributions Policy\* that the User\* is required to~~the Nominated Person\* must~~ provide an irrevocable and unconditional bank guarantee (or equivalent financial instrument) in terms acceptable to Western Power\* (acting as a Reasonable and Prudent Person\*), guaranteeing the present value of any amount of any Contribution\* to be made by the User\* that remains unpaid or unprovided as calculated by Western Power\* under the Contributions Policy\*, the Nominated Person\* must within 20 Business Days\* of the Commencement Date\* provide the requested bank guarantee (or equivalent financial instrument) unless the User\* has already paid or provided an appropriate bank guarantee (or equivalent financial instrument) before the Commencement Date\*.

<sup>17</sup> Clause 10 corresponds to clause 9(c) of the current electricity transfer access contract.

- (b) Nothing in this clause affects Western Power\*'s right to have recourse to the bank guarantee (or equivalent financial instrument), if any, that was provided by the User\* before the Commencement Date\*.

### *Further Final Decision*

92. Western Power has amended the electricity transfer access contract such that clause 10 of the contract applies where a requirement for security has been determined in accordance with the contributions policy. These amendments are consistent with the requirements of the Authority under Final Decision Amendment 13.
93. In addressing the requirements of the Authority, Western Power has further specified that the nominated person must provide the requested bank guarantee within 20 business days of the commencement date, unless the user has already paid or provided an appropriate bank guarantee, or equivalent financial instrument, before the commencement date. Furthermore, Western Power has incorporated a provision (clause 10(b)) allowing Western Power to have recourse to the bank guarantee, or equivalent financial instrument, if any, that was provided by the user before the commencement date.
94. The Authority notes that in addressing Final Decision Amendment 13, Western Power has made amendments to clause 10 that go beyond the requirements of the Authority, by specifying a 20 business day period in which the nominated person must provide the requested bank guarantee; and incorporating a provision allowing Western Power recourse to the bank guarantee, if any, that was provided before the commencement date. More particularly, these amendments have been proposed subsequent to the Authority's Final Decision, Western Power has not provided any reasons for the amendments, and the amendments have not been the subject of public consultation. For these reasons, the Authority does not approve Western Power's amendments to clause 10 of the electricity transfer access contract as set out in the amended proposed revisions.<sup>18</sup>
95. In light of the Authority's position, Western Power has reconsidered its amendments to clause 10 of the electricity transfer access contract and has made the following revision.<sup>19</sup>

#### 10. Security for Contribution\*

- (a) —Without limiting the User\*'s security obligations related to clause 26, where Western Power\* has determined in accordance with the Contributions Policy\* that the User\* is required to provide an irrevocable and unconditional bank guarantee (or equivalent financial instrument) in terms acceptable to Western Power\* (acting as a Reasonable and Prudent Person\*), guaranteeing the present value of any amount of any Contribution\* to be made by the User\* that remains unpaid or unprovided as calculated by Western Power\* under the Contributions Policy\*, the Nominated Person\* must provide to Western Power\* the requested bank guarantee (or equivalent financial instrument)~~the Nominated Person\* must within 20 Business Days\* of the Commencement Date\* provide the requested bank guarantee (or equivalent financial instrument) unless the User\* has already paid or provided an~~

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<sup>18</sup> The Secretariat of the Authority advised Western Power of the Authority's position on 12 January 2010.

<sup>19</sup> Western Power, 13 January 2010, Letter from Mr P. Southwell, General Manager Regulations and Sustainability (Re: Corrigenda).

~~appropriate bank guarantee (or equivalent financial instrument) before the Commencement Date\*.~~

~~(b) Nothing in this clause affects Western Power\*'s right to have recourse to the bank guarantee (or equivalent financial instrument), if any, that was provided by the User\* before the Commencement Date\*.~~

96. The revised clause 10 of the electricity transfer access contract implements the requirements of Final Decision Amendment 13.

## Technical Rules (clause 12)

### Final Decision

97. Clause 12 of the proposed electricity transfer access contract establishes requirements for Western Power and the user to comply with the Technical Rules.<sup>20</sup>
98. The Authority determined that an explanatory note to clause 12.1 created a new obligation for the user, as the user would now be responsible for persons and equipment connected to the network through a connection point. The user's obligations to ensure compliance with the Technical Rules are addressed under clause 6.2 of the proposed electricity transfer access contract. The Authority determined that clause 12.1 should be consistent with clause 6.2, including the amendment to this clause required by the Authority (refer to paragraph 67 above).
99. The Authority also determined that qualification of clause 12.2(c) is necessary to reasonably constrain the circumstances in which the user is liable for costs incurred by Western Power and that the qualifications should be that the act or omission of the user is in breach of the access contract, and that Western Power has not recovered the relevant costs from any other party.
100. The Authority required the following amendments to the proposed access arrangement revisions.

#### Final Decision Amendment 14

The proposed access arrangement revisions should be amended such that clause 12.1 of the electricity transfer access contract states only that Western Power and the user must each comply with the Technical Rules.

#### Final Decision Amendment 15

The proposed access arrangement revisions should be amended such that clause 12.2 of the electricity transfer access contract provides that an act or omission of the user that causes Western Power to incur extra costs for compliance with the Technical Rules only causes the user to be liable for those costs where:

- the act or omission of the user is in breach of the access contract; and
- Western Power has not already recovered, and will not recover, the costs from another party.

<sup>20</sup> Clause 12 corresponds to clause 11 of the current electricity transfer access contract.

## Amended Proposed Revisions

101. Western Power has amended clauses 12.1 and 12.2 of the electricity transfer access contract as follows.

12.1 Western Power\* and the User\* must comply

~~Western Power\* and the User\* must each comply with the Technical Rules\*, subject to any exemptions given to Western Power\* or the User\*, respectively, under Chapter 1 of the Technical Rules\*. (For the avoidance of doubt, this includes a requirement on the User\* to comply with the Technical Rules\* with respect to any other person or person's equipment that will gain access, or Connect\*, to the Network\* through a Connection Point\*).~~

12.2 User\* to bear costs

(a) The User\* must bear its own costs in relation to compliance with the Technical Rules\*.

(b) Western Power\* must bear its own costs in relation to compliance with the Technical Rules\*.

(c) Notwithstanding clause 12.2(b), where an act or omission of the User\* in breach of this Contract\* causes Western Power\* to incur extra costs in order to ensure Western Power\* complies with the Technical Rules\*, the User\* shall bear Western Power\*'s reasonable extra costs so incurred to the extent that such costs are not already recovered from ~~payable by~~ the User\* or any other person under any other arrangement, including the Contributions Policy\*.

...

(f) If Western Power\* recovers costs referred to in clause 12.2(c) from another party in circumstances where the User\* has already paid them to Western Power\*, Western Power\* must refund those costs without interest to the User\*.

## Further Final Decision

### Clause 12.1 of the electricity transfer access contract

102. Western Power has amended clause 12.1 of the electricity transfer access contract such that the contract only states that Western Power and the user must each comply with the Technical Rules.

103. The amendments are consistent with amendments that Western Power previously proposed to the Authority, and that were taken into account by the Authority in making its final decision.

104. The Authority is satisfied that Western Power's amendments to clause 12.1 of the electricity transfer access contract implement Final Decision Amendment 14.

### Clause 12.2 of the electricity transfer access contract

105. Western Power has amended clause 12.2(c) of the electricity transfer access contract to indicate that Western Power may only recover costs from a user where an act or omission of the user is in breach of the electricity transfer access contract and the costs have not already been recovered from another party. Western Power

has included a new clause 12.2(f) to ensure that there is no double recovery of costs.

106. Western Power submits that the Authority's required amendment to specify that Western Power has not already recovered and will not recover costs from another party (as indicated in the second point of Final Decision Amendment 15) may limit the user's liability to the extent that the user may not be liable where Western Power has a potential right to be paid costs by another person.<sup>21</sup> The matter of no double recovery has instead been addressed with the inclusion of a new clause 12.2(f), which provides an obligation for Western Power to refund costs paid by the user, if Western Power subsequently recovers the costs from another party.
107. The Authority is satisfied that Western Power's proposed new clause 12.2(f) addresses the Authority's requirements to ensure there is no double recovery of costs under clause 12.2 of the electricity transfer access contract.
108. Given this, the Authority is satisfied that Western Power's amendments to clause 12.2 implement Final Decision Amendment 15.

## **Liability and Indemnity (clause 19)**

### *Final Decision*

109. Clause 19 of the proposed electricity transfer access contract defines liabilities of Western Power and the user to each other, limitations to liability, and various requirements for each party to indemnify the other in respect of various events.<sup>22</sup>
110. Clauses 19.5(a) to (c) of the proposed electricity transfer access contract set out the maximum liabilities of users.
111. The Authority determined that the maximum liabilities under clause 19.5(b) of the electricity transfer access contract are unreasonable in that, for users that are retailers with many connection points, the maximum liability of the user may be an amount in excess of any reasonably conceivable level of damages to the network or Western Power. As a result, this clause is not consistent with the requirements of the Access Code.
112. The Authority required the following amendment to the proposed access arrangement revisions.

#### **Final Decision Amendment 16**

The proposed access arrangement revisions should be amended such that the calculation of liability under clause 19.5 of the electricity transfer access contract is limited to a cap on liabilities with the effect that the maximum liability of both the user and the indemnifier collectively to Western Power is limited to an amount of \$80 million in the aggregate, except that the liabilities for access charges and liabilities described in clause 20 are not counted for the purpose of both the user's and the indemnifier's collective maximum liability.

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<sup>21</sup> Amended access arrangement information, p.19.

<sup>22</sup> Clause 19 corresponds to clause 18 of the current electricity transfer access contract.



113. Clause 19.5(c) of the proposed electricity transfer access contract provides for the maximum liability amounts applicable under clauses 19.5(a) and 19.5(b) to be escalated for inflation each year.
114. The Authority determined that annual inflation indexation of these values may potentially complicate the insurance transactions of users. Furthermore, the Authority considered that clause 19.5(d) provided adequate protection for Western Power to re-determine the value of maximum liability amounts, if these amounts are determined to be inadequate for any reason, including underlying inflation in the economy.
115. Taking these matters into account, the Authority required the following amendment to the proposed access arrangement revisions.

#### **Final Decision Amendment 17**

The proposed access arrangement revisions should be amended to delete clause 19.5(c) of the electricity transfer access contract.

### *Amended Proposed Revisions*

116. Western Power has amended clause 19.5 of the electricity transfer access contract as follows.

#### 19.5 Limitation of liability

- (a) Subject to clause 19.5(c), the maximum liability of Western Power\* to the User\* and the Indemnifier\* collectively under and in connection with this Contract\* is limited to an amount of \$5 million in the aggregate and refreshed annually each 1 July, except that the liability described in clauses [7, 8 and 20](#) ~~are~~ is not counted for the purposes of Western Power\*'s maximum liability under this Contract\*.
- (b) Subject to clause 19.5(c), the maximum liability of both the User\* and the Indemnifier\* collectively to Western Power\* under and in connection with this Contract\* is limited to the ~~lesser~~sum of:
  - (i) an amount of \$80 million in the aggregate, refreshed annually each 1 July; and
  - (ii) the sum of:
    - (A) for each Connection Point\* at which Generation Plant\* (other than wind or solar powered generation) is connected at a voltage of 66 kV and above - \$22 million in the aggregate, refreshed annually each 1 July; and
    - (B) for each Connection Point\* at which wind or solar powered Generation Plant\* is connected at a voltage of 66 kV or above - \$11 million in the aggregate, refreshed annually each 1 July; and
    - (C) for each Connection Point\* at which Generation Plant\* is connected at a voltage below 66 kV - \$1.2 million in the aggregate, refreshed annually each 1 July; and



- (D) for each Connection Point\* at which Consuming\* plant is connected at a voltage of 66 kV and above - \$6 million in the aggregate, refreshed annually each 1 July; and
- (E) for every 100 Connection Points\* at which Consuming\* plant is connected at a voltage below 66 kV - \$1.2 million in the aggregate, refreshed annually each 1 July,

except that the liabilities described in clauses 7, 8 and 20 are not counted for the purposes of both the User\*'s and the Indemnifier\*'s collective maximum liability under this Contract\*.

~~(e) The maximum liability amounts applicable under clauses 19.5(a) and 19.5(b) shall be CPI\* Adjusted\* annually each 1 July.~~

~~(e)~~(c) At the end of each period of three Years\* from the Commencement Date\*, the Parties\* shall negotiate in good faith to re-set the maximum liability amounts applicable under clauses 19.5(a) and 19.5(b) having regard for any relevant changed circumstances in that period. If the Parties\* are unable to agree on re-setting of the maximum liability amounts, the matter shall be determined as a Dispute\*. The resolver of the Dispute\* is required to consider any changed circumstances during the period and adjust the maximum liability limit the subject of the Dispute\* to a reasonable limit, first having regard to the maintenance of the existing limit and then reducing or increasing the limit by reason of any relevant changed circumstances found to have occurred.

### Further Final Decision

117. Western Power has amended clause 19.5 of the electricity transfer access contract such that:
- the calculation of liability under clause 19.5 is limited to a cap on liabilities (indicated at clause 19.5(b)); and
  - clause 19.5(c), providing for the liability amounts to be escalated for inflation each year, has been deleted.
118. The Authority is satisfied that Western Power's amendments to clause 19.5 of the electricity transfer access contract implement Final Decision Amendments 16 and 17.

### Insurances (clause 21)

#### Final Decision

119. Clause 21 and schedule 5 of the electricity transfer access contract specify requirements for Western Power and the user to hold insurances in respect of certain events and for certain amounts.<sup>23</sup>
120. In relation to Part 1 of schedule 5, which sets out user insurances, the Authority determined it unreasonable for insurance to be unlimited in the aggregate, as it is not reasonable to require insurance in circumstances where it is not required or to an extent that is not required. In the absence of any information to determine a

<sup>23</sup> Clause 21 corresponds to clause 20 in the current electricity transfer access contract.

particular value for a limit, the Authority considered that liability in the aggregate should be capped at \$50 million for each 12 months.

121. In a submission to the Authority, Western Power indicated its willingness to revise Part 1(a)(i)A of schedule 5 to require public liability insurance of not less than \$50 million or the maximum liability of the user under clause 19.5 of the electricity transfer access contract, whichever is greater.<sup>24</sup> Western Power submitted that it would be inappropriate for the insured amount to be less than the maximum liability under the electricity transfer access contract.
122. Taking into account Western Power's submission, the Authority required the following amendment to the proposed access arrangement revisions.

#### **Final Decision Amendment 18**

The proposed access arrangement revisions should be amended so that Part 1(a)(i)A of schedule 5 of the electricity transfer access contract provides for the insurance requirement to be limited in the aggregate to \$50 million in each 12 months or the maximum liability under clause 19.5 of the electricity transfer access contract, whichever is the greater.

123. The Authority also determined that the requirements for workers compensation, motor vehicle and third-party property insurance under Part 1(a)(ii) and Part 1(a)(iii) of schedule 5 of the proposed electricity transfer access contract to be unreasonable and should not apply where they are not required. Clause 1, schedule 8 of the model standard access contract of the Access Code provides only for insurances required of the user to be specified, and indicating (in the footnote) that the required insurances may be "as agreed between the parties to the access contract or determined in an arbitrated award in accordance with the service provider's access arrangement".
124. Taking this into account, the Authority required the following amendment to the proposed access arrangement revisions.

#### **Final Decision Amendment 19**

The proposed access arrangement revisions should be amended so that the requirements for workers compensation, motor vehicle and third-party property insurance under Part 1(a)(ii) and Part 1(a)(iii) of schedule 5 of the electricity transfer access contract apply only where these insurances are reasonably requested by Western Power.

### *Amended Proposed Revisions*

125. Western Power has amended Part 1 of schedule 5 (insurances) of the electricity transfer access contract as follows.

Part 1 User\* insurances

- (a) The User\* must effect and maintain, commencing from the Commencement Date\* the following policies of insurance:

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<sup>24</sup> Western Power submission of 13 August 2009.

- (i) public and products liability of:
- (A) public liability insurance for a limit of not less than \$50 million or the maximum liability of the User\* under clause 19.5 (whichever is greater) per claim – an unlimited in the aggregate of all claims made in an Insured Year\*; and
- (B) products liability insurance for a limit of not less than the maximum liability of the User\* under clause 19.5 per claim and in the aggregate, refreshed annually;
- covering the User\*'s liability to Western Power\* or any third party for death, bodily injury and loss or damage to property caused by any act, omission or negligence in relation to this Contract\*;
- (ii) when reasonably requested by Western Power\*, workers' compensation insurance for all persons employed by the User\* including employer's liability at common law, with a limit of cover in respect of any one occurrence at least equal to \$50 million;
- (iii) when reasonably requested by Western Power\*, motor vehicle third party property insurance for all loss or damage to property caused by or attributable to the use of a motor vehicle in the performance of the services or any work under the Contract\*, for a limit of \$10 million per claim and unlimited in the aggregate of all claims made; and
- (iv) contractors' plant and equipment insurance covering all loss or damage to the User\*'s plant or equipment used in connection with this Contract\* for its replacement value.
- (b) The policies of insurance under Schedule 5 Part 1 (a) must be with an insurer authorised under the *Insurance Act 1973 (Cth)* or the equivalent in the United States of America or the United Kingdom.

126. In addition to the revisions to Part 1 of schedule 5, the following definition has been added to schedule 1 (dictionary) of the electricity transfer access contract.<sup>25</sup>

Insured Year\* means the period between and including 1 July in a Year\* and 30 June in the following Year\*.

### Further Final Decision

127. Western Power has amended Part 1 of schedule 5 of the electricity transfer access contract such that:
- schedule 5 of the contract provides for the insurance requirement to be limited in the aggregate (as indicated in Part 1(a)(i)A); and
  - requirements for workers compensation, motor vehicle and third-party property insurance under schedule 5 of the contract only apply when these insurances are reasonably requested by Western Power (as indicated in Part 1(a)(ii) and Part 1(a)(iii)).

<sup>25</sup> This incidental change was indicated by Western Power to the Authority in its submission of 13 August 2009.

128. The Authority is satisfied that Western Power's amendments to Part 1 of schedule 5 of the electricity transfer access contract, including amendments to Parts 1(a)(ii) and 1(a)(iii), implement Final Decision Amendments 18 and 19.

## **Dispute Resolution (clause 29)**

### **Final Decision**

129. Clause 29 of the proposed electricity transfer access contract sets out provisions for dispute resolution. Clause 29.3(b) indicates that, if parties are unable to agree on a location for a meeting for resolution of a dispute, then the location will be determined by Western Power.
130. The Authority noted that there is no general requirement for Western Power to act as a reasonable and prudent person under an electricity transfer access contract. Taking this into account the Authority required the following amendment to the proposed access arrangement revisions.

#### **Final Decision Amendment 20**

The proposed access arrangement revisions should be amended so that clause 29.3(b) of the electricity transfer access contract requires that Western Power act reasonably in determining a location for a meeting for resolution of a dispute.

### **Amended Proposed Revisions**

131. Western Power has amended clause 29.3 of the electricity transfer access contract as follows.

#### **29.3 Method of Meetings**

- (a) A Representatives' Meeting\* or CEO Meeting\* may be conducted in person, by telephone, video conference or similar method of real time communication.
- (b) If the Parties\* are unable to agree on a meeting place under clause 29.1 or 29.2 in the allocated time frame, the meeting will take place at a place determined by Western Power\* (acting as a Reasonable and Prudent Person\*).

### **Further Final Decision**

132. Western Power has amended clause 29.3(b) of the electricity transfer access contract to make the clause subject to Western Power acting as a reasonable and prudent person.
133. The Authority is satisfied that Western Power's amendment to clause 29.3(b) implements Final Decision Amendment 20.

## Confidentiality (clause 33)

### Final Decision

134. Clause 33 of the proposed electricity transfer access contract establishes requirements for the parties to an access contract to keep the access contract and related information confidential.
135. Clause 33.1 contains a list of the circumstances or characteristics of relevant information that give rise to a requirement to keep the information confidential, including “information about or relating to a controller”.
136. The Authority noted that clause 33.1 encompasses information exchanged between the parties to an access contract, exchanged under the contract or in negotiations preceding the contract. This may include information on actual or proposed controllers of connection points. The Authority determined that information about actual or proposed controllers may equally be regarded as confidential. As the term “controller” under the electricity transfer access contract does not include a proposed controller, the Authority considered it necessary for clause 33.1 to be amended to include a proposed controller.
137. The Authority required the following amendment to the proposed access arrangement revisions.

#### Final Decision Amendment 21

The proposed access arrangement revisions should be amended so that clause 33.1 of the electricity transfer access contract extends the requirement for confidentiality of information to encompass information exchanged in negotiations preceding the contract and information about, or relating to, a proposed controller.

### Amended Proposed Revisions

138. Western Power has amended clause 33.1 of the electricity transfer access contract as follows.

#### 33.1 Confidential information\*

This Contract\* and information exchanged between the Parties\* under this Contract\* or during the negotiations preceding this Contract\* is confidential to them if:

...

- (f) the information is about or relating to a Controller\* or a person who is proposed to be a Controller\*.

### Further Final Decision

139. Western Power has amended clause 33.1(f) of the electricity transfer access contract so that clause 33.1 extends the requirement for confidentiality of information to encompass information exchanged in negotiations preceding the contract and information about, or relating to, a proposed controller.
140. The Authority is satisfied that Western Power’s amendment to clause 33.1(f) implements Final Decision Amendment 21.

## Service Standard Benchmarks

### Introduction

141. The current access arrangement specifies service standard benchmarks for four measures of reliability of network services.
- For transmission services:
    - circuit availability; and
    - system minutes interrupted, specified separately for the meshed and radial network.
  - For distribution services:
    - system average interruption duration index (**SAIDI**); and
    - system average interruption frequency index (**SAIFI**),with both measures specified separately for urban areas, rural-short and rural-long feeders and the Perth central business district.
142. Circuit availability refers to the availability of the transmission network to users that are directly connected to this network. Circuit availability is measured as a percentage of total possible hours available (i.e. the actual circuit hours available for transmission divided by the total possible circuit hours available), where a higher percentage indicates a higher standard of service.
143. System minutes interrupted refers to the period of network outages measured in minutes and is recorded separately for meshed and radial networks. System minutes interrupted is measured as the sum 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 indicates a higher standard of service.
144. SAIDI is the average duration of outages (in minutes) per customer on the distribution network in a year, where a lower value indicates a higher standard of service.
145. SAIFI is the average number of interruptions per customer on the distribution network in a year, where a lower value indicates a higher standard of service.
146. A range of exclusions are specified for the measures of service standard benchmarks for both transmission and distribution services.
147. In the Final Decision the Authority required amendments to the proposed service standards that are necessary for the Authority to approve the proposed access arrangement revisions. The Authority's required amendments and Western Power's response to these amendments are addressed below.

### Transmission Service Standards

#### Final Decision

148. The Authority determined that the proposed access arrangement revisions should include additional transmission benchmarks for average outage duration and

frequency of off-supply events, consistent with those that apply to transmission businesses in the National Electricity Market.

- “Loss of supply event frequency”, specified as a number of loss of supply events in a one year period, with benchmarks specified for events of low and high duration measured as system minutes interrupted.
- “Average outage duration”, measured in minutes.

149. The Authority required the following amendment to the proposed access arrangement revisions.

#### **Final Decision Amendment 22**

The proposed access arrangement revisions should be amended to include service standard benchmarks for:

- loss of supply event frequency, specified as a number of loss of supply events in a one year period with benchmarks specified for events of low and high duration measured as system minutes interrupted; and
- average outage duration, measured in minutes.

### *Amended Proposed Revisions*

150. Western Power has amended clauses 3.21 and 3.22 of the proposed access arrangement revisions to include two new transmission service standard benchmarks – “Loss of Supply Event Frequency” and “Average Outage Duration”.

3.21 In respect of the reference services A11 and B2 available to users directly connected to the transmission network, the service standard benchmarks are expressed in terms of Circuit Availability; ~~and System Minutes Interrupted;~~ [Loss of Supply Events;](#) [and Average Outage Duration](#) as defined below:

...

<b><u>Performance Indicator:</u></b>	<a href="#">Loss of Supply Events</a> <ul style="list-style-type: none"> <li>• <a href="#">Frequency of events where loss of supply exceeds 0.1 system minutes</a></li> <li>• <a href="#">Frequency of events where loss of supply exceeds 1.0 system minutes</a></li> </ul>
<b><u>Unit of measure:</u></b>	<a href="#">Number of events per annum</a>
<b><u>Source of data:</u></b>	<a href="#">SCADA Network Status Processor (NSP), PI Server database, System Disturbance database</a>
<b><u>Definition/Formula:</u></b>	<ul style="list-style-type: none"> <li>• <a href="#">Number of events greater than 0.1 system minutes</a></li> <li>• <a href="#">Number of events greater than 1.0 system minutes</a></li> </ul> <p><a href="#">System minutes are calculated for each supply interruption by the “load integration method” using the following formula:</a></p> $\frac{\sum (\text{MWh unsupplied} \times 60)}{\text{MW Peak Demand}}$
	<p><u>Where:</u></p> <ul style="list-style-type: none"> <li>• <a href="#">MWh unsupplied is the energy not supplied as determined by using Western Power metering and PI server database. This</a></li> </ul>



	<p><a href="#">data is used to estimate the profile of the load over the period of the interruption by reference to historical load.</a></p> <ul style="list-style-type: none"> <li>• <a href="#">Period of the interruption starts when a loss of supply occurs and ends when Western Power offers supply restoration to the customer.</a></li> <li>• <a href="#">MW Peak Demand is the maximum demand recorded on the South West Interconnected System for the previous financial year.</a></li> </ul>
<b><u>Exclusions:</u></b>	<ul style="list-style-type: none"> <li>• <a href="#">Unregulated transmission assets</a></li> <li>• <a href="#">Any outages shown to be caused by a ‘third party system’ Eg intertrip signal, generator outage, customer installation, customer request or Western Power direction</a></li> <li>• <a href="#">Momentary interruptions (less than one minute)</a></li> <li>• <a href="#">Planned outages</a></li> <li>• <a href="#">Force majeure events</a></li> </ul>
<b><u>Inclusions:</u></b>	<ul style="list-style-type: none"> <li>• <a href="#">All unplanned customer outages on all parts of the regulated transmission system.</a></li> </ul>
<b><u>Performance Indicator:</u></b>	<a href="#">Average outage duration</a>
<b><u>Unit of measure:</u></b>	<a href="#">Minutes</a>
<b><u>Source of data:</u></b>	<a href="#">SCADA Network Status Processor (NSP), PI Server database, System Disturbance database and ASI Availability reporting database</a>
<b><u>Definition/Formula:</u></b>	$\frac{\text{Aggregate minutes duration of all unplanned outages}}{\text{No. of events}}$
<b><u>Exclusions:</u></b>	<ul style="list-style-type: none"> <li>• <a href="#">Planned outages</a></li> <li>• <a href="#">Momentary interruptions (less than one minute)</a></li> <li>• <a href="#">Force majeure events</a></li> <li>• <a href="#">Unregulated transmission assets</a></li> <li>• <a href="#">Any outages shown to be caused by a ‘third party system’ Eg intertrip signal, generator outage, customer installation, customer request or System Management direction.</a></li> <li>• <a href="#">The impact of each event is capped at 14 days</a></li> </ul>
<b><u>Inclusions:</u></b>	<ul style="list-style-type: none"> <li>• <a href="#">Faults on all parts of the regulated transmission system</a></li> <li>• <a href="#">All forced and fault outages whether or not loss of supply occurs</a></li> <li>• <a href="#">Circuits include regulated overhead lines, underground cables and “bulk” power transformers (each with a designated Western Power SCADA ASI tag). Regional transformers, reactive plant and other primary plant are excluded from the performance parameter</a></li> </ul>

3.22 The service standard benchmarks for the reference services A11 and B2 available to users directly connected to the transmission network for each year of the access arrangement period are set out in the following table.



	Year ending June 2010	Year ending June 2011	Year ending June 2012
<b>Circuit Availability</b> (% of total time)	98.0	98.0	98.0
<b>System Minutes Interrupted</b> <b>(meshed network)</b> <a href="#">(minutes)</a>	9.3	9.3	9.3
<b>System Minutes Interrupted</b> <b>(radial network)</b> <a href="#">(Minutes)</a>	1.4	1.4	1.4
<a href="#">Loss of Supply Event Frequency</a> (Number of events > 0.1 System Minutes)	<u>25</u>	<u>25</u>	<u>25</u>
<a href="#">Loss of Supply Event Frequency</a> (Number of events > 1 System Minutes)	<u>2</u>	<u>2</u>	<u>2</u>
<a href="#">Average Outage Duration</a> (Minutes)	<u>764</u>	<u>764</u>	<u>764</u>

### Further Final Decision

151. Western Power has amended the access arrangement to include service standard benchmarks for two new transmission service standards, being loss of supply event frequency and average outage duration.
152. Western Power's service standard benchmarks have been determined on the basis of average actual performance for the period 2005/06 to 2007/08, and are consistent with the benchmarks that Western Power previously proposed to the Authority<sup>26</sup> and that were taken into account by the Authority in making its final decision.
153. The Authority is satisfied that Western Power's amendments to the access arrangement to incorporate the service standard benchmarks for loss of supply event frequency (specified for events of low and high duration) and average outage duration implements Final Decision Amendment 22.

### Distribution Service Standards

#### Final Decision

154. The proposed access arrangement revisions (at clauses 3.16 and 3.17) include a range of exclusions to be specified for the distribution measures of SAIDI and SAIFI:
- major event days in accordance with IEEE1366-2003 definitions as adopted by Steering Committee on National Regulatory Reporting Requirements (SCNRRR);

<sup>26</sup> Western Power submission of 10 September 2009.

- outages shown to be caused by a fault or other event on the transmission system or a third party system (for instance, without limitation outages caused by an intertrip signal, generator unavailability or a customer installation);
  - planned outages;
  - single customer interruptions; and
  - *force majeure* events.
155. The Authority determined that the measures of service standards applying under the access arrangement should comply with nationally consistent methods to allow for the comparability of service standards across different networks and to assist a user in determining the value of a reference service at the reference tariff, consistent with the requirements the Access Code.
156. The Authority observed that the proposed exclusion of “planned outages” from the calculations of SAIDI and SAIFI is in accordance with the SCNRRR methods that are intended to function as nationally consistent methods. However, the SCNRRR methods explicitly include outages affecting a single customer in the measures of SAIDI and SAIFI. Accordingly, the Authority considered that this exclusion (i.e. “single customer interruptions”) should not apply to the measures of SAIDI and SAIFI under the access arrangement.
157. In a submission to the Authority, Western Power accepted the requirements of the Authority and indicated that it will propose corresponding revisions to the definitions of SAIDI and SAIFI, including additional revisions to the definitions in relation to the exclusion of “major event days”.<sup>27</sup>
158. The Authority noted that in relation to major event days, the SCNRRR normalised unplanned methodology does not adopt the Institute of Electrical and Electronics Engineers’ (IEEE) 1366-2003 definition for “major event days”. Taking this and Western Power’s submission into account, the Authority required the following amendment to the proposed access arrangement revisions.

#### **Final Decision Amendment 23**

The proposed access arrangement revisions should be amended such that definitions of SAIDI and SAIFI:

- do not make provision for the exclusion of single customer interruptions; and
- exclude reference to definitions as definitions adopted by the Institute of Electrical and Electronics Engineers’ (IEEE) in specification of “major event days”.

#### **Amended Proposed Revisions**

159. Western Power has amended clauses 3.16 and 3.17 of the proposed access arrangement revisions to amend the definitions of SAIDI and SAIFI.

3.16 SAIDI is defined as follows:

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<sup>27</sup> Western Power submission of 10 September 2009, including Attachment B.

<b>Performance Indicator:</b>	System Average Interruption Duration Index (SAIDI)
<b>Unit of measure:</b>	System minutes per annum
<b>Definition:</b>	Over a 12 month period, the sum of the duration of each sustained (greater than 1 minute) customer interruption (in minutes) attributable solely to distribution (after exclusions) divided by the average of the total number of connected consumers at the beginning and end of the period.
<b>Exclusions:</b>	<ul style="list-style-type: none"> <li>• Major event days in accordance with IEEE1366-2003 definitions <del>as adopted by Steering Committee on National Regulatory Reporting Requirements (SCNRRR).</del></li> <li>• Outages shown to be caused by a fault or other event on the transmission system or a third party system (for instance, without limitation outages caused by an intertrip signal, generator unavailability or a customer installation).</li> <li>• Planned Outages.</li> <li>• <del>Single Customer Interruptions.</del></li> <li>• Force majeure events.</li> </ul>

3.17 SAIFI is defined as follows:

<b>Performance Indicator:</b>	System Average Interruption Frequency Index (SAIFI)
<b>Unit of measure:</b>	Supply interruptions per annum
<b>Definition:</b>	Over a 12 month period, the total number of sustained (greater than 1 minute) customer interruptions (number) attributable solely to distribution (after exclusions) divided by the average of the total number of connected consumers at the beginning and end of the period.
<b>Exclusions:</b>	<ul style="list-style-type: none"> <li>• Major event days in accordance with IEEE1366-2003 definitions <del>as adopted by Steering Committee on National Regulatory Reporting Requirements (SCNRRR).</del></li> <li>• Outages shown to be caused by a fault or other event on the transmission system or a third party system (for instance, without limitation outages caused by an intertrip signal, generator unavailability or a customer installation).</li> <li>• Planned Outages.</li> <li>• <del>Single Customer Interruptions.</del></li> <li>• Force majeure events.</li> </ul>

### Further Final Decision

160. Western Power has amended the access arrangement to amend the definitions of SAIDI and SAIFI such that:

- the definitions do not make provision for the exclusion of “single customer interruptions”; and

- in specification of “major event days”, the definitions exclude reference to definitions as adopted by the SCNRRR.
161. With respect to Western Power’s amendment of the definitions of the exclusion “major event days”, Western Power has retained reference to the IEEE 1366-2003 definition. Western Power submits that this proposed amendment addresses the Authority’s requirements for national consistency (as indicated in paragraph 409 of the Authority’s Final Decision) for reasons that:
- Western Power has previously adopted the IEEE definition of major event days in reporting historic performance data (including data reported under its licence requirements); and
  - the Australian Energy Regulator (**AER**) has adopted the IEEE definition of major events days in its Service Target Performance Incentive Scheme.<sup>28</sup>
162. In order to achieve consistency with its own historic data, including licence reporting, and in keeping the with AER’s approach, Western Power has proposed to retain reference to the IEEE definitions of major event days (and remove reference to definitions as adopted by SCNRRR). In proposing this, Western Power acknowledges that there is a need to separately address detailed licence reporting requirements with the Authority.
163. The Authority has confirmed with Western Power the methods it has used to calculate and report historic performance data under the access arrangement and its distribution licence. Having regard to these methods, the Authority is of the view that Western Power’s performance data (SAIDI/SAIFI) reported under its distribution licence and access arrangement should be consistent, and hence the IEEE definition of major event days should be retained for the second access arrangement period. However, as indicated by Western Power, the Authority will look to separately address Western Power’s licence reporting requirements, which may impact on the access arrangement to apply for the third access arrangement period.
164. As indicated by Western Power, the AER’s service target performance incentive scheme, applying to distribution network service providers in the National Electricity Market, defines major event days in accordance with the IEEE 1366-2003 standard (*IEEE Guide for Electric Power Distribution Reliability Indices*), which excludes natural events which are more than 2.5 standard deviations greater than the mean of the log normal distribution of five regulatory years’ SAIDI data (the “2.5 beta method”). The Authority notes that some jurisdictional performance reporting requirements for distribution network service providers have more recently adopted the IEEE “2.5 beta method” to determine major event exclusions (rather than SCNRRR methodology), as in the case for service providers in New South Wales.<sup>29</sup>
165. Taking the above matters into consideration, the Authority is satisfied that Western Power’s amendments to the definitions of SAIDI and SAIFI (to remove the exclusion of “single customer interruptions” and revise the exclusion of “major event days”) adequately addresses the matters that prompted the Authority to require Final Decision Amendment 23.

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<sup>28</sup> Amended access arrangement information, p.22.

<sup>29</sup> See for example, Integral Energy, November 2008, Electricity network performance report 2007-2008, pp. 49 – 52.

## Price Control

### *Introduction*

166. For each reference service specified in the access arrangement, there must be a reference tariff established under the access arrangement.
167. The Access Code requires that the access arrangement must include a “price control”. A price control is a constraint on the level of reference tariffs that 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.
168. Western Power has determined a value of target revenue by reference to forecast costs for the second access arrangement period (2009/10 to 2011/12) – the “building block” method. This is consistent with the requirements of section 6.2(a) of the Access Code and with the method used to determine target revenue for the first access arrangement period (2006/07 to 2008/09).
169. In considering Western Power’s proposed target revenue, the Authority assessed the actual and forecast costs of Western Power over the first and second access arrangement periods, including:
- an assessment of whether the forecast of non-capital costs for the second access arrangement period meets the requirement of section 6.40 of the Access Code, including only those costs that would be incurred by a service provider efficiently minimising costs;
  - an assessment of whether new facilities investment in the first access arrangement period may be added to the capital base of the network under the provisions of section 6.51A of the Access Code, including an assessment of whether, and to what extent, the new facilities investment satisfies the new facilities investment test under section 6.52 of the Access Code; and
  - an assessment of whether forecast new facilities investment for the second access arrangement period may be taken into account in determining target revenue (by notional addition to the capital base), including an assessment of whether, and to what extent, the new facilities investment satisfies the new facilities investment test under section 6.52 of the Access Code.
170. In the Final Decision, the Authority required several amendments to the price control that are necessary for the Authority to approve the proposed access arrangement revisions. The Authority’s required amendments and Western Power’s response to these amendments, including proposed revisions other than required by the Authority, are addressed below.

### *Proposed Revisions other than required by the Authority*

#### *Amended Proposed Revisions*

171. Western Power has amended the proposed access arrangement revisions by amending the model used to determine target revenue (the “revenue model”) to correct items that were not subject to required amendments of the Authority. The amendments include corrections to distribution capital expenditure, distribution

forecast operating expenditure and transmission forecast capital expenditure, described by Western Power as follows.<sup>30</sup>

#### **Distribution capital expenditure**

The 2008/09 distribution capital expenditure has been amended to align with the actual expenditure set out in the 2008/09 regulated financial statements (contained in Attachment 3 [of the amended access arrangement information]). The Final Decision revenue model reflected expenditure in the distribution capacity expansion category of \$62.6 million. However, the 2008/09 regulated financial statements show that \$61.1 million of expenditure was undertaken in that category. Accordingly, Western Power has updated the revenue model to reflect a \$1.5 million reduction in distribution 2008/09 capital expenditure.

#### **Distribution forecast operating expenditure**

The forecast distribution operating expenditure has been amended to correct a misallocation of metering costs to Maintenance Strategy. The total forecast operating expenditure remains unchanged.

#### **Transmission forecast capital expenditure**

The forecast transmission capital expenditure has been amended to correct a misallocation of expenditure associated with a single project (the Chapman-Oakajee line), which was allocated to Capacity Expansion incorrectly rather than to the Customer Driven category. The revenue model submitted by Western Power [at Attachment 2 of the amended access arrangement information] ... has corrected the misallocation so there has been a change to the capital expenditure by asset class ... this change has a small effect on annual revenue because of the different depreciation rates applied to the Capacity Expansion and Customer Driven capital expenditure categories. However, the total forecast of transmission capital expenditure remains unchanged.

### *Further Final Decision*

172. In addressing the amendments required by the Authority, Western Power has amended the revenue model to correct three inputs – distribution capital expenditure, distribution forecast operating expenditure and transmission forecast capital expenditure.
173. Western Power advises that these corrections reduce Western Power's revenue entitlement, when compared to the Authority's Final Decision, by \$0.38 million (in present value terms) over the second access arrangement period, as indicated in Table 1.

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<sup>30</sup> Amended access arrangement information, pp. 10 – 12.

**Table 1 Western Power's comparison of reference service revenue for the second access arrangement period (real \$ million as at 30 June 2009)<sup>31,32</sup>**

	Transmission	Distribution	Total
Authority's Final Decision Revenue Model (4 December 2009)	833.518	1,706.394	2,539.912
Western Power's Revenue Model (24 December 2009)	833.525	1,706.007	2,539.532
Difference due to corrections	0.007	-0.387	-0.380

174. The Authority has verified Western Power's corrections and amended revenue model and notes the following.

- The correction to distribution capital expenditure causes consequential changes to the depreciation of assets, the closing value of Western Power's network asset/capital base, the cost of service provided by Western Power and the revenue that Western Power is to collect over the regulatory period.
- The correction to distribution forecast operating expenditure is only a correction of the allocation of costs between cost line items and causes no consequential changes to the outcomes of the revenue model.
- The correction to transmission forecast capital expenditure causes consequential changes to the depreciation of assets, the closing value of Western Power's asset/capital base network, the cost of service provided by Western Power and the revenue that Western Power is to collect over the regulatory period.

175. The Authority is satisfied that Western Power's additional amendments to the revenue model are to correct errors in the model that were discovered during the course of responding to the Authority's Final Decision and that the consequences for target revenue and reference tariffs are minor. The Authority therefore accepts Western Power's additional amendments to the revenue model and consequential changes resulting from these amendments.

## Non-Capital Costs

### Final Decision

176. Section 6.40 of the Access Code provides for total costs and target revenue to include an amount in respect of forecast non-capital costs that would be incurred by a service provider efficiently minimising costs.

177. Having regard to a submission from Western Power,<sup>33</sup> the Authority determined that an amount of \$11 million of non-capital costs (comprising \$6.3 million of forecast

<sup>31</sup> Amended access arrangement revisions, p.11 (Table 2).

<sup>32</sup> Numerical amounts throughout this Further Final Decision are generally shown up to 3 decimal places and, hence, where total amounts are shown these amounts may not total exactly due to rounding.

<sup>33</sup> Western Power submission of 10 September 2009.



business support costs and \$4.7 million of forecast corrective maintenance costs) did not meet the requirements of section 6.40 of the Access Code.

178. The Authority required amendment of the proposed access arrangement revisions so that the target revenue and price control reflected a forecast of non-capital costs that excludes this amount.
179. The Authority calculated the amended forecast of non-capital costs, excluding these amounts, and required the following amendment to the proposed access arrangement revisions.

#### Final Decision Amendment 24

The proposed access arrangement revisions should be amended to reflect a forecast of non-capital costs as follows (real \$ million at 30 June 2009):

	2009/10	2010/11	2011/12
Transmission:	75.46	96.32	103.40
Distribution:	280.84	357.11	414.11
Total:	356.29	453.43	517.51

#### Amended Proposed Revisions

180. Western Power has amended the proposed access arrangement revisions to reflect a forecast of non-capital costs for the second access arrangement period as shown in Table 2.

**Table 2 Western Power's amended forecast of non-capital costs for the second access arrangement period (real \$ million at 30 June 2009)<sup>34</sup>**

	2009/10 Forecast	2010/11 Forecast	2011/12 Forecast
Transmission	75.456	96.315	103.401
Distribution	280.835	357.111	414.106

#### Further Final Decision

181. Western Power has amended the proposed access arrangement revisions to reflect a forecast of non-capital costs for the second access arrangement period, consistent with the requirements of Final Decision Amendment 24.
182. The Authority is satisfied that Western Power's amendments to the forecasts of non-capital costs implement Final Decision Amendment 24.

<sup>34</sup> Amended access arrangement information, Attachment 2 (Revenue Model), pp. 14, 48.



## Capital Base and New Facilities Investment

### Final Decision

183. The capital base is the value ascribed to network assets that are used to provide covered services. Where the target revenue for a price control is set by reference to the service provider's total costs, section 6.43 of the Access Code provides for the value of the capital base to be used to calculate a return on the capital base and an amount of depreciation.

#### Actual new facilities investment

184. Under section 6.51A of the Access Code, the new facilities investment may be added to the capital base if:

- it satisfies the new facilities investment test (as set out under section 6.52 of the Access Code); or
- the Authority otherwise approves it being added to the capital base if:
  - it has been, or is expected to be, the subject of a capital contribution; and
  - it meets the requirements of section 6.52(a) of the Access Code; and
  - the access arrangement contains a mechanism designed to ensure that there is no double recovery of costs as a result of the addition.

185. Having regard to a submission from Western Power,<sup>35</sup> the Authority considered that the following amounts (in dollar values of 30 June 2009) should be excluded from Western Power's capital costs of the first access arrangement period in determining the amount of new facilities investment to be added to the capital base.

- An amount of \$23.24 million in respect of transmission projects that have been delayed or not proceeded, or amounts that should have been recovered through capital contributions.
- An amount of \$126.87 million in respect of inefficiencies arising from deficiencies in processes of cost estimation and from overcharging by contractors.
- A further amount \$110.97 million, being five per cent of new facilities investment net of the above adjustments and of gifted assets. This reflects the view of the Authority that inefficiencies have occurred in the selection and timing of augmentation projects as a result of deficiencies in the methods for forecasting demand for network services and deficiencies in the analysis of options for augmentation projects.

186. The Authority required amendment of the proposed access arrangement revisions so that the new facilities investment for the first access arrangement period reflects an amount of new facilities investment that excludes the above amounts.

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<sup>35</sup> Western Power submission of 10 September 2009.

187. The Authority calculated the amended value of new facilities investment, excluding these amounts, and required the following amendment to the proposed access arrangement revisions.

**Final Decision Amendment 25**

The proposed access arrangement revisions should be amended so that the total amounts of new facilities investment added to the capital base are as follows (real \$ million at 30 June 2009):

	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>
Transmission:	265.85	274.87	280.64
Distribution:	394.80	426.70	581.50
Total:	660.65	701.56	862.15

**Redundant assets**

188. The Authority required that revenue from the disposal of redundant assets be taken into account (as deductions) in the determination of the capital base at the commencement of the second access arrangement period.
189. The Authority required the following amendment to the proposed access arrangement revisions.

**Final Decision Amendment 26**

The proposed access arrangement revisions should be amended to add the value of any revenues from disposal of assets in the first access arrangement period to the value of redundant assets applied in calculation of the capital base at the commencement of the second access arrangement period.

**Forecast new facilities investment**

190. Section 6.51 of the Access Code provides for the target revenue for an access arrangement period to include capital costs calculated in respect of an amount of forecast of new facilities investment that is reasonably expected to satisfy the test in section 6.51A of the Access Code.<sup>36</sup>
191. During the course of assessing the proposed access arrangement revisions, Western Power submitted to the Authority a revised forecast of new facilities investment.<sup>37</sup> The Authority was satisfied that this revised forecast is reasonably expected to satisfy the test in section 6.51A of the Access Code and accordingly, the Authority determined that the capital costs associated with this forecast new facilities investment may be included in the target revenue for the second access arrangement period.

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<sup>36</sup> For the second access arrangement period, Western Power has proposed a different treatment of contributions from that which applied under the access arrangement for the first access arrangement period. For the second access arrangement period, Western Power has proposed to not add to the capital base any new facilities investment financed by contributions.

<sup>37</sup> Western Power submission of 10 September 2009.

192. The Authority required the following amendment to the proposed access arrangement revisions.

#### Final Decision Amendment 27

The proposed access arrangement revisions should be amended to reflect a forecast of new facilities investment for the second access arrangement period as set out by Western Power in its submission to the Authority dated 10 September 2009.

### Amended Proposed Revisions

#### Actual new facilities investment and redundant assets

193. Western Power has amended clauses 6.1 to 6.3 of the proposed access arrangement revisions as follows.

Capital base value

- 6.1 The tables below shows the derivation of the capital base value as at 30 June 2009.

**Derivation of Transmission Initial Capital Base (net)**  
(\$ million real as at 30 June 2009)

Financial year ending:	30 June 2006	30 June 2007	30 June 2008	30 June 2009
Opening capital base value		<u>1,500.69</u> 1,523.2	<u>1,713.57</u> 1,776.5	<u>1,929.17</u> 2,035.2
less Depreciation		<u>-52.84</u> -53.6	<u>-57.44</u> -58.3	<u>-62.40</u> -63.3
plus Capital Expenditure		<u>265.85</u> 306.9	<u>274.87</u> 317.0	<u>280.64</u> 443.6
less Redundant Assets		<u>-0.13</u> 0.0	<u>-1.83</u> 0.0	0.0
<b>Closing capital base value</b>	<b><u>1,500.69</u></b> <b>1,523.2</b>	<b><u>1,713.57</u></b> <b>1,776.5</b>	<b><u>1,929.17</u></b> <b>2,035.2</b>	<b><u>2,147.41</u></b> <b>2,415.5</b>

**Derivation of Distribution Initial Capital Base (net)**  
(\$ million real as at 30 June 2009)

Financial year ending:	30 June 2006	30 June 2007	30 June 2008	30 June 2009
Opening capital base value		<u>1,725.75</u> 1,751.7	<u>2,010.97</u> 2,088.7	<u>2,323.45</u> 2,454.1
less Depreciation		<u>-105.23</u> -106.8	<u>-110.24</u> -111.9	<u>-119.60</u> -121.4
plus Capital Expenditure		<u>394.80</u> 448.0	<u>426.70</u> 481.3	<u>580.01</u> 582.9
less Redundant Assets		<u>-4.35</u> -4.2	<u>-3.97</u> -4.0	<u>-3.92</u> -3.9
<b>Closing capital base value</b>	<b><u>1,725.75</u></b> <b>1,751.7</b>	<b><u>2,010.97</u></b> <b>2,088.7</b>	<b><u>2,323.45</u></b> <b>2,454.1</b>	<b><u>2,779.95</u></b> <b>2,911.7</b>

- 6.2 ~~[Deleted]~~The capital base value as at 30 June 2009 reflects a forecast of capital expenditure for the year ending 30 June 2009 (“2008/09”) and a forecast of inflation of 3.0% for the year ending 30 June 2009. To ensure that Western Power is remunerated only for actual capital investment that is undertaken in the year ending 30 June 2009 and actual inflation:
- ~~(a) — the capital base value at the commencement of the next access arrangement period will be adjusted (in real terms) for any difference between the actual capital expenditure and the forecast of capital expenditure for the 2008/09 year that was used to establish the opening capital base value at 30 June 2009 (the “2008/09 capital expenditure forecast error”);~~
  - ~~(b) — the capital base value at the commencement of the next access arrangement period will also be adjusted for any difference between the actual inflation (using the CPI weighted average for eight capital cities) and the forecast inflation for the 2008/09 year that was used to establish the opening capital base value at 30 June 2009 (the “2008/09 inflation forecast error”); and~~
  - ~~(c) — an adjustment to the target revenue in the next access arrangement period will be made to compensate Western Power (or users) for the revenue foregone (or additional revenue recovered) by Western Power over this access arrangement period in respect of the 2008/09 capital expenditure forecast error or the 2008/09 inflation forecast error.~~
- 6.3 ~~[Deleted]~~For the avoidance of doubt:
- ~~(a) — under the arrangements set out in section 6.2 of this Access Arrangement the target revenue for this access arrangement period will not be adjusted for the 2008/09 capital expenditure forecast error or the 2008/09 inflation forecast error;~~
  - ~~(b) — the intended effect of the arrangements set out in section 6.2 of this Access Arrangement is to hold Western Power and users economically neutral in the event that there are any 2008/09 capital expenditure forecast errors or 2008/09 inflation forecast error; and~~
  - ~~(c) — adjustments made at the next access arrangement review pursuant to section 6.2 of this Access Arrangement will have the effect of ensuring that the total revenue recovered by Western Power over this access arrangement period and subsequent access arrangement periods will be equivalent in present value terms to the amount that would be recovered if there were no 2008/09 capital expenditure forecast errors or no 2008/09 inflation forecast error.~~

### Forecast new facilities investment

194. Western Power has amended the proposed access arrangement revisions to reflect a forecast of new facilities investment for the second access arrangement period as shown in Table 3.

**Table 3 Western Power's amended forecast of new facilities investment for the second access arrangement period (real \$ million at 30 June 2009)<sup>38</sup>**

	2009/10 Forecast	2010/11 Forecast	2011/12 Forecast
Transmission	306.946	560.485	607.388
Distribution	611.156	722.009	752.138

### *Further Final Decision*

#### **Actual new facilities investment and redundant assets**

195. Western Power has amended clause 6.1 of the proposed access arrangement revisions to amend the value of capital expenditure to be added to the capital base and value of redundant assets to be deducted from the capital base.
196. The Authority notes that Western Power's amended value of distribution capital expenditure (new facilities investment) for 2008/09 does not correspond with the amount as specified in Final Decision Amendment 25, and accepts that this difference is due to Western Power's additional amendments to the revenue model (refer to paragraph 171 and following, above).
197. Taking this into account, the Authority is satisfied that Western Power's amendments to clause 6.1 implement Final Decision Amendments 25 and 26.

#### **Forecast new facilities investment**

198. Western Power has amended the proposed access arrangement revisions to reflect a forecast of new facilities investment for the second access arrangement period as set out in its submission to the Authority dated 10 September 2009. The additional amendments made by Western Power to the revenue model (refer to paragraph 171 and following, above) have affected the allocation of forecast new facilities investment across asset classes.
199. The Authority is satisfied that Western Power's amendments to the value of forecast new facilities investment for the second access arrangement period implements Final Decision Amendment 27.

#### **Other revisions**

200. Western Power has amended the calculation of the capital base to reflect actual values of inflation in expressing the calculation in dollar values of 30 June 2009. Amongst other things, this has resulted in changes to the depreciation values set out in the tables of clause 6.1 of the proposed access arrangement revisions. The Authority has checked the determination of these values and considers that the values have been determined correctly.

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<sup>38</sup> Amended access arrangement information, Attachment 2 (Revenue Model), pp. 5, 6, 35.

## Weighted Average Cost of Capital

### Final Decision

201. Section 6.64 of the Access Code requires that the access arrangement set out the weighted average cost of capital (**WACC**) for a covered network.
202. The role of the Authority is to consider whether the WACC proposed by Western Power meets the objectives for the WACC under section 6.4 of the Access Code and the Code objective, being that the WACC should be set at a value that:
- gives the service provider an opportunity to earn revenue that meets the forward-looking and efficient cost of funds;
  - is commensurate with the commercial risks involved in the provision of covered services; and
  - promotes the economically efficient investment in, and operation and use of, the network and the services provided by the network.
203. Having regard to these objectives and a submission from Western Power,<sup>39</sup> the Authority determined that the WACC of 8.95 per cent proposed by Western Power did not meet the requirements of the Access Code and required that a value of 7.98 per cent be applied in the determination of target revenue.
204. The Authority therefore required the following amendment to the proposed access arrangement revisions.

#### Final Decision Amendment 28

The target revenue should be revised to reflect a real pre-tax WACC value of 7.98 per cent.

### Amended Proposed Revisions

205. Western Power has amended clause 7.1 of the proposed access arrangement revisions to reflect a real pre-tax WACC value of 7.98%.
- 7.1 Pursuant to section 6.64 of the Code the weighted average cost of capital for Western Power's covered network is 7.98~~8.95~~% real pre-tax.

### Further Final Decision

206. The Authority is satisfied that Western Power's amendment to clause 7.1 of the proposed access arrangement revisions implements Final Decision Amendment 28.

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<sup>39</sup> Western Power submission of 10 September 2009.

## Return on Working Capital

### Final Decision

207. "Working capital" refers to a stock of funds that must be maintained by a service provider to pay costs as they fall due.
208. To the extent that an allowance for costs of working capital can reasonably be included in the costs of providing network services,<sup>40</sup> the Authority considered that the treatment of a stock of working capital as a capital asset of the network business is appropriate and a return on this asset, calculated at the WACC, is a reasonable estimate of the cost of working capital to the business. However, the Authority observed an inconsistency in Western Power's determination of a return on the stock of working capital with the determination of a return on the capital base. Western Power calculated the return on working capital as a return on the closing value of the stock of working capital in each year, whereas the return on the capital base is calculated on the opening value of the capital base in each year.
209. The Authority required the following amendment to the proposed access arrangement revisions.

#### Final Decision Amendment 29

The target revenue should be revised to reflect an allowance for a cost of working capital as follows (real \$ million at 30 June 2009):

	2009/10	2010/11	2011/12
Transmission:	19.25	10.47	12.59
Distribution:	42.32	45.54	53.12
Total:	61.57	56.00	65.71

### Amended Proposed Revision

210. Western Power has amended the proposed access arrangement revisions to reflect an allowance for a cost of working capital as shown in Table 4.

**Table 4 Western Power's amended forecast of new facilities investment for the second access arrangement period (real \$ million at 30 June 2009)<sup>41</sup>**

	2009/10	2010/11	2011/12
Transmission	19.250	10.469	12.590
Distribution	42.299	45.517	53.102

<sup>40</sup> The Authority is aware that regulators in other Australian jurisdictions have questioned whether an allowance for costs of working capital can reasonably be included in the determination of regulated revenues for utility businesses. The Authority intends to give this matter further consideration outside of the process of assessment of proposed revisions to the access arrangement for the SWIN.

<sup>41</sup> Amended access arrangement information, Attachment 2 (Revenue Model), pp. 30, 67.

### *Further Final Decision*

211. Western Power has amended the proposed access arrangement revisions to reflect a total allowance for a cost of working capital over the second access arrangement period of \$42.31 million for transmission, and \$140.92 million for distribution, as set out in Table 4 above.
212. Western Power's amended values of working capital for the distribution network do not correspond with the amounts specified in Final Decision Amendment 29. The Authority is satisfied that this difference is due to Western Power's additional amendments to the revenue model (refer to paragraph 171 and following, above).
213. Taking this into account, the Authority is satisfied that Western Power's amendments to the cost of working capital implements Final Decision Amendment 29.

### **Total Cost and Target Revenue**

#### *Final Decision*

214. Under section 6.2 of the Access Code, the target revenue for a price control may be set by reference to the service provider's approved total costs, or by reference to tariffs in previous access arrangement periods and changes to costs and productivity growth in the electricity industry, or by using a combination of these two methods.

#### **Revenue from non-reference services**

215. Western Power proposed that the amount of target revenue established under the price control for the second access arrangement period be an amount in respect of reference services. Under this proposed specification of target revenue and the price control, revenue earned by Western Power from the provision of non-reference services does not fall under the revenue cap price control.
216. The Authority was satisfied that Western Power's proposed exclusion of forecast revenue from non-reference services from the target revenue and price control is consistent with the requirements of the Access Code and the Code objective.
217. Notwithstanding the Authority's satisfaction that the exclusion of non-reference services revenue from target revenue is consistent with requirements of the Access Code, the Authority observed that the value of non-reference services revenue taken into account in determining target revenue for the distribution network was less than the amount of non-capital costs attributed by Western Power to the provision of non-reference services.
218. The Authority required the following amendment to the proposed access arrangement revisions.



**Final Decision Amendment 30**

The proposed access arrangement revisions should be amended to determine the target revenue for reference services taking into account forecast revenues from non-reference services as follows (real \$ million at 30 June 2009):

	2009/10	2010/11	2011/12
Transmission:	0.86	0.92	0.93
Distribution:	10.13	10.85	11.39

**Treatment of capital contributions and deferral of revenue**

219. Western Power proposed that recovery of part of the target revenue for the second access arrangement period be deferred to the third or later access arrangement periods, to reduce proposed increases in reference tariffs in the second access arrangement period that stem from a change in the treatment of capital contributions in the calculation of target revenue and forecast increases in costs in the second access arrangement period.
220. The Authority took the view that the deferral of revenue from the second to the third and subsequent access arrangement periods should fully offset the effect of the change in the treatment of capital contributions.
221. The Authority required the following amendment to the proposed access arrangement revisions.

**Final Decision Amendment 31**

The proposed access arrangement revisions should be amended to provide for deferral of an amount of \$64.5 million of revenue for the transmission network and \$484.2 million of revenue for the distribution network (in present value terms and in real dollar values of 30 June 2009) from the second to the third and subsequent access arrangement periods, being an amount that fully offsets the effect of the change in the treatment of capital contributions in the determination of target revenue.

*Amended Proposed Revisions***Revenue from non-reference services**

222. Western Power has amended the proposed access arrangement revisions to reflect forecast revenues from non-reference services as shown in Table 5.

**Table 5 Western Power's amended values of forecast revenues from non-reference services (real \$ million at 30 June 2009)<sup>42</sup>**

	2009/10 Forecast	2010/11 Forecast	2011/12 Forecast
Transmission	0.863	0.916	0.931
Distribution	10.132	10.847	11.386

**Treatment of capital contributions and deferral of revenue**

223. Western Power has amended clauses 5.37A and 5.48A of the proposed access arrangement revisions as follows.

5.37A To manage the overall price increases in this access arrangement period, Western Power has deferred the recovery of some transmission reference service revenue from this access arrangement period to the third or subsequent access arrangement periods. The deferred amount of revenue is ~~\$64.544.6~~ million (\$ real as at 30 June 2009) expressed in present value terms as at 30 June 2009...

...

5.48A To manage the overall price increases in this access arrangement period, Western Power has deferred the recovery of some distribution reference service revenue from this access arrangement period to the third or subsequent access arrangement periods. The deferred amount of revenue is ~~\$484.2477.3~~ million (\$ real as at 30 June 2009) expressed in present value terms as at 30 June 2009...

*Further Final Decision***Revenue from non-reference services**

224. Western Power has amended the proposed access arrangement revisions to reflect forecast revenues from non-reference services, consistent with the requirements of Final Decision Amendment 30.

225. The Authority is satisfied that Western Power's amendments to the forecasts of non-reference services revenue implement Final Decision Amendment 30.

**Treatment of capital contributions and deferral of revenue**

226. Western Power has amended clauses 5.37A and 5.48A of the proposed access arrangement revisions to provide for deferral of revenue in the amounts specified by Final Decision Amendment 31, and accordingly, the Authority is satisfied that these amendments implement Final Decision Amendment 31.

<sup>42</sup> Amended access arrangement information, Attachment 2 (Revenue Model), pp. 30, 67.

## Form of Price Control

### Final Decision

227. "Price Control" is defined in Chapter 1 of the Access Code as the provisions in an access arrangement under section 5.1(d) and Chapter 6 which determine target revenue.
228. Section 6.4 of the Access Code sets out objectives for the price control, which relate to setting an amount of target revenue for the access arrangement period (section 6.4(a)) as well as objectives of:
- enabling a user to predict the likely annual changes in target revenue during the access arrangement period (section 6.4(b)); and
  - avoiding price shocks (that is, sudden material tariff adjustments between succeeding years (section 6.4(c)).
229. The current access arrangement applies a revenue cap form of price control, with a separate revenue cap applied to each of the transmission and distribution networks and with side constraints limiting the extent to which individual charges of a reference tariff may be changed from one price year to the next. Western Power proposed to retain this form of price control for the second access arrangement period.
230. The Authority was satisfied that the proposed revenue cap form of price control is consistent with the requirements of the Access Code and required the price control to be established with revised values of target revenue for the second access arrangement period as determined by the Authority under its Final Decision.
231. The Authority calculated the necessary proportional changes in reference tariffs from one pricing year to the next during the second access arrangement period (contemplating revisions to the price list in approximately March 2010, and at 1 July 2010 and 1 July 2011) and determined the side constraints as these proportional changes rounded up to a whole percentage point. Given this, the Authority required the following amendment to the proposed access arrangement revisions.

#### Final Decision Amendment 32

The proposed access arrangement revisions should be amended such that clauses 3.11, 5.35 and 5.46 provide for maximum proportional changes in reference tariffs at times of revision of the price list of:

- +/- (percentage change in the CPI + 13 percentage points) for the transmission network; and
- +/- (percentage change in the CPI + 18 percentage points) for the distribution network.

### Amended Proposed Revisions

232. Western Power has amended clauses 3.11, 5.35 and 5.46 of the proposed access arrangement as follows.

3.11 To constrain tariff rebalancing ~~for the second and third year of this access arrangement period~~, the maximum changes in reference tariffs at times of revision of the price list are:

- +/- (CPI + 13 percentage points) for the transmission network; and
- +/- (CPI + 18 percentage points) for the distribution network.

~~Western Power will not increase any reference tariff component by more than  $CPI + Y + 5\%$  or less than  $CPI + Y - 5\%$ , where Y is the relevant percentage figure defined in section 5.35 (for transmission) and section 5.46 (for distribution) of this Access Arrangement. For the purposes of this side constraint on tariff rebalancing, the CPI is the percentage increase in the Consumer Price Index (weighted average for eight capital cities) published by the Australian Bureau of Statistics for the most recent December quarter compared to the December quarter in the previous year.~~

...

5.35 For this *access arrangement period*, the maximum transmission reference service revenue  $MTR_t$  is determined as follows:

$$MTR_t = TR_t + AA\#1_t + TK_t$$

Where:

$TR_t$  is the dollar amount in money of the day terms (current prices) for the financial year t calculated from the dollar amounts (expressed in 30 June 2009 prices) set out in the table below.

**Transmission reference service revenues to be used for calculating  $TR_t$  and value of Y to be used for calculation of tariff side constraint (\$ million real as at 30 June 2009)**

	2009/10	2010/11	2011/12
$TR_t$	<u>262.90</u> 338.0	<u>332.05</u> 446.8	<u>384.34</u> 590.6
Y	n/a	32.2%	32.2%

$TK_t$  is the correction factor calculated in accordance with sections 5.36 and 5.37 of this *Access Arrangement*, which takes account of any difference between the maximum transmission reference service revenue in financial year t-1 and the actual transmission reference service revenue in financial year t-1.

$AA\#1_t$  is a positive or negative smoothed amount for the financial year t calculated to give effect to the following adjustments (if applicable) in accordance with the previous *access arrangement*:

- Adjusting *target revenue* for unforeseen events;
- Adjusting *target revenue* for technical rule changes;
- Investment adjustment mechanism; and
- Capital contributions adjustment mechanism.

For the avoidance of doubt,  $AA\#1_t$  must take account of inflation, the time value of money and estimates (if any) of the above adjustments that have been included in the calculation of  $TR_t$  in this section 5.35 of this *Access Arrangement*. Western

Power will provide model outputs to the Authority to demonstrate that the above smoothed adjustments have been made in accordance with the previous *access arrangement*.

For the purpose of determining compliance with this revenue cap and calculating  $TR_t$ ,  $TK_t$  and therefore  $MTR_t$ , in each financial year CPI adjustments will be effected by using published CPI data relating to the relevant March quarters.

...

5.46 For this *access arrangement period*, the maximum regulated distribution revenue  $MDR_t$  is determined as follows:

$$MDR_t = DR_t + TEC_t + AA\#1_t + DK_t$$

Where:

$DR_t$  is the dollar amount in money of the day terms (current prices) for the financial year t calculated from the dollar amounts (expressed in 30 June 2009 prices) set out in the table below.

**Distribution reference service revenues to be used for calculating  $DR_t$  and value of Y to be used for calculation of tariff side constraint (\$ million real as at 30 June 2009)**

	2009/10	2010/11	2011/12
$DR_t$	389.01640.7	510.49800.8	646.771,001.0
¥	n/a	25.0%	25.0%

$TEC_t$  is any cost incurred by the distribution network for the financial year t as a result of the tariff equalisation contribution in accordance with section 6.37A of the *Code*.

$AA\#1_t$  is a positive or negative smoothed amount for the financial year t calculated to give effect to the following adjustments (if applicable) in accordance with the previous access arrangement:

- Adjusting *target revenue* for unforeseen events;
- Adjusting *target revenue* for technical rule changes;
- Investment adjustment mechanism; and
- Capital contributions adjustment mechanism.

For the avoidance of doubt,  $AA\#1_t$  must take account of inflation, the time value of money and estimates (if any) of the above adjustments that have been included in the calculation of  $DR_t$  in this section 5.46 of this Access Arrangement. Western Power will provide model outputs to the Authority to demonstrate that the above smoothed adjustments have been made in accordance with the previous *access arrangement*.

$DK_t$  is the correction factor calculated in accordance with sections 5.47 and 5.48 of this *Access Arrangement*, which takes account of any difference between the maximum regulated distribution network revenue in financial year t-1 and the actual regulated distribution network revenue in financial year t-1.

For the purpose of determining compliance with this revenue cap and calculating  $DR_t$ ,  $DK_t$  and therefore  $MDR_t$ , in each financial year CPI adjustments will be effected by using published CPI data relating to the relevant March quarters.

### Further Final Decision

233. Western Power has amended clauses 3.11, 5.35 and 5.46 of the proposed access arrangement revisions. The Authority notes that Western Power's maximum transmission reference service revenue ( $MTR_t$ ) and the maximum distribution reference service revenue ( $MDR_t$ ) are equivalent to the target revenue amounts determined by the Authority as set out in Table 6.

**Table 6 Authority's target revenue for the transmission and distribution networks (real \$ million at 30 June 2009)<sup>43</sup>**

	2009/10	2010/11	2011/12
<b>Transmission</b>			
Target revenue ( $MTR_t$ )	262.901	332.051	384.335
less Tariff equalisation contribution ( $TEC_t$ )	0	0	0
<b>Transmission reference service revenue (<math>TR_t</math>)</b>	<b>262.901</b>	<b>332.051</b>	<b>384.335</b>
<b>Distribution</b>			
Target revenue ( $MDR_t$ )	510.138	680.875	817.870
less Tariff equalisation contribution ( $TEC_t$ )	121.131	170.387	171.101
<b>Distribution reference service revenue (<math>DR_t</math>)</b>	<b>389.007</b>	<b>510.489</b>	<b>646.769</b>

234. Western Power's amendments made are consistent with the requirements of Final Decision Amendment 32, and accordingly, the Authority is satisfied that the amendments implement Final Decision Amendment 32.

## Pricing Methods, Price List and Price List Information

235. Sections 5.1(e) and 5.1(f) of the Access Code respectively require an access arrangement to include pricing methods in accordance with the requirements of Chapter 7 of the Access Code; and a price list in accordance with the requirements of Chapter 8 of the Access Code.
236. The Access Code indicates that "pricing methods" means the structure of reference tariffs included in an access arrangement and a "price list" means the schedule of reference tariffs in effect in an access arrangement.
237. The proposed access arrangement revisions included a proposed price list for 2009/10 (at Appendix 5) and associated price list information (at Appendix 6).

<sup>43</sup> Final Decision, Tables 92 and 93, pp. 271 – 272. The Authority's target revenue amounts as shown in this Further Final Decision incorporates Western Power's additional amendments to the revenue model (refer to paragraph 171 and following of this Further Final Decision).

Subsequent to the submission of the proposed access arrangement revisions, and in light of the proposed revisions not having been approved by 24 April 2009, Western Power submitted an alternative proposed price list for 2009/10 and associated price list information in accordance with requirements of the current access arrangement and section 8.1 of the Access Code. The Authority subsequently approved this price list<sup>44</sup> and as a consequence, the price list provided as part of the proposed access arrangement revisions became redundant.

### Final Decision

238. As indicated above, the Authority approved a price list for 2009/10 outside of the approval process for the proposed access arrangement revisions. Accordingly, the Authority did not consider the price list included in the proposed access arrangement revisions.
239. In a submission to the Authority, Western Power proposed an additional change to the provisions of the access arrangement to allow a revised price list to take effect from the start date of the revised access arrangement.<sup>45</sup>
240. Having regard to Western Power's submission, the Authority considered that a revision of the price list at the time the access arrangement revisions come into effect would assist in avoiding price shocks to users in the second and third years of the second access arrangement period. For this reason, and taking into account the timing of the approval process for the proposed access arrangement revisions, the Authority indicated that it will not reject the additional changes to the access arrangement proposed by Western Power.
241. As the Authority was not approving a price list as part of its final decision, the Authority restricted its attention to the pricing methods applied by Western Power in determining the levels of reference tariffs and the component charges of the reference tariffs. The Authority was satisfied that the pricing methods applied by Western Power are consistent with the objectives of sections 7.3 and 7.4 of the Access Code.

### Amended Proposed Revisions

242. Western Power has amended clause 3.8 to 3.10 of the proposed access arrangement revisions as follows.

Price list and price list information

- 3.8 [In its determination dated 18 May 2009, the Authority approved Western Power's price list from 1 July 2009 for the South West Interconnected Network.](#) ~~The price list in respect of the financial year commencing on 1 July 2009 is attached at Appendix 5.~~
- 3.9 The *price list* is to be updated annually in accordance with Chapter 8 of the Code. [The pricing years for this Access Arrangement are defined in the table below:](#)

<sup>44</sup> Economic Regulation Authority, 18 May 2009, Determination on the Proposed 2009/10 Price List for the South West Interconnected Network.

<sup>45</sup> Western Power submission of 10 September 2009.



Pricing Year	Start Date	End Date
1	Start date of the amended proposed access arrangement revisions	30 June 2010
2	1 July 2010	30 June 2011
3	1 July 2011	30 June 2012

3.10 In accordance with section 8.1 of the *Code* this *Access Arrangement* requires Western Power to submit a proposed *price list*, together with *price list information*, to the *Authority* for approval at least 45 *business days* before the start of each *pricing year* (except for the first *pricing year*). [Western Power's proposed price list for the period 1 March 2010 to 30 June 2010 is provided at Appendix 5 for approval by the Authority.](#)

243. Amendments have also been made to Appendix 5 and Appendix 6 of the proposed access arrangement revisions to include an amended price list for the period 1 March 2010 to 30 June 2010 and amended price list information.

### Further Final Decision

244. Western Power has amended clause 3.9 of the proposed access arrangement revisions to specify the first pricing year of the second access arrangement period as being the period from the start date of the amended proposed access arrangement revisions to 30 June 2010. This amendment is consistent with the Authority's final decision to allow a change in the specification of pricing years to provide for an amended price list to take effect from the start date of the amended access arrangement.

245. Given the change to the specification of the first pricing year, Western Power has amended the proposed access arrangement revisions to include an amended 2009/10 price list (at Appendix 5) and amended 2009/10 price list information (at Appendix 6). The Authority's assessment of this amended price list is set out in the following paragraphs.

246. As indicated in the Final Decision, the Authority is satisfied that the pricing methods applied by Western Power (as set out in the amended proposed revisions) are consistent with the requirements of the Access Code.

247. Clauses 5.25 to 5.48A of the amended proposed revisions (i.e. the amended access arrangement) establish revenue cap price controls for each of the transmission and distribution networks. The operation of these price controls within an access arrangement period are set out in clauses 5.35 to 5.37A and 5.46 and 5.48A of the amended access arrangement as follows.

5.35 For this access arrangement period, the maximum transmission reference service revenue  $MTR_t$  is determined as follows:

$$MTR_t = TR_t + AA\#1_t + TK_t$$

Where:

$TR_t$  is the dollar amount in money of the day terms (current prices) for the financial year  $t$  calculated from the dollar amounts (expressed in 30 June 2009 prices) set out in the table below.



**Transmission reference service revenues to be used for calculating  $TR_t$**   
**(\$ million real as at 30 June 2009)**

	2009/10	2010/11	2011/12
$TR_t$	262.90	332.05	384.34

$TK_t$  is the correction factor calculated in accordance with sections 5.36 and 5.37 of this Access Arrangement, which takes account of any difference between the maximum transmission reference service revenue in financial year t-1 and the actual transmission reference service revenue in financial year t-1.

$AA\#1_t$  is a positive or negative smoothed amount for the financial year t calculated to give effect to the following adjustments (if applicable) in accordance with the previous access arrangement:

- Adjusting target revenue for unforeseen events;
- Adjusting target revenue for technical rule changes;
- Investment adjustment mechanism; and
- Capital contributions adjustment mechanism.

For the avoidance of doubt,  $AA\#1_t$  must take account of inflation, the time value of money and estimates (if any) of the above adjustments that have been included in the calculation of  $TR_t$  in this section 5.35 of this Access Arrangement. Western Power will provide model outputs to the Authority to demonstrate that the above smoothed adjustments have been made in accordance with the previous access arrangement.

For the purpose of determining compliance with this revenue cap and calculating  $TR_t$ ,  $TK_t$  and therefore  $MTR_t$ , in each financial year CPI adjustments will be effected by using published CPI data relating to the relevant March quarters.

5.36 For financial years commencing on 1 July 2010 and 1 July 2011:

$$TK_t = (MTR_{t-1} - ATR_{t-1}) * (1 + WACC_{pre-tax\ real})$$

Where:

$MTR_{t-1}$  is the maximum reference service revenue for Western Power's transmission network in the previous financial year.

$ATR_{t-1}$  is the actual transmission reference service revenue in the previous financial year as defined in accordance with section 5.29 of this Access Arrangement.

$WACC_{pre-tax\ real}$  is 7.98%.

For the financial year commencing on 1 July 2009,  $TK_t$ , will be calculated in accordance with the previous access arrangement.

For the avoidance of doubt, it should be noted that the annual tariff-setting process for financial year t typically takes place before the end of financial year t-1. Therefore,  $TK_t$  will need to be estimated in the first instance, and then recalculated in the subsequent financial year when  $ATR_{t-1}$  is known.

5.37 The correction factor,  $TK_t$ , will also apply in the first year of the next access arrangement period to adjust for any difference between maximum transmission

reference service revenue and actual transmission reference service revenue, in relation to the financial year commencing on 1 July 2011.

5.37A To manage the overall price increases in this access arrangement period, Western Power has deferred the recovery of some transmission reference service revenue from this access arrangement period to the third or subsequent access arrangement periods. The deferred amount of revenue is \$64.5 million (\$ real as at 30 June 2009) expressed in present value terms as at 30 June 2009. An amount must be added to the target revenue for the transmission network in the third access arrangement period or subsequent access arrangement periods such that the present value (at 30 June 2009) of the total amount added to target revenue (taking account of inflation and the time value of money) is equal to the present value of the deferred transmission reference service revenue (at 30 June 2009). For the avoidance of doubt, the addition to target revenue in the third and subsequent access arrangement periods must leave Western Power financially neutral compared to a situation where transmission reference service revenue deferral had not occurred. The timeframe for recovering deferred revenue will consider the price impact on users of reference services and will be subject to approval by the Authority.

...

5.46 For this access arrangement period, the maximum regulated distribution revenue  $MDR_t$  is determined as follows:

$$MDR_t = DR_t + TEC_t + AA\#1_t + DK_t$$

Where:

$DR_t$  is the dollar amount in money of the day terms (current prices) for the financial year t calculated from the dollar amounts (expressed in 30 June 2009 prices) set out in the table below.

**Distribution reference service revenues to be used for calculating  $DR_t$   
(\$ million real as at 30 June 2009)**

	2009/10	2010/11	2011/12
$DR_t$	389.01	510.49	646.77

$TEC_t$  is any cost incurred by the distribution network for the financial year t as a result of the tariff equalisation contribution in accordance with section 6.37A of the Code.

$AA\#1_t$  is a positive or negative smoothed amount for the financial year t calculated to give effect to the following adjustments (if applicable) in accordance with the previous access arrangement:

- Adjusting target revenue for unforeseen events;
- Adjusting target revenue for technical rule changes;
- Investment adjustment mechanism; and
- Capital contributions adjustment mechanism.

For the avoidance of doubt,  $AA\#1_t$  must take account of inflation, the time value of money and estimates (if any) of the above adjustments that have been included in the calculation of  $DR_t$  in this section 5.46 of this Access Arrangement. Western Power will provide model outputs to the Authority to demonstrate that the above

smoothed adjustments have been made in accordance with the previous access arrangement.

$DK_t$  is the correction factor calculated in accordance with sections 5.47 and 5.48 of this Access Arrangement, which takes account of any difference between the maximum regulated distribution network revenue in financial year t-1 and the actual regulated distribution network revenue in financial year t-1.

For the purpose of determining compliance with this revenue cap and calculating  $DR_t$ ,  $DK_t$  and therefore  $MDR_t$ , in each financial year CPI adjustments will be effected by using published CPI data relating to the relevant March quarters.

5.47 For financial years commencing on 1 July 2010 and 1 July 2011:

$$DK_t = (MDR_{t-1} - ADR_{t-1}) * (1 + WACC_{\text{pre-tax real}})$$

Where:

$MDR_{t-1}$  is the maximum regulated revenue for Western Power's distribution network in the previous financial year.

$ADR_{t-1}$  is the actual regulated distribution revenue in the previous financial year as defined in accordance with section 5.40 of this Access Arrangement.

$WACC_{\text{pre-tax real}}$  is 7.98%.

For the financial year commencing on 1 July 2009,  $DK_t$  will be calculated in accordance with the previous access arrangement.

For the avoidance of doubt, it should be noted that the annual tariff-setting process for financial year t typically takes place before the end of financial year t-1. Therefore,  $DK_t$  will need to be estimated in the first instance, and then recalculated in the subsequent financial year when  $ADR_{t-1}$  is known.

5.48 The correction factor,  $DK_t$ , will also apply in the first year of the next access arrangement period to adjust for any difference between maximum distribution reference service revenue and actual distribution reference service revenue, in relation to the financial year commencing on 1 July 2011.

5.48A To manage the overall price increases in this access arrangement period, Western Power has deferred the recovery of some distribution reference service revenue from this access arrangement period to the third or subsequent access arrangement periods. The deferred amount of revenue is \$484.2 million (\$ real as at 30 June 2009) expressed in present value terms as at 30 June 2009. An amount must be added to the target revenue for the distribution network in the third access arrangement period or subsequent access arrangement periods such that the present value (at 30 June 2009) of the total amount added to target revenue (taking account of inflation and the time value of money) is equal to the present value of the deferred distribution reference service revenue (at 30 June 2009). For the avoidance of doubt, the addition to target revenue in the third and subsequent access arrangement periods must leave Western Power financially neutral compared to a situation where revenue deferral had not occurred. The timeframe for recovering deferred revenue will consider the price impact on users of reference services and will be subject to approval by the Authority.

248. Appendix 6 of the amended proposed revisions (price list information)<sup>46</sup> details Western Power's derivation of the maximum transmission and distribution revenues for 2009/10 as specified in clauses 5.35 and 5.46 of the amended access arrangement. In deriving the maximum revenues, Western Power has taken into consideration the revenue to be collected under the existing 2009/10 price list<sup>47</sup> (applying from 1 July 2009 to 28 February 2010) and revenues to be collected under the amended 2009/10 price list<sup>48</sup> (to apply from 1 March 2010 to 30 June 2010).
249. The derivation of maximum revenue for transmission reference services for 2009/10 is indicated in Table 7.

**Table 7 Determination of required revenue from transmission reference services for 2009/10**

Calculation Parameter	2009/10		Source
	1 Jul 09 to 28 Feb 10 (8 months)	1 Mar 10 to 30 Jun 10 (4 months)	
Portion of energy transported (GWh)	<b>11,430</b> (17,145 x <sup>2</sup> / <sub>3</sub> )	<b>5,715</b> (17,145 x <sup>1</sup> / <sub>3</sub> )	Amended access arrangement information, Attachment 2 – Revenue Model, Transmission_COS (line 113)
Average tariff (\$/MWh)	14.70	16.60	Amended access arrangement information, Attachment 2 – Revenue Model, Transmission_COS (line 121)
<b>Smoothed target revenue (\$m, real June 09)</b>	<b>168.1</b>	<b>94.8</b>	Amended proposed revisions, Appendix 6 – Price List Information, Table 2 (p.10)
<b>Smoothed target reference revenue for 2009/10 (\$m, real June 09)</b>		<b>262.9</b>	Amended access arrangement information, Attachment 2 – Revenue Model, Transmission_COS (line 123)

250. The derivation of maximum revenue for distribution reference services for 2009/10 is indicated in Table 8.

<sup>46</sup> Amended proposed revisions, Appendix 6: Price list information, pp. 10, 11.

<sup>47</sup> As approved by the Authority on 18 May 2009.

<sup>48</sup> As approved by the Authority under this Further Final Decision.

**Table 8 Determination of required revenue from distribution reference services for 2009/10**

Calculation Parameter	2009/10		Source
	1 Jul 09 to 28 Feb 10 (8 months)	1 Mar 10 to 30 Jun 10 (4 months)	
Portion of energy transported (GWh)	<b>8,875</b> (13,312 x $\frac{2}{3}$ )	<b>4,437</b> (13,312 x $\frac{1}{3}$ )	Amended access arrangement information, Attachment 2 – Revenue Model, Distribution_COS (line 113)
Average tariff (\$/MWh)	36.19	42.58	Amended access arrangement information, Attachment 2 – Revenue Model, Distribution_COS (line 121)
<b>Smoothed target revenue (\$m, real June 09)</b>	<b>321.2</b>	<b>188.9*</b>	Amended proposed revisions, Appendix 6 – Price List Information, Table 4 (p.10)
<b>Smoothed target reference revenue for 2009/10 (\$m, real June 09)</b>		<b>510.1<sup>^</sup></b>	Amended access arrangement information, Attachment 2 – Revenue Model, Distribution_COS (line 123)

\*Includes tariff equalisation contribution (TEC)

<sup>^</sup>Consists of distribution revenue (*DR*) of \$389.01 and TEC (*TEC*) of \$121.13

251. Confidential supporting documents provided by Western Power with the amended 2009/10 price list and price list information<sup>49</sup> contain calculations of the expected revenue from the component charges of reference tariffs as set out in the amended price list, given the forecasts of the parameters of demand for each charge. The total values of expected revenue are indicated in Table 9.

<sup>49</sup> Western Power, 24 December 2009, Letter from Mr D. Aberle, Managing Director (Re: amended access arrangement information, confidential supporting documentation).

**Table 9 Western Power's forecast of revenue from reference services for the period 1 March 2010 to 30 June 2010 (4 months)**

Revenue component	Value
<b>Transmission revenue</b>	
<b>Forecast revenue from transmission reference tariffs (\$m, nominal)</b>	<b>95.3</b>
Target reference service revenue, from Table 7 above (\$m, real June 09)	94.8
<i>Inflation factor, from amended proposed revisions (Appendix 6 – Price List Information, Table 6, p. 11)</i>	1.008
<b>Target reference service revenue (\$m, nominal)</b>	<b>95.6</b>
<b>Forecast over/(under) recovery (\$m, nominal)</b>	<b>(0.3)</b>
<b>Distribution revenue</b>	
<b>Forecast revenue from transmission reference tariffs (\$m, nominal)</b>	<b>192.9</b>
Target reference service revenue, from Table 8 above (\$m, real June 09)	188.9
<i>Inflation factor, from amended proposed revisions (Appendix 6 – Price List Information, Table 6, p. 11)</i>	1.008
<b>Target reference service revenue (\$m, nominal)</b>	<b>190.4</b>
<b>Forecast over/(under) recovery (\$m, nominal)</b>	<b>2.5</b>

252. The Authority considers that the differences between required and forecast revenues for reference services are within a reasonable margin when determining a complex set of reference tariff charges. The Authority notes that, under the price control of the amended access arrangement, any differences between the required and actual revenues will be corrected in the transmission and distribution prices in future pricing years.
253. Western Power's amended price list information indicates the percentage changes in reference tariff charges from the charges established in the current price list (applying to 28 February 2010) to the amended price list (applying from 1 March 2010). These percentage changes are within the bounds established by the side constraints under clause 3.11 of the amended access arrangement and comprise:
- increases in charges of transmission reference tariffs of between 12.8 and 12.9 per cent; and
  - increases in charges of distribution reference service tariffs of between 17.1 and 18.0 per cent.
254. The Authority is satisfied that Western Power's amended 2009/10 price list complies with the price control set out in the amended access arrangement. In accordance with this Further Final Decision, this amended price list will apply from 1 March 2009 to 30 June 2010.

## Adjustments to Target Revenue in the Next Access Arrangement Period

### Introduction

255. 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 for the target revenue for the third access arrangement period (due to commence in July 2012) to be adjusted for the relevant events or outcomes in the second access arrangement period.

### Gain Sharing Mechanism

#### Final Decision

256. Sections 6.19 and 6.20 of the Access Code provide for an access arrangement to include a gain sharing mechanism.
257. The Authority determined that Western Power's proposed gain sharing mechanism did not meet the requirements of the Access Code, and required an alternative form of gain sharing mechanism.
258. The Authority required the following amendment to the proposed access arrangement revisions.

#### Final Decision Amendment 33

The proposed access arrangement revisions should be amended to specify a gain sharing mechanism as follows.

- (a) Subject to paragraph (b) of this required amendment, an above-benchmark surplus is to be calculated for each of the years 2009/10 to 2011/12 as:

$$ABS_{2009/10} = EIB_{2009/10} - A_{2009/10}$$

$$ABS_{2010/11} = (EIB_{2010/11} - A_{2010/11}) - (EIB_{2009/10} - A_{2009/10})$$

$$ABS_{2011/12} = (EIB_{2011/12} - A_{2011/12}) - (EIB_{2010/11} - A_{2010/11})$$

Where:

$ABS_t$  is the above-benchmark surplus in year  $t$ .

$EIB_t$  is the efficiency and innovation benchmark for year  $t$ , being the forecast of non-capital cost for year  $t$  applied in the determination of target revenue for year  $t$ , adjusted for inflation as appropriate and adjusted to include any relevant adjustments for unforeseen events and changes to the Technical Rules as allowed for under sections 6.6 and 6.9 of the Access Code.

$A_t$  is the actual non-capital costs incurred by Western Power in year  $t$ , adjusted for inflation as appropriate, adjusted to include any relevant adjustments for unforeseen events and changes to the Technical Rules as allowed for under

sections 6.6 and 6.9 of the Access Code and adjustments under the D-factor scheme.

- (b) In any year in which an above-benchmark surplus is calculated to be a positive value but Western Power fails to meet service standard benchmarks for that year, the above-benchmark surplus for that year is deemed to be zero.
- (c) Subject to paragraph (d) of this required amendment, the following amounts may be added to target revenue for one or more access arrangement periods covering the years 2012/13 to 2016/17:

$$GSMA_{2012/13} = ABS_{2009/10} + ABS_{20010/11} + ABS_{2011/12}$$

$$GSMA_{2013/14} = ABS_{2009/10} + ABS_{20010/11} + ABS_{2011/12}$$

$$GSMA_{2014/15} = ABS_{2009/10} + ABS_{20010/11} + ABS_{2011/12}$$

$$GSMA_{2015/16} = ABS_{20010/11} + ABS_{2011/12}$$

$$GSMA_{2016/17} = ABS_{2011/12}$$

Where:

$GSMA_t$  is the gain sharing mechanism adjustment to target revenue for year  $t$ .

- (d) In any year where the amount of an adjustment to target revenue determined under paragraph (c) is a negative value, the amount of the adjustment to target revenue in that year is zero.

### Amended Proposed Revisions

259. Western Power has amended clauses 5.13 to 5.14G of the proposed access arrangement revisions to amend the gain sharing mechanism and innovation benchmarks to apply under the amended access arrangement.

Gain sharing mechanism and efficiency and innovation benchmarks

5.13 In accordance with sections 5.25 and 6.20 of the *Code*, a *gain sharing mechanism* and *efficiency and innovation benchmarks* will apply with respect to this *Access Arrangement*. The operation of the *gain sharing mechanism* and the definition of the *efficiency and innovation benchmarks* are explained in sections 5.14BA to 5.14FG and in Appendix 8 of this *Access Arrangement*.

5.14 [Deleted]

5.14A ~~[Deleted]~~In accordance with section 6.21 of the *Code*, this gain sharing mechanism has the objectives of:

- ~~(a) achieving an equitable allocation over time between users and Western Power of innovation and efficiency gains in excess of efficiency and innovation benchmarks;~~
- ~~(b) being objective, transparent, easy to administer and replicable from one access arrangement period to the next; and~~
- ~~(c) giving Western Power an incentive to reduce costs to efficient sustainable levels, or otherwise improve productivity in a way that is neutral in its effect on the timing of such initiatives.~~



- 5.14B Subject to section 5.14C, an above benchmark surplus is to be calculated for each of the years 2009/10 to 2011/12 as:

$$ABS_{2009/10} = EIB_{2009/10} - A_{2009/10}$$

$$ABS_{2010/11} = (EIB_{2010/11} - A_{2010/11}) - (EIB_{2009/10} - A_{2009/10})$$

$$ABS_{2011/12} = (EIB_{2011/12} - A_{2011/12}) - (EIB_{2010/11} - A_{2010/11}).$$

Where:

$ABS_t$  is the above-benchmark surplus in year  $t$ ,

$EIB_t$  is the efficiency and innovation benchmark for year  $t$ , being the sum of the forecasts of total non-capital costs for year  $t$  applied in the determination of target revenue for the transmission and distribution networks for that year, adjusted for inflation as appropriate and adjusted to include any relevant adjustments for unforeseen events and changes to the Technical Rules as allowed for under sections 6.6 and 6.9 of the Code; and

$A_t$  is the sum of the actual non-capital costs incurred by Western Power in respect of the transmission and distribution networks in year  $t$ , excluding any amount of non-capital costs incurred by Western Power in accordance with the D-factor scheme in this Access Arrangement and providing that the expenditure has been approved by the Authority. ~~In accordance with section 6.23 of the Code and subject to section 5.14C of this Access Arrangement, a surplus arises to the extent that:~~

- ~~(a) — returns actually achieved by the service provider from the sale of covered services during the previous access arrangement period, exceeded~~
- ~~(b) — the level of returns from the sale of covered services which at the start of the access arrangement period was forecast to occur during the access arrangement period.~~

~~For the avoidance of doubt, for the purposes of this Access Arrangement the operation of the gain sharing mechanism does not require the surplus to be calculated. It is noted, however, that an above benchmark surplus is calculated in accordance with section 5.14C of this Access Arrangement.~~

- 5.14C In any year in which an above-benchmark surplus is calculated to be a positive value but Western Power fails to meet service standard benchmarks for that year, the above-benchmark surplus for that year is deemed to be zero. ~~To ensure that the gain sharing mechanism is objective, transparent, easy to administer and replicable from one access arrangement period to the next, for this access arrangement an above benchmark surplus only arises in this access arrangement period if and only if:~~

- ~~(a) — the approved aggregate forecast operating expenditure for this access arrangement period adjusted for inflation, plus any operating expenditure adjustments allowed by the Authority in respect of that year (including trigger events, the D factor scheme, unforeseen events, or technical rule changes), exceeds~~
- ~~(b) — Western Power's aggregate actual operating expenditure in this access arrangement period (which excludes any penalty amount payable under the service standard adjustment mechanism).~~

~~For the purposes of this access arrangement, (a) is defined as the efficiency and innovation benchmark. In calculating the efficiency and innovation benchmark for a particular year, the approved aggregate forecast operating expenditure is the total amount allowed by the Authority in its final decision or further final decision (as~~

appropriate) to approve Western Power's proposed access arrangement; or in its own approved access arrangement in accordance with section 4.24 of the Code.

5.14D Subject to section 5.14E, the following amounts may be added to target revenue for one or more access arrangement periods covering the years 2012/13 to 2016/17:

$$\underline{GSMA_{2012/13} = ABS_{2009/10} + ABS_{2010/11} + ABS_{2011/12}}$$

$$\underline{GSMA_{2013/14} = ABS_{2009/10} + ABS_{2010/11} + ABS_{2011/12}}$$

$$\underline{GSMA_{2014/15} = ABS_{2009/10} + ABS_{2010/11} + ABS_{2011/12}}$$

$$\underline{GSMA_{2015/16} = ABS_{2010/11} + ABS_{2011/12}}$$

$$\underline{GSMA_{2016/17} = ABS_{2011/12}}$$

Where  $GSMA_t$  is the gain sharing mechanism adjustment to target revenue for year  $t$ . ~~The gain sharing mechanism will determine the efficiency gain attributed to management effort for this access arrangement period to be following amount:~~

- (a) ~~the value of the above benchmark surplus in this access arrangement period in accordance with section 5.14C of this Access Arrangement; minus~~
- (b) ~~any aggregate penalty, if any, being the sum of any annual bonuses and penalties incurred by Western Power in respect of the service standard adjustment mechanism for this access arrangement period.~~

~~For the avoidance of doubt, the efficiency gain calculated for this access arrangement period cannot be negative.~~

5.14E In any year where the amount of an adjustment to target revenue determined under paragraph 5.14D is a negative value, the amount of the adjustment to target revenue in that year is zero. ~~An average annual efficiency bonus will be calculated by taking the efficiency gain attributed to management effort in accordance with section 5.14D and dividing this amount by three, being the duration in years of this access arrangement period. Western Power's target revenue for each of the 5 years following the target revisions commencement date will be increased by the average annual efficiency bonus, whether or not this 5 year period spans one or more subsequent access arrangement periods.~~

5.14F For the avoidance of doubt, the *gain sharing mechanism* does not affect the ordinary operation of the revenue cap (absent the *gain sharing mechanism*), which already provides for Western Power to retain 100% of any efficiency gains achieved during the *access arrangement period*. This characteristic is consistent with section 6.24 of the Code which ensures that such prior *surpluses* are retained by the *service provider*.

5.14G ~~[Deleted]~~ ~~A numerical example illustrating the operation of the gain sharing mechanism is set out in section 3 of Appendix 8 of this Access Arrangement.~~

## Further Final Decision

260. Western Power has amended clauses 5.13 to 5.14G of the proposed access arrangement revisions to amend the gain sharing mechanism that will apply under the access arrangement. The amendments are materially the same as the Authority's requirements as set out in Final Decision Amendment 33, and hence the Authority is satisfied that Western Power's amendments implement Final Decision Amendment 33.

## Service Standards Adjustment Mechanism

### Final Decision

261. Section 6.30 of the Access Code requires that an access arrangement include a service standards adjustment mechanism, defined under section 6.29 of the Access Code, as a mechanism in an access arrangement detailing how the service provider's performance during the access arrangement period against the service standard benchmarks is to be treated by the Authority at the next access arrangement review.
262. The Authority determined that the service standards adjustment mechanism proposed by Western Power was inconsistent with the Code objective.
263. The Authority required the following amendment to the proposed access arrangement revisions.

#### Final Decision Amendment 34

The proposed access arrangement revisions should be amended to alter the specification of the service standard adjustment mechanism at clauses 5.24A and 5.24B to:

- (a) remove the dead-bands and limits around target values of service standards; and
- (b) calculate an amount of a difference between target and actual service standards as:

$$SSD_{2009/2010} = (SSB_{2009/10} - SSA_{2009/10})$$

$$SSD_{2010/2011} = (SSB_{2010/11} - SSA_{2010/11}) - (SSB_{2009/10} - SSA_{2009/10})$$

$$SSD_{2011/2012} = (SSB_{2011/12} - SSA_{2011/12}) - (SSB_{2010/11} - SSA_{2010/11})$$

Where:

$SSD_t$  is the service standard difference in year  $t$ .

$SSB_t$  is the service standard benchmark in year  $t$ .

$SSA_t$  is the actual service standard in year  $t$ .

- (c) Include incentive rates as specified in Attachment L of Western Power's submission of 10 September 2009.

### Amended Proposed Revisions

264. Western Power has amended clauses 5.15 to 5.24B of the proposed access arrangement revisions to amend the service standards adjustment mechanism to apply under the amended access arrangement.

Service standards adjustment mechanism ("SSAM")

- 5.15 In accordance with section 6.30 of the Code, a *service standards adjustment mechanism* applies in relation to this *Access Arrangement*.

5.16 In accordance with section 6.29 of the *Code*, *Western Power's* performance during this *access arrangement period* will be measured against a number each of the *service standard benchmarks* described in sections 3.15 to 3.23 of this *Access Arrangement*, as appropriate.

...

SSAM applying to transmission network

5.24A At the next *access arrangement review* the Authority will apply a financial reward or penalty to *Western Power* in relation to *Western Power's* actual performance in providing transmission *reference services*. The reward for good performance or penalty for poor performance is to be calculated in accordance with the table and notes below:

(a) *Western Power's* actual performance will be calculated on the basis of the *service standard* definitions in section 3.21 of this *Access Arrangement*.

~~(b) No reward or penalty will be made if actual performance falls within the Deadband.~~

~~(c)~~ (b) Subject to paragraph (d), The reward for good performance or penalty for poor performance is remunerated at the incentive rate, calculated from the "Lower Bound" or "Upper Bound" of the Deadband as the case may be, for each year of the access arrangement period, by applying the applicable incentive rate to the relevant Service Standard Difference (SSD) for each year of the access arrangement period, which is calculated as follows:

$$SSD_{2009/10} = (SSB_{2009/10} - SSA_{2009/10})$$

$$SSD_{2010/11} = (SSB_{2010/11} - SSA_{2010/11}) - (SSB_{2009/10} - SSA_{2009/10})$$

$$SSD_{2011/12} = (SSB_{2011/12} - SSA_{2011/12}) - (SSB_{2010/11} - SSA_{2010/11})$$

Where:

$SSD_t$  is the service standard difference in year  $t$ ,

$SSB_t$  is the service standard benchmark in year  $t$ , and

$SSA_t$  is the actual service performance in year  $t$ .

		Expected Performance Band			Incentive Rate \$ per 0.1% CA, and \$ per 0.1 SMI
		Expected Low	Benchmark (SSB <sub>i</sub> )	Expected High	
<b>Circuit Availability – CA (%)<sup>1</sup></b>	2009/10	97.6	98	98.4	- \$375,000
	2010/11	97.6	98	98.4	- \$375,000
	2011/12	97.6	98	98.4	- \$375,000
<b>System Minutes Interrupted – SMI (meshed network)</b>	2009/10	7.4	9.3	11.2	\$75,000
	2010/11	7.4	9.3	11.2	\$75,000
	2011/12	7.4	9.3	11.2	\$75,000
<b>System Minutes Interrupted – SMI (radial network)</b>	2009/10	1.1	1.4	1.7	\$25,000
	2010/11	1.1	1.4	1.7	\$25,000
	2011/12	1.1	1.4	1.7	\$25,000

<sup>1</sup> It should be noted that for the service standard benchmark of circuit availability, a higher value of actual performance indicates a higher standard of service, unlike the other service standard benchmarks where a higher value of actual performance indicates a lower standard of service. For this reason the incentive rate for circuit availability is presented as a negative value.

(d) ~~Where actual performance is outside the Low Limit or High Limit, the total reward or penalty is calculated as if actual performance was equal to the Low Limit or High Limit as the case may be.~~

		Low Limit	Deadband			High Limit	Incentive Rate (\$ real as at 30 June 2009) per 0.1% Circuit Availability, and per 0.1 System Minutes Interrupted
			Lower bound	Target	Upper bound		
<b>Circuit Availability (%)</b>	2009/10	97.0	97.5	98	98.5	99.0	\$165,094
	2010/11	97.0	97.5	98	98.5	99.0	\$218,255
	2011/12	97.0	97.5	98	98.5	99.0	\$288,532
<b>System Minutes Interrupted (meshed network)</b>	2009/10	7.4	8.4	9.3	10.2	11.2	\$84,322
	2010/11	7.4	8.4	9.3	10.2	11.2	\$111,474
	2011/12	7.4	8.4	9.3	10.2	11.2	\$147,369
<b>System Minutes Interrupted (radial network)</b>	2009/10	1.1	1.3	1.4	1.5	1.7	\$29,481
	2010/11	1.1	1.3	1.4	1.5	1.7	\$38,974
	2011/12	1.1	1.3	1.4	1.5	1.7	\$51,524

(c) The “Expected Low” and “Expected High” for service performance measure are shown in the table above to provide stakeholders with an indication of the expected performance band. The expected performance band is not relevant to the calculation of the reward for good performance or penalty for poor performance.

- (d) Notwithstanding Western Power's actual service performance with respect to System Minutes Interrupted (meshed network) and System Minutes Interrupted (radial network), the combined maximum annual bonus or penalty with respect to these services is capped at 1% of transmission target revenue,  $TR_t$ , for that financial year, where  $TR_t$  is defined in section 5.35 of this Access Arrangement.
- (e) An amount must be added to or subtracted from Western Power's *target revenue* for the third *access arrangement period* which, in present value terms, is equal to the aggregate of the bonuses and penalties calculated in accordance with this section 5.24A. The intention of this present value calculation is to ensure that the amount added to or subtracted from Western Power's *target revenue* has the same financial effect as if the rewards or penalties applied in each year immediately following the relevant performance year.

SSAM applying to distribution network

5.24B At the next *access arrangement review* the Authority will apply a financial reward or penalty to Western Power in relation to Western Power's actual performance in providing *reference services* to *users* connected to the distribution network. The reward for good performance or penalty for poor performance is to be calculated in accordance with the tables and notes below:

- (a) Western Power's actual performance will be calculated on the basis of the *service standard definitions* set out in sections 3.16 and 3.17 of this *Access Arrangement*.
- ~~(b) No reward or penalty will be made if actual performance falls within the Deadband.~~
- (b) The reward for good performance or penalty for poor performance is remunerated ~~at the incentive rate, calculated from the "Lower Bound" or "Upper Bound" of the Deadband as the case may be.~~ by applying the applicable incentive rate to the relevant Service Standard Difference (SSD) for each year of the *access arrangement period*, which is calculated as follows:

$$SSD_{2009/10} = (SSB_{2009/10} - SSA_{2009/10})$$

$$SSD_{2010/11} = (SSB_{2010/11} - SSA_{2010/11}) - (SSB_{2009/10} - SSA_{2009/10})$$

$$SSD_{2011/12} = (SSB_{2011/12} - SSA_{2011/12}) - (SSB_{2010/11} - SSA_{2010/11})$$

Where:

$SSD_t$  is the service standard difference in year  $t$ ,

$SSB_t$  is the service standard benchmark in year  $t$ , and

$SSA_t$  is the actual service performance in year  $t$ .

		Expected Performance Band ( $\pm 8\%$ )			Incentive Rate (\$ per SAIDI minute)
		Expected Low	Benchmark (SSB <sub>t</sub> )	Expected High	
<b>SAIDI - CBD</b> (Minutes)	<u>2009/10</u>	<u>35</u>	<u>38</u>	<u>41</u>	<u>\$220,000</u>
	<u>2010/11</u>	<u>35</u>	<u>38</u>	<u>41</u>	<u>\$220,000</u>
	<u>2011/12</u>	<u>35</u>	<u>38</u>	<u>41</u>	<u>\$220,000</u>
<b>SAIDI - Urban</b> (Minutes)	<u>2009/10</u>	<u>152</u>	<u>165</u>	<u>178</u>	<u>\$220,000</u>
	<u>2010/11</u>	<u>149</u>	<u>162</u>	<u>175</u>	<u>\$220,000</u>
	<u>2011/12</u>	<u>141</u>	<u>153</u>	<u>165</u>	<u>\$220,000</u>
<b>SAIDI - Rural Short</b> (Minutes)	<u>2009/10</u>	<u>238</u>	<u>259</u>	<u>280</u>	<u>\$8,200</u>
	<u>2010/11</u>	<u>233</u>	<u>253</u>	<u>273</u>	<u>\$8,200</u>
	<u>2011/12</u>	<u>224</u>	<u>244</u>	<u>264</u>	<u>\$8,200</u>
<b>SAIDI - Rural Long</b> (Minutes)	<u>2009/10</u>	<u>563</u>	<u>612</u>	<u>661</u>	<u>\$8,200</u>
	<u>2010/11</u>	<u>541</u>	<u>588</u>	<u>635</u>	<u>\$8,200</u>
	<u>2011/12</u>	<u>512</u>	<u>556</u>	<u>600</u>	<u>\$8,200</u>

		Expected Performance Band ( $\pm 8\%$ )			Incentive Rate (\$ per Event)
		Expected Low	Benchmark (SSB <sub>t</sub> )	Expected High	
<b>SAIFI - CBD</b> (Events)	<u>2009/10</u>	<u>0.22</u>	<u>0.24</u>	<u>0.26</u>	<u>\$10,300,000</u>
	<u>2010/11</u>	<u>0.22</u>	<u>0.24</u>	<u>0.26</u>	<u>\$10,300,000</u>
	<u>2011/12</u>	<u>0.22</u>	<u>0.24</u>	<u>0.26</u>	<u>\$10,300,000</u>
<b>SAIFI - Urban</b> (Events)	<u>2009/10</u>	<u>1.77</u>	<u>1.92</u>	<u>2.07</u>	<u>\$10,300,000</u>
	<u>2010/11</u>	<u>1.74</u>	<u>1.89</u>	<u>2.04</u>	<u>\$10,300,000</u>
	<u>2011/12</u>	<u>1.68</u>	<u>1.83</u>	<u>1.98</u>	<u>\$10,300,000</u>
<b>SAIFI - Rural Short</b> (Events)	<u>2009/10</u>	<u>2.87</u>	<u>3.12</u>	<u>3.37</u>	<u>\$450,000</u>
	<u>2010/11</u>	<u>2.82</u>	<u>3.06</u>	<u>3.30</u>	<u>\$450,000</u>
	<u>2011/12</u>	<u>2.74</u>	<u>2.98</u>	<u>3.22</u>	<u>\$450,000</u>
<b>SAIFI - Rural Long</b> (Events)	<u>2009/10</u>	<u>4.60</u>	<u>5.00</u>	<u>5.40</u>	<u>\$450,000</u>
	<u>2010/11</u>	<u>4.45</u>	<u>4.85</u>	<u>5.23</u>	<u>\$450,000</u>
	<u>2011/12</u>	<u>4.42</u>	<u>4.80</u>	<u>5.18</u>	<u>\$450,000</u>

- (d) ~~Where actual performance is outside the Low Limit or High Limit, the total reward or penalty is calculated as if actual performance was equal to the Low Limit or High Limit as the case may be.~~

SAIDI		Low Limit	Deadband			High Limit	Incentive Rate (\$ real as at 30 June 2009) (Portion of distribution revenue per SAIDI minute)
			Lower bound	Target	Upper bound		
SAIDI – CBD (Minutes)	2009/10	30	34	38	42	46	\$89,845
	2010/11	30	34	38	42	46	\$118,877
	2011/12	30	34	38	42	46	\$155,200
SAIDI – Urban (Minutes)	2009/10	129	145	164	177	193	\$89,845
	2010/11	120	135	150	165	180	\$118,877
	2011/12	114	128	142	156	170	\$155,200
SAIDI – Rural Short (Minutes)	2009/10	202	228	253	278	304	\$3,416
	2010/11	186	210	233	256	280	\$4,548
	2011/12	178	200	222	244	266	\$5,906
SAIDI – Rural Long (Minutes)	2009/10	479	539	599	659	719	\$3,416
	2010/11	454	510	567	624	680	\$4,548
	2011/12	438	493	548	603	658	\$5,906

SAIFI		Low Limit	Deadband			High Limit	Incentive Rate (\$ real as at 30 June 2009) (Portion of distribution revenue per SAIFI minute)
			Lower bound	Target	Upper bound		
SAIFI – CBD (Minutes)	2009/10	0.19	0.22	0.24	0.26	0.29	\$4,216,767
	2010/11	0.19	0.22	0.24	0.26	0.29	\$5,587,216
	2011/12	0.19	0.22	0.24	0.26	0.29	\$7,313,110
SAIFI – Urban (Minutes)	2009/10	1.50	1.69	1.88	2.07	2.26	\$4,216,767
	2010/11	1.44	1.58	1.76	1.94	2.14	\$5,587,216
	2011/12	1.34	1.50	1.67	1.84	2.00	\$7,313,110
SAIFI – Rural Short (Minutes)	2009/10	2.44	2.75	3.05	3.36	3.66	\$183,284
	2010/11	2.26	2.55	2.83	3.11	3.40	\$243,520
	2011/12	2.16	2.43	2.7	2.97	3.24	\$317,136
SAIFI – Rural Long (Minutes)	2009/10	3.91	4.40	4.89	5.38	5.87	\$183,284
	2010/11	3.71	4.18	4.64	5.10	5.57	\$243,520
	2011/12	3.58	4.02	4.47	4.92	5.36	\$317,136

(c) [The “Expected Low” and “Expected High” for service performance measure are shown in the table above to provide stakeholders with an indication of the expected performance band. The expected performance band is not relevant to the calculation of the reward for good performance or penalty for poor performance.](#)

(e)(d) An amount must be added to or subtracted from Western Power’s target revenue for the third access arrangement period which, in present value



terms, is equal to the aggregate of the bonuses and penalties calculated [in accordance with this section 5.24B](#) ~~from the above table~~. The intention of this present value calculation is to ensure that the amount added to or subtracted from Western Power's target revenue has the same financial effect as if the rewards or penalties applied in each year immediately following the performance year

### *Further Final Decision*

265. Western Power has amended clauses 5.16, 5.24A and 5.24B of the proposed access arrangement revisions to amend the service standards adjustment mechanism to apply under the access arrangement.

- Clause 5.16 has been amended such that Western Power's performance will be measured against a number (rather than each) of the service standard benchmarks, described in sections 3.15 to 3.23 of the access arrangement.
- Clause 5.24A has been amended to:
  - remove the dead-bands and limits around the target values of transmission service standards;
  - specify the calculation of the relevant service standard difference (the difference between target and actual service standards) and incentive rates to apply under the scheme;
  - include expected low and high performance measures to provide an indication to stakeholders of the expected performance band within which Western Power will operate; and
  - specify that, with respect to the transmission service standard of "system minutes interrupted (meshed network)" and "system minutes interrupted (radial network)", the combined maximum annual bonus or penalty is capped at one per cent of transmission target revenue for each financial year.
- Clause 5.24B has been amended to:
  - remove the dead-bands and limits around the target values of distribution service standards;
  - specify the calculation of the relevant service standard difference (the difference between target and actual service standards) and incentive rates to apply under the scheme; and
  - include expected low and high performance measures to provide an indication to stakeholders of the expected performance band within which Western Power will operate.

### **Performance criteria under the service standards adjustment mechanism**

266. Western Power has amended clause 5.24A and 5.24B of the proposed access arrangement revisions to remove the dead-bands and limits around the target values of service standards, consistent with the Authority's requirements (as specified in part (a) of Final Decision Amendment 34). In addressing the requirements of the Authority, Western Power has incorporated a cap on the maximum annual bonus or penalty with respect to the transmission service standards of "system minutes interrupted (meshed network)" and "system minutes

267. Western Power submits that annual penalties and bonuses for system minutes interrupted should be capped at a total of one per cent of transmission revenue for each year, for reasons that:
- Western Power's financial exposure from an uncapped service standard adjustment mechanism is unacceptably high;
  - legal advice indicates that the exclusion for force majeure events is unlikely to provide adequate protection against this financial exposure;
  - Western Power's insurance advisers have indicated that insuring against this financial exposure can only be achieved through non-traditional markets and that premiums will be significant;
  - contrary to the Access Code objective, an uncapped scheme will provide an incentive to undertake economically inefficient investment in order to minimise the impact of highly improbable events; and
  - the regulatory precedent provided by the AER's service performance incentive scheme indicates that a capped scheme is consistent with the Code objective.<sup>50</sup>
268. The Authority has considered the information provided by Western Power to substantiate its position for a cap on the annual reward/penalty to apply for the transmission service standard of system minutes interrupted.
269. In the Final Decision, the Authority considered Western Power's submission that a cap should apply to amounts of penalties under the service standard adjustment mechanism, as a means of relieving Western Power of risks of high penalty values arising from disruptions to services from events outside of Western Power's control.<sup>51</sup> The Authority determined that caps on penalty amounts were unnecessary as the measures of service standards exclude disruptions from events that are outside of Western Power's control and that are in the nature of *force majeure* events.
270. After further consideration, the Authority accepts Western Power's contentions that unusual events (in particular, extreme weather events that cause disruptions to the transmission system that have flow on effects throughout the transmission network) may:
- give rise to poor performance of transmission services; and
  - in the absence of a cap on the penalty for under-performance against the service standard benchmark for system minutes interrupted, result in a risk, albeit small, of substantial disruptions to the transmission network that could, unreasonably, give rise to very high penalties under the service standards adjustment mechanism.

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<sup>50</sup> Amended access arrangement information, p.28 and Attachment 1. Western Power, 24 December 2009, Letter from Mr D. Aberle, Managing Director (Re: amended access arrangement information, confidential supporting documentation).

<sup>51</sup> Western Power submission of 10 September 2009.

271. The Authority notes Western Power's concerns at the risk that these unusual events may not fall within the scope of *force majeure* events and hence be excluded from the measures of system minutes interrupted. In any case, the Authority does not consider it is the intention of the Access Code that the service provider should be penalised as a result of such events. Taking these matters into account, together with a precedent of decisions of the AER that allow for a cap similar to that proposed by Western Power to be applied to penalties for transmission service standards, the Authority accepts that the proposed cap on penalty amounts is a reasonable consequential amendment to Final Decision Amendment 34, and is consistent with the Access Code.
272. The Authority is satisfied that Western Power's amendments to remove the dead-band and limits around the target values of service standards, and to cap the maximum annual reward/penalty with respect to the transmission service standard of system minutes interrupted, adequately addresses the matters that prompted the Authority to require part (a) of Final Decision Amendment 34.

### **Operation of the service standards adjustment mechanism**

273. Western Power has amended clause 5.16 of the proposed access arrangement revisions to indicate that the service standard adjustment mechanism will apply to "a number" rather than "each" of the service standard benchmarks specified in the access arrangement. In accordance with section 6.29 of the Access Code, Western Power's performance during the second access arrangement period will be measured against the service standard benchmarks described in clauses 3.15 to 3.23 of the access arrangement, as appropriate.
274. The Authority has confirmed with Western Power that its revisions to clause 5.16 are related to the introduction into the access arrangement of service standard benchmarks for two new transmission service standard benchmarks ("loss of supply event frequency" and "average outage duration") for which it is not intended that the service standards adjustment mechanism will apply in the second access arrangement period.<sup>52</sup> The Authority accepts that it is reasonable to exclude these service standards from the service standards adjustment mechanism for the second access arrangement period, and accordingly, that the amendment to clause 5.16 of the proposed access arrangement revisions is a reasonable consequential amendment to the inclusion of benchmarks for the additional transmission service standards.
275. With respect to the calculation method to determine the amount of rewards or penalties to apply under the service standards performance mechanism (that is, the calculation of the "service standard difference"), Western Power has incorporated revisions to clause 5.24A(b) and 5.24B(b) of the proposed access arrangement revisions consistent with the requirements of the Authority under part (b) of Final Decision Amendment 34.
276. Taking these matters into consideration, the Authority is satisfied that Western Power's amendments to clause 5.16 and clauses 5.24A(b) and 5.24B(b), setting out the method to determine the service standard difference, implements part (b) of Final Decision Amendment 34.

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<sup>52</sup> Email from Western Power to the Authority of 7 January 2010.

## Value of incentive rates under the service standards adjustment mechanism

277. Western Power has amended the incentive rates to apply under the service standards adjustment mechanism as per the rates specified in its submission of 10 September 2009 (and in accordance with the requirements of the Authority). In specifying the incentive rates for the transmission service standard benchmark “circuit availability”, Western Power has included the following note to explain the negative incentive rate (that is, -\$375,000):

It should be noted that for the service standard benchmark of circuit availability, a higher value of actual performance indicates a higher standard of service, unlike the other service standard benchmarks where a higher value of actual performance indicates a lower standard of service. For this reason the incentive rate for circuit availability is presented as a negative value.

278. The Authority is satisfied that Western Power’s amendments to the values of incentive rates to apply under the services standards adjustment mechanism implements part (c) of Final Decision Amendment 34.

## Deferral of Revenue

### Final Decision

279. The proposed access arrangement revisions included a determination of target revenue taking into account a change in treatment of capital contributions that has the effect of increasing target revenue and revenue tariffs in the second access arrangement period. The Authority determined that recovery of an amount of revenue should be deferred from the second access arrangement period to the third and subsequent access arrangement periods to offset this effect of the change in treatment of capital contributions. The amount of deferred revenue has been addressed in relation to the price control. The Authority separately considered the timing of recovery of the deferred revenue and required the following amendment to the proposed access arrangement revisions.

#### Final Decision Amendment 35

The proposed access arrangement revisions should be amended to provide for the recovery of deferred revenue over the third and subsequent access arrangement periods subject to approval by the Authority and avoidance of resultant price shocks to users of reference services.

## Amended Proposed Revisions

280. Western Power has amended clauses 3.10A, 5.37A, 5.48A and 9.18A of the proposed access arrangement revisions as follows.

- 3.10A To manage the overall price increases in this *access arrangement period*, Western Power has deferred the recovery of some revenue from this *access arrangement period* to the third or subsequent *access arrangement periods*. The deferred revenue amounts [and the arrangements for recovering this deferred revenue in the third or subsequent access arrangement periods](#) are described in sections 5.37A and 5.48A of this *Access Arrangement*.

...

5.37A To manage the overall price increases in this *access arrangement period*, Western Power has deferred the recovery of some transmission *reference service* revenue from this *access arrangement period* to the third or subsequent *access arrangement periods*. The deferred amount of revenue is \$64.544.6 million (\$ real as at 30 June 2009) expressed in present value terms as at 30 June 2009. An amount must be added to the *target revenue* for the transmission network in the third *access arrangement period* or subsequent *access arrangement periods* such that the present value (at 30 June 2009) of the total amount added to *target revenue* (taking account of inflation and the time value of money) is equal the present value of the deferred transmission *reference service* revenue (at 30 June 2009). For the avoidance of doubt, the addition to *target revenue* in the third and subsequent *access arrangement periods* must leave Western Power financially neutral compared to a situation where transmission *reference service* revenue deferral had not occurred. [The timeframe for recovering deferred revenue will consider the price impact on users of reference services and will be subject to approval by the Authority.](#)

...

5.48A To manage the overall price increases in this *access arrangement period*, Western Power has deferred the recovery of some distribution *reference service* revenue from this *access arrangement period* to the third or subsequent *access arrangement periods*. The deferred amount of revenue is \$484.2477.3 million (\$ real as at 30 June 2009) expressed in present value terms as at 30 June 2009. An amount must be added to the *target revenue* for the distribution network in the third *access arrangement period* or subsequent *access arrangement periods* such that the present value (at 30 June 2009) of the total amount added to *target revenue* (taking account of inflation and the time value of money) is equal the present value of the deferred distribution *reference service* revenue (at 30 June 2009). For the avoidance of doubt, the addition to *target revenue* in the third and subsequent *access arrangement periods* must leave Western Power financially neutral compared to a situation where revenue deferral had not occurred. [The timeframe for recovering deferred revenue will consider the price impact on users of reference services and will be subject to approval by the Authority.](#)

...

9.18A In accordance section 3.10A of this Access Arrangement, to manage the overall price increases in this *access arrangement period*, Western Power has deferred the recovery of some revenue from this *access arrangement period* until the third or subsequent *access arrangement periods*. The deferred revenue amounts [and the arrangements for recovering this deferred revenue in the third or subsequent access arrangement periods](#) are described in section 5.37A and 5.48A of this Access Arrangement. In addition, the forecast tariff revenue has been smoothed across the *access arrangement period* so that price movements will be smoothed across each year. The [approach for recovering deferred revenue will](#) chosen rate of smoothing is also intended to minimise the likelihood of price shock at the start of the third *access arrangement period*.

### Further Final Decision

281. Western Power has amended clauses 3.10A, 5.37A, 5.48A and 9.18A of the proposed access arrangement revisions to provide for the recovery of deferred revenue over the third or subsequent access arrangement periods, subject to the consideration of the price impact on users of reference services and approval by the Authority.
282. As indicated in the Final Decision, the Authority considers that the avoidance of price shocks would best occur through a planned recovery of deferred revenue by a

pre-determined schedule over an extended period, such as by a real annuity amount over a period equal to the average life of network assets. The Authority will however, consider alternative timings of recovery at the time of revisions to the access arrangement.

283. Taking this into account, the Authority is satisfied that Western Power's amendments to clauses 3.10A, 5.37A, 5.48A and 9.18A adequately addresses the matters that prompted the Authority to require Final Decision Amendment 35.

## ***D-Factor Scheme***

### *Final Decision*

284. Western Power proposed new provisions to the access arrangement that provide for an adjustment mechanism, referred to as the "D-factor scheme", that will apply to the determination of target revenue for the third access arrangement period (clauses 5.54 to 5.57 of the proposed access arrangement revisions).
285. Under the proposed D-factor scheme, an amount will be added to target revenue in the third access arrangement period in respect of:
- any additional operating expenditure being incurred by Western Power as a result of deferring a capital expenditure project during the second access arrangement period; and
  - any additional operating or capital expenditure incurred by Western Power in relation to demand management initiatives.
286. The Authority accepted that a scheme such as the proposed D-factor scheme may have efficiency benefits in the provision of network services.
287. The Authority considered, however, that the operation of the D-factor scheme should be subject to any amount of operating expenditure or capital expenditure satisfying requirements of the Access Code that normally apply in determining amounts of costs that may be recovered through network tariffs.
288. The Authority required the following amendment to the proposed access arrangement revisions.

#### **Final Decision Amendment 36**

The proposed access arrangement revisions should be amended to provide for operation of the D-factor scheme to be subject to demonstration, to the Authority's satisfaction, that:

- any amount of operating expenditure satisfies the requirements of sections 6.40 and 6.41 of the Access Code, as relevant; and
- any amount of capital expenditure satisfies the requirements of section 6.51A of the Access Code.

### *Amended Proposed Revisions*

289. Western Power has amended clause 5.57 of the proposed access arrangement revisions to amend the D-factor scheme to apply under the amended access arrangement.



## D factor Scheme

- 5.54 This D factor scheme applies to both transmission and distribution expenditure.
- 5.55 In the next access arrangement, the Authority will make an allowance in Western Power's *target revenue* so that Western Power is financially neutral as a result of:
- (a) any additional operating expenditure incurred by Western Power as a result of deferring a capital expenditure project during this *access arrangement period*; and
  - (b) any additional operating or capital expenditure incurred by Western Power in relation to demand management initiatives.
- 5.56 In relation to 5.55(a), the capital expenditure project that has been deferred must have been included in Western Power's forecast capital expenditure in its *revised access arrangement information* or supporting documentation, and in the Authority's allowed capital expenditure for this *access arrangement period*.
- 5.57 In relation to 5.55(a) and 5.55(b), an additional amount will only be allowed if there is an approved business case for the relevant expenditure, and this business case is made available to the Authority. The business case must demonstrate to the Authority's satisfaction that:
- the proposed operating expenditure satisfies the requirements of sections 6.40 and 6.41 of the Code, as relevant; and
  - the proposed capital expenditure satisfies the requirements of section 6.51A of the Code.

*Further Final Decision*

290. Western Power has amended clause 5.57 of the proposed access arrangement revisions such that the operation of the D-factor scheme is subject to demonstration, to the Authority's satisfaction, that:
- any amount of operating expenditure satisfies the requirements of section 6.40 and 6.41 of the Access Code, as relevant; and
  - any amount of capital expenditure satisfies the requirements of section 6.51A of the Access Code.
291. The Authority is satisfied that Western Power's amendments to clause 5.57 implement Final Decision Amendment 36.

**Applications and Queuing Policy***Introduction*

292. The applications and queuing policy describes the process that an applicant (i.e. a person who seeks to obtain or modify a covered service) must undertake with Western Power to form, or to modify, an access contract.
293. In the Final Decision, the Authority required several amendments to the proposed applications and queuing policy (at Appendix 1 of the proposed access arrangement revisions) that are necessary for the Authority to approve the

proposed access arrangement revisions. The Authority's required amendments and Western Power's response to these amendments are addressed below.

## **Electricity Transfer Application to Modify an Existing Covered Service (clause 10)**

### *Final Decision*

294. Clause 10 of the applications and queuing policy comprises a process for electricity transfer applications to modify an existing covered service. Under the proposed applications and queuing policy, clause 10 includes provisions for applications to increase or decrease contracted capacity (clause 10.2) and limitations on the ability of a user to change a covered service more than once in any 12-month period (clause 10.3).
295. The Authority addressed claimed inconsistencies between clause 10 of the applications and queuing policy and provisions of the proposed electricity transfer access contract that deal with increases or decreases in contracted capacity, including the following:
- Clause 10.2 of the proposed applications and queuing policy specifies that an electricity transfer application must be completed to increase contracted capacity, but clause 3.4(b) of the proposed electricity transfer access contract<sup>53</sup> provides that a user may make an application for an increase in contracted capacity under the applications and queuing policy, the Customer Transfer Code or the electricity transfer access contract.
  - Clause 10.2(c) of the proposed applications and queuing policy indicates that for an increase or decrease of contracted capacity, Western Power must within five business days notify the applicant whether or not it accepts the change in contracted capacity, but clause 3.5(b) of the proposed electricity transfer access contract<sup>54</sup> provides that Western Power must notify the user within ten business days whether or not it accepts the application for a decrease in contracted capacity. There is no corresponding clause in the proposed electricity transfer access contract dealing with requirements for notification associated with an increase in contracted capacity.
  - Clause 10.3 of the proposed applications and queuing policy sets out limitations on multiple changes in contracted capacity in any 12-month period. These limitations are inconsistently reproduced in clause 3.5(c)(i) of the proposed electricity transfer access contract.
296. Under clause 2.6 of the Access Code, the applications and queuing policy of the access arrangement prevails over a contract for services. Given this, the Authority determined that inconsistencies between clause 10 of the applications and queuing policy and clause 3.5 of the electricity transfer access contract may cause confusion over the operation of both instruments. For this reason, the Authority considered that the applications and queuing policy and the electricity transfer access contract were inconsistent with the requirements of the Access Code.

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<sup>53</sup> Clause 3.4(b) corresponds to clause 3.3(b) of the current access arrangement.

<sup>54</sup> Clause 3.5(b) corresponds to clause 3.4(b) of the current access arrangement.



297. Taking into account Western Power's submission, the Authority required the following amendment to the proposed access arrangement revisions.

#### Final Decision Amendment 37

The proposed access arrangement revisions should be amended to resolve inconsistencies between clause 10 of the applications and queuing policy and clauses 3.4 and 3.5 of the electricity transfer access contract in relation to changes to covered services, including increases or decreases in contracted capacity at a connection point.

#### Amended Proposed Revisions

298. Western Power has made amendments to resolve inconsistencies between clause 10 of the applications and queuing policy and clauses 3.4 and 3.5 of the electricity transfer access contract in relation to changes to covered services.

299. Clauses 3.4 and 3.5 of the proposed electricity transfer access contract have been amended as follows.

#### 3.4 Increase or decrease of Contracted Capacity\* ~~or addition of Connection Point\*~~

- (a) The User\* may not increase or decrease the Contracted Capacity\* at an existing Connection Point\* to this Contract\* unless the User\* makes an application to Western Power\* and Western Power\* approves that application under the Applications and Queuing Policy\*. ~~The User\* may not increase the Contracted Capacity\* at an existing Connection Point\* or add an additional Connection Point\* to this Contract\* unless the User\* makes an application to Western Power\* under:~~

~~(i) the Applications and Queuing Policy\*; or~~

~~(ii) the Customer Transfer Code\*; and~~

~~(iii) this Contract\*;~~

~~as applicable.~~

- (b) If the User\* makes an application to Western Power\* under clause 3.4, then Western Power\* must process the application under the Applications and Queuing Policy\*:

~~(i) the Applications and Queuing Policy\*; or~~

~~(ii) the Customer Transfer Code\*; and~~

~~(iii) this Contract\*;~~

~~as applicable.~~

#### ~~3.5 Decrease of Contracted Capacity\*~~

- ~~(a) The User\* may give notice to Western Power\* seeking to reduce the Contracted Capacity\* of a Service\* at a Connection Point\* under this Contract\*.~~

- ~~(b) If Western Power\* receives a notice from the User\* under clause 3.5(a), then, subject to clause 3.5(c), it must notify the User\* within 10 Business Days\* that~~

~~it accepts the reduction in Contracted Capacity\*, and the date that the reduction takes effect.~~

~~(c) If Western Power\* receives more than one notice seeking to reduce Contracted Capacity\* with respect to a single Connection Point\* in any rolling period of 12 months, then in relation to each additional notice Western Power\*:~~

~~(i) may notify the User\* that it accepts the reduction in Contracted Capacity\* and the date that the reduction takes effect, where Western Power\* is satisfied, as a Reasonable and Prudent Person\*, that the reduced Contracted Capacity\* will be sufficient to meet the actual requirements of the User\* and that the reduction in Contracted Capacity\* is required by reason of one or more of the following circumstances:~~

~~(A) a reduction in the actual Consumption\* or Generation\* by the User\* in the respect of that Connection Point\* over the 12 month period prior to the User\* giving notice under clause 3.5(a), as recorded by the Metering Equipment\*; or~~

~~(B) a change in the nature of the business or operation conducted at the Connection Point\*; or~~

~~(C) a shutdown of the business or operation conducted at the Connection Point\* (including a shutdown for maintenance purposes) for longer than one continuous month; or~~

~~(D) a rapid increase or decline in the business at the Connection Point\*; or~~

~~(E) a decrease in the number of capacity credits (as defined in the Market Rules\*) allocated to any Generating Plant\* at the Connection Point\* under the Market Rules\*; or~~

~~(F) as part of a Relocation\*; or~~

~~(G) some other special circumstance,~~

~~and~~

~~(ii) is entitled to refuse the reduction in Contracted Capacity\* where Western Power\* is satisfied, as a Reasonable and Prudent Person\*, that the reduction is sought by reason of the seasonal nature of the business or operation at the Connection Point\*.~~

### 3.5 Addition of a Connection Point\*

(a) The User\* may not add an additional Connection Point\* to this Contract\* unless the User\* makes an application to Western Power\*, and Western Power\* approves that application, under:

(i) the Applications and Queuing Policy\*; or

(ii) the Customer Transfer Code\*;

as applicable.

(b) If the User\* makes an application to Western Power\* under clause 3.5, then Western Power\* must process the application under:

- (i) the Applications and Queuing Policy\*; or
- (ii) the Customer Transfer Code\*,
- as applicable.

300. The following amendments have been made to clause 10.3(c) of the proposed applications and queuing policy.

10.3 More than 1 change or modification within 12 months

If Western Power receives:

- (a) more than 1 *application* or notice under clause 10.1; or
- (b) more than 1 *application* or notice under clause 10.2,

seeking to change the *covered service*, including to decrease or increase the contracted capacity, with respect to a single *connection point* in any rolling period of 12 months, then in relation to each additional *application* or notice Western Power:

- (c) may, subject to this clause 10, accept the change of *covered service*, where Western Power is satisfied, as a *reasonable and prudent person*, that the new *covered service* will be sufficient to meet the actual requirements of the *applicant*, and that it is required by reason of one or more of the following circumstances:

...

- (iv) a rapid increase or decline in the business at the connection point; or
- (v) a decrease in the number of capacity credits (as defined in the Market Rules) allocated to any generating plant at the connection point under the Market Rules; or

(vi) as part of a relocation or; or

~~(vi)~~(vii) some other special circumstance,

and

- (d) is entitled to refuse the change in *covered service* where Western Power is satisfied, as a *reasonable and prudent person*, that the change is sought by reason of the seasonal nature of the business or operation at the *connection point*.

301. A definition of “relocation” has been added to clause 2.1 (definitions) of the proposed applications and queuing policy as follows.

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

### *Further Final Decision*

302. Western Power has amended the applications and queuing policy and electricity transfer access contract, including amendments:

- to clause 3.4 of the electricity transfer access contract to indicate that any application for an increase or decrease of contracted capacity at a

connection point must be made to, and processed by, Western Power under the applications and queuing policy;

- to delete existing clause 3.5 of the electricity transfer access contract, and to insert a new clause 3.5 to provide for the addition of a connection point to an access contract under the applications and queuing policy or Customer Transfer Code; and
- to clause 10.3(c) of the applications and queuing policy to include “a rapid increase” and “relocations” as valid reasons for multiple changes to contracted capacity in a rolling 12-month period.

303. The Authority is satisfied that Western Power’s revisions to clauses 3.4 and 3.5 of the electricity transfer access contract and clause 10.3(c) of the applications and queuing policy implements Final Decision Amendment 37.

## **De-energisation and Re-energisation (clause 11)**

### *Final Decision*

304. Clause 11 of the applications and queuing policy establishes provisions for the de-energisation and re-energisation of connection points. Clause 11.2 establishes the application process for the re-energisation of an existing de-energised connection point.

305. The Authority noted inconsistencies and incompatibilities between clause 11.2 of the applications and queuing policy, the *Code of Conduct for the Supply of Electricity to Small Use Customers* and the *Electricity Industry (Obligation to Connect) Regulations 2005*.

306. Part 8 of the Code of Conduct establishes requirements for reconnection of an electricity supply to a customer after disconnection for a range of specified reasons, including the failure of the customer to pay an electricity bill. Part 8 includes requirements for reconnection of the customer by the distributor within certain specified periods after a request by the retailer. The specified periods range between one and six business days, depending upon whether the customer is in the metropolitan or a regional area and the day and time of the request by the retailer for reconnection. The timeframes for Western Power to accept a request for re-energisation of a connection point under clause 11.2 (at clause 11.2(e), which allows for up to five business days for processing an application for re-energisation) are inconsistent with the obligations of Western Power under the Code of Conduct to reconnect a customer.

307. Under regulations 7 and 8 of the *Electricity Industry (Obligation to Connect) Regulations 2005*, Western Power is obliged to energise or re-energise a connection point within certain specified periods after a request by the retailer. The specified periods are consistent with the periods established under Part 8 of the Code of Conduct. The timeframes for Western Power to accept a request for re-energisation of a connection point under clause 11.2 are, therefore, also inconsistent with the obligations of Western Power under these regulations.

308. Taking these matters into account, the Authority determined that clause 11.2 of the applications and queuing policy is inconsistent with the requirements of the Access Code.

309. In a submission to the Authority, Western Power accepted the position of the Authority and indicated that it will amend the applications and queuing policy.<sup>55</sup> Western Power further indicated that the amendments will ensure the timeframes for determining whether Western Power accepts an application under clause 11.2 will not derogate Western Power's obligations to re-energise a connection point within the timeframes specified in the *Code of Conduct for the Supply of Electricity to Small Use Customers* and the *Electricity Industry (Obligation to Connect) Regulations 2005*.
310. Taking into account the submission from Western Power, the Authority required the following amendment to the proposed access arrangement revisions.

#### Final Decision Amendment 38

The proposed access arrangement revisions should be amended such that clause 11.2 of the applications and queuing policy is amended to indicate that nothing in clause 11.2 provides Western Power with a derogation of obligations to energise connection points within the timeframes specified under clause 8.2 of the *Code of Conduct for the Supply of Electricity to Small Use Customers* or regulations 7 and 8 of the *Electricity Industry (Obligation to Connect) Regulations 2005*.

#### Amended Proposed Revisions

311. Western Power has amended clause 11.2 of the applications and queuing policy as follows.

##### 11.2 Re-energisation

- (a) *An applicant who seeks to re-energise an existing de-energised connection point must submit an electricity transfer application on the application form that is applicable for the type of facilities and equipment connected or to be connected at the connection point.*

...

- (e) Subject to clause 11.2(g), Western Power must determine, as a *reasonable and prudent person*, within 5 *business days* whether it will accept the request for *re-energising*.

...

- (g) Nothing in clause 11.2 derogates from the obligations of Western Power to re-energise a connection point within the timeframes specified in clause 8.2 of the Code of Conduct for the Supply of Electricity to Small Use Customers 2004 or regulations 7 and 8 of the Electricity Industry (Obligations to Connect) Regulations 2005.

#### Further Final Decision

312. Western Power has amended the applications and queuing policy to indicate that nothing in clause 11.2 provides Western Power with a derogation of obligations to energise connection points within the timeframes specified under clause 8.2 of the

<sup>55</sup> Western Power submission of 13 August 2009, including Attachment D.

*Code of Conduct for the Supply of Electricity to Small Use Customers* or regulations 7 and 8 of the *Electricity Industry (Obligation to Connect) Regulations 2005*.

313. The Authority is satisfied that Western Power's amendments to clause 11.2 implement Final Decision Amendment 38.

## **Queuing Rules (clause 24)**

### *Final Decision*

314. Clause 24 of the applications and queuing policy establishes queuing rules for connection applications. Clause 24.17(a) requires Western Power to provide information on the queuing status of a competing connection application as part of a preliminary assessment.<sup>56</sup>
315. The Authority noted that clause 24.17(a) is contrary to the model applications and queuing policy of the Access Code, which (at clause A2.69) requires the service provider to provide an applicant with information on the queuing status of an application upon initial lodgement of the application. Under the proposed clause 24.17(a) of the applications and queuing policy, Western Power would not be required to provide this information until the preliminary assessment, which may not be until some substantial time after the application is lodged.
316. The Authority determined that such a delay in providing information to the applicant on the queuing status of an application does not adequately accommodate the interests of the applicant, for whom the information may be of substantial commercial significance, and is therefore inconsistent with the Access Code.
317. Western Power indicated to the Authority that it will amend clause 24.17(a) to maintain the requirement to provide queuing information as part of the initial response to the extent Western Power is reasonably able to do so, but in any case as part of the preliminary assessment.<sup>57</sup>
318. Taking into account the submission from Western Power and the relaxed requirements for Western Power to undertake a preliminary assessment under clause 19 of the applications and queuing policy, the Authority required the following amendment to the proposed access arrangement revisions.

### **Final Decision Amendment 39**

The proposed access arrangement revisions should be amended such that clause 24.17(a) of the applications and queuing policy includes an obligation for Western Power to provide queue information in the initial response to an application to the extent that Western Power is reasonably able to do so, but in any case as part of a preliminary assessment under clause 19.3.

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<sup>56</sup> Clause 24.17 corresponds to clause 24.16 of the current applications and queuing policy.

<sup>57</sup> Western Power submission of 13 August 2009, including Attachment E.

### *Amended Proposed Revisions*

319. Western Power has amended clause 24.17(a) of the applications and queuing policy as follows.

24.17 When Western Power is to provide *queue* information

Western Power must provide the information in clause 24.13:

- (a) as part of the *initial response to an application to the extent Western Power is reasonably able to do so, but in any case as part of the preliminary assessment under clause 19.3 with respect to an application;* and
- (b) at any time after ...

### *Further Final Decision*

320. Western Power has amended clause 24.17(a) of the applications and queuing policy consistent with the requirements of Final Decision Amendment 39, and accordingly, the Authority is satisfied that this amendment implements Final Decision Amendment 39.

## **Contributions Policy**

### *Introduction*

321. The current access arrangement includes, at Appendix 3, a capital contributions policy. Consistent with amendments made to the Access Code in October 2008, the capital contributions policy has been retitled in the proposed access arrangement revisions as the “contributions policy” that allows for contributions of both a “capital” and “non-capital” nature.<sup>58</sup>
322. 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 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.
323. In the Final Decision the Authority required several amendments to the proposed contributions policy that are necessary for the Authority to approve the proposed access arrangement revisions. The Authority’s required amendments and Western Power’s response to these amendments are addressed below.

### *Information to be Provided*

#### *Final Decision*

324. The primary determinant of the amount of a contribution that can be required under the contributions policy, in respect of new facilities investment to augment a

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<sup>58</sup> Western Australian Government Gazette, 22 October 2008, No. 160, pp. 4631 – 4665.



network, is the amount of new facilities investment that does not satisfy the new facilities investment test under section 6.52 of the Access Code. Under section 5.14 of the Access Code, a contributions policy must not require a user to make a contribution in respect of any new facilities investment that meets the new facilities investment test, with the exception of contributions required under a “headworks scheme”, or new facilities investment for works of certain types specified in Appendix 8 of the Access Code.

325. In determining the amount of a contribution to be required in respect of new facilities investment, other than for exceptions provided for under Appendix 8 of the Access Code and under a headworks scheme, Western Power must necessarily determine the amount of new facilities investment that meets the new facilities investment test. The new facilities investment test is the mechanism that prevents double recovery of the costs of new facilities investment, as Western Power may only require contributions in respect of new facilities investment that does not satisfy the test.
326. Discipline on Western Power to determine contributions in accordance with the contributions policy is afforded primarily by a user negotiating an amount of a contribution, with the potential to resort to dispute resolution. Given this, the Authority considered that the availability to a user of the details of Western Power’s contribution calculation, where a contribution is payable by the user, is necessary to ensure that the contributions policy is applied correctly.
327. The Authority further considered that the requirement for transparency in the application of the contributions policy should extend to all elements of the determination of the contribution amount payable by a user, including the determination of contributions with respect to non-capital costs, the determination of contributions under a headworks scheme and the apportioning of contributions amongst multiple users.
328. The Authority required the following amendment to the proposed access arrangement revisions.

#### **Final Decision Amendment 40**

The proposed access arrangement revisions should be amended such that the contributions policy includes an obligation on Western Power to provide an applicant or user with details of the calculation of any contribution to be required from the applicant or user including:

- where the contribution is in respect of new facilities investment, details of assessment of the new facilities investment against the requirements of the new facilities investment test and details of the calculation of the amount that does not meet the new facilities investment test;
- where the contribution is made in respect of non-capital costs related to alternative options, details of assessment of the non-capital costs against the alternative options test and details of the calculation of the amount that does not satisfy the alternative options test;
- details of assumptions and calculations applied in the apportionment of any forecast cost of works between the user or applicant and other users or applicants or Western Power under clause 5.4 of the contributions policy; and
- details of the calculation of a headworks contribution under clause 6 of the contributions policy.



## Amended Proposed Revisions

329. Western Power has amended the contributions policy to insert a new clause to provide an obligation for Western Power to provide certain information to an applicant.

### 10 Obligation for Western Power to provide information

Upon request from an *applicant*, and in respect of a *contribution* for works, Western Power will provide the *applicant* with the following information.

- (a) where the *contribution* is in respect of *new facilities investment*, details of assessment of the *new facilities investment* against the requirements of the *new facilities investment test* and details of the calculation of the amount that does not meet the *new facilities investment test*;
  - (b) where the *contribution* is made in respect of *non-capital costs* related to *alternative options*, details of assessment of the *non-capital costs* against the *alternative options test* and details of the calculation of the amount that does not satisfy the *alternative options test*;
  - (c) details of assumptions and calculations applied in the apportionment of any forecast cost of works between the *user* or *applicant* and other *users* or *applicants* or Western Power under clause 5.4 of this *contributions policy*; and
  - (d) details of the calculation of a *headworks* contribution under clause 6 of this *contributions policy*.
330. The following consequential amendments to clause 1.1 (definitions) of the contributions policy have been made to include definitions for “new facilities investment” and “new facilities investment test”.

“**new facilities investment**” has the same meaning as given to it in the *Code*.

“**new facilities investment test**” has the same meaning as given to it in the *Code*.

## Further Final Decision

331. Western Power has amended the contributions policy to include an obligation on Western Power to provide an applicant with details of the calculation of any contribution to be required from the applicant.
332. The obligation is consistent with requirements of the Authority, and accordingly, the Authority is satisfied that Western Power’s amendment to the contributions policy implements Final Decision Amendment 40.

## Headworks Contributions

### Final Decision

333. “Headworks” is defined in the contributions policy as meaning enhancements required to the existing high-voltage three-phase distribution system that provides for an increase in capacity of that system.
334. Section 5.17C of the Access Code makes explicit provision for a contributions policy to include a headworks scheme, with the particular requirements for such a

scheme set out in section 5.17D. Section 5.17D(c) of the Access Code requires that a headworks scheme identify the class of users who must make a payment under the scheme.

335. The Authority noted that clause 6.1(b) of the proposed contributions policy indicates that the headworks scheme applies to “the class of users who make a connection application in relation to the distribution system within a relevant area”. A relevant area is defined as meaning “any area where the relevant connection point is located at a distance along the line feeder route equal to or greater than 25 km from the relevant zone substation within the network in the rural zone or mixed zone”. The contributions policy indicates that “rural zone” and “mixed zone” are defined in section 4.3 of the price list information in the access arrangement (i.e. the proposed access arrangement revisions), although no such definitions exist.
336. In a submission to the Authority, Western Power indicated that the absence of definitions for “rural zone” and “mixed zone” is the result of a cross referencing error (the reference should refer to the definitions in section 5.3 of the price list information, rather than section 4.3) that it will amend accordingly.<sup>59</sup>
337. Taking into account Western Power’s submission, the Authority required the following amendment to the proposed access arrangement revisions.

**Final Decision Amendment 41**

The proposed access arrangement revisions should be amended such that the contributions policy includes definitions of “rural zone” and “mixed zone” by cross reference to definitions of these terms in clause 5.3 of the price list information.

338. Section 5.17D(d) of the Access Code requires a headworks scheme to set out a method for calculating the headworks charge (i.e. headworks contribution).
339. The Authority noted that the provisions of the proposed contributions policy dealing with determination of the headworks contribution (clauses 6.3 to 6.8) are general in nature. Absent from the provisions are:
- an indication of the manner in which the amount of costs to be recovered from the headworks contributions are determined and how the magnitude of headworks contributions are determined;
  - a method of ensuring that headworks contributions will, in the long term, recover no more than Western Power’s costs of the headworks; and
  - mechanisms to ensure that any amount of the costs of headworks recovered by headworks contributions are not also recovered, or sought to be recovered, through other contributions or through tariffs for services.
340. The Authority considered that more detail on these matters is necessary for the contributions policy to satisfy the requirements of the Access Code, and required the following amendment to the proposed access arrangement revisions.

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<sup>59</sup> Western Power submission of 13 August 2009.

## Final Decision Amendment 42

The proposed access arrangement revisions should be amended such that clause 6 of the contributions policy sets out:

- the method or calculation and assumptions applied in determining the amount of costs to be recovered by headworks contributions;
- the method or calculation and assumptions applied in determining the allocation of costs across a forecast of connections to the network and determining the magnitude of headworks contributions;
- the procedures or methods applied by Western Power to ensure that headworks contributions will, in the long term, recover no more than Western Power's costs of the headworks; and
- a mechanism, which may involve a system of accounting records, to ensure that any amount of the costs of headworks recovered by headworks contributions are not also recovered, or sought to be recovered, through other contributions or through tariffs for services.

### Amended Proposed Revisions

341. Western Power has amended clause 1.1 (definitions) of the contributions policy to correct the cross referencing error in the definitions for “mixed zone” and “rural zone”.

#### 1.1. Definitions

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

...

“**mixed zone**” has the meaning given to it in section ~~5.34.3~~ of the *price list information* in the *access arrangement*.

...

“**rural zone**” has the meaning given to it in section ~~5.34.3~~ of the *price list information* in the *access arrangement*.

342. Western Power has also amended clause 6 of the contributions policy to reference a new appendix that has been added to the access arrangement (Appendix 9 – Distribution Headworks Methodology) and to insert a new clause 6.2(c).

#### 6. Distribution headworks scheme

[The methodology used to develop the distribution headworks prices that apply in this distribution headworks scheme is described in Appendix 9 of this Access Arrangement.](#)

##### 6.1. Application

This headworks scheme applies to:

- (a) the class of works falling within the definition of headworks in this policy; and

- (b) the class of users who make a connection application in relation to the distribution system within a relevant area.

6.2. Headworks contribution

...

- (b) Where a headworks contribution is made by an applicant in accordance with clause 6.2(a) no further contribution shall be required from the applicant in relation to ~~the headworks in question~~.

(c) For the purpose of this contributions policy the headworks contribution is a capital contribution.

## Further Final Decision

### Definitions of “mixed zone” and “rural zone”

- 343. Western Power has amended the contributions policy to correct the cross referencing error in the definitions for mixed zone and rural zone.
- 344. The Authority is satisfied that Western Power’s amendments to clause 1.1 of the contributions policy implement Final Decision Amendment 41.

### Distribution headworks methodology

- 345. Western Power has amended clause 6 of the contributions policy to reference a new appendix to the access arrangement (Appendix 9 – Distribution Headworks Methodology), which sets out the method used to determine the headworks prices that may apply under the contributions policy. The Authority has reviewed this appendix and is satisfied that the appendix adequately sets out the method for calculating the headworks charge.
- 346. Western Power has amended clause 6.2(b) of the contributions policy to indicate that where a headworks contribution is made by an applicant, no further contribution shall be required from the applicant in respect of headworks. The Authority is satisfied that this amendment adequately ensures that headworks, that are to be funded under the headworks scheme, are not also funded by other contributions from users.
- 347. Western Power has added a new clause 6.2(c) to the contributions policy, which states that a headworks contribution is a capital contribution (as defined in the Access Code). Taking into account the requirements under section 6.51A of the Access Code for consideration of capital contributions in adding amounts of new facilities investment to the capital base, the Authority is satisfied that the new clause 6.2(c) prevents any amount of headworks costs that are financed by headworks contributions from also being recovered through tariffs for services.<sup>60</sup>

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<sup>60</sup> Under this provision, Western Power will be required to ensure that headworks charges are deducted from new facilities investment in determining the amount of new facilities investment that can be added to the capital base for the SWIN (that is, the amount of new facilities investment that satisfies the new facilities investment test). This is in accordance with the general scheme proposed by Western Power for the treatment of capital contributions in determining the capital base of the SWIN.

348. The Authority is satisfied that Western Power’s amendments to clause 6 of the contributions policy implements Final Decision Amendment 42.

## **Contributions in Respect of Non-capital Costs**

### *Final Decision*

349. The Access Code allows for Western Power to require contributions in respect of non-capital costs, subject to the general objectives of a contributions policy under sections 5.12 and 5.13, and subject to the particular requirements of section 5.14 that:
- a contributions policy must not require a user to make a contribution in respect of any part of non-capital costs that would not be incurred by a service provider efficiently minimising costs (section 5.14(b) of the Access Code);
  - contributions may only be required in respect of required work (section 5.14(c)); and
  - the contributions policy must contain a mechanism designed to ensure that there is no “double recovery” of non-capital costs (section 5.14(d)).
350. The contributions policy includes provisions, at clause 2(c), that enable Western Power to require a contribution in respect of non-capital costs where:
- the costs are incurred in works undertaken in providing an “alternative option”, but the costs do not satisfy the “alternative options test” under section 6.41 of the Access Code that would otherwise enable recovery of these costs as part of the target revenue recovered from reference tariffs (clause 2(c)(ii)); and
  - the costs are incurred in “non-capital works” required in response to a connection application where the non-capital costs associated with such works are costs that would not be incurred by a service provider efficiently minimising costs (clause 2(c)(iii)).
351. The Authority noted that clause 2(c)(iii) of the proposed contributions policy, requiring contributions in respect of non-capital costs, is in direct contravention of section 5.14(b) of the Access Code that prohibits a contributions policy requiring a user to make a contribution in respect of any part of non-capital costs that would not be incurred by a service provider efficiently minimising costs.
352. The Authority required the following amendment to the proposed access arrangement revisions.

#### **Final Decision Amendment 43**

The proposed access arrangement revisions should be amended to delete the proposed clause 2(c)(iii) of the contributions policy that seeks to allow Western Power to require a contribution in respect of non-capital costs required in response to a connection application, where the non-capital costs associated with such works are costs which would not be incurred by a service provider efficiently minimising costs.

353. In relation to clause 2(c)(ii) of the contributions policy, the Authority noted that the only non-capital costs that might be incurred by Western Power in implementing an alternative option (and acting as a service provider efficiently minimising costs), but

that may not be recovered under the price control, would be those costs that were not included in the forecasts of costs applied in setting the price control. A mechanism to allow recovery of these non-capital costs through contributions would facilitate the operation of the Access Code and be consistent with the Code objective by ensuring that there is no disincentive for Western Power to implement alternative options of a non-capital nature in preference to new facilities investment in network augmentation.

354. The Authority considered that consistency with section 5.13 of the Access Code and the Code objective requires that contributions in respect of non-capital costs be allowed for only in these circumstances. In any case, the Authority considered that the test of section 6.41 of the Access Code (the “alternative options test”) should apply to ensure that the non-capital costs recovered by contributions are limited to that part of the costs of works that benefits only the user paying the contribution, rather than users of the network more generally.
355. The Authority required the following amendment to the proposed access arrangement revisions.

#### **Final Decision Amendment 44**

The proposed access arrangement revisions should be amended such that the contributions policy only allows for contributions in respect of non-capital costs incurred in the implementation of an alternative option where:

- Western Power is able to clearly demonstrate that the costs were not included, and could not reasonably have been included, in forecasts of non-capital costs taken into account in setting the price control; and
- the conditions of section 6.41(b) of the Access Code are not satisfied.

### *Amended Proposed Revisions*

356. Western Power has amended clause 2 of the contributions policy as follows.

2. Application of this contributions policy

...

- (c) An *applicant* is required to pay a *contribution* for *works* in any (including any combination of) the following circumstances:
- (i) in the case of *new facilities investment*, where the capital costs incurred in relation to the relevant *works* do not satisfy the *new facilities investment test*;
  - (ii) in the case of *works* related to alternative options, where the *non-capital costs* associated with such *works* do not satisfy the [requirements of clause 6.41\(b\) of the Code](#)~~alternative options test~~;
  - ~~(iii) in the case of non-capital works required in response to a connection application, where the non-capital costs associated with such works~~
- ~~(iii) in the case of non-capital works including *alternative options*, where the costs of the *works* were not included, and could not reasonably have been included, in forecasts of *non-capital costs* taken into account in setting the *price control*,~~

~~are costs which would not be incurred by a service provider efficiently minimising costs,~~

- (iv) where the *works* meet the requirements of clause 6 of this *policy* (*distribution headworks scheme*).

### Further Final Decision

357. Western Power has amended clause 2 of the contributions policy such that:
- clause 2(c)(ii) of the policy only allows for contributions in respect of non-capital costs incurred in the implementation of an alternative option where the conditions of section 6.41(b) of the Access Code are not satisfied; and
  - clause 2(c)(iii) of the policy only allows for contributions in respect of non-capital costs where the costs were not included, and could not reasonably have been included, in forecasts of non-capital costs taken into account in setting the price control.
358. The Authority is satisfied that Western Power's amendments to clause 2 of the contributions policy implements Final Decision Amendments 43 and 44.

### Requirements for Security

#### Final Decision

359. Clause 4.3 of the contributions policy provides for Western Power to require security from an applicant in respect of the amount of revenue from charges for services to be provided to the applicant that were forecast in planning an augmentation, and that were taken into account in calculating the amount of a contribution.
- Where the forecast costs are greater than \$50,000 and less than \$1 million, security may be required for an initial period of 24 months and a maximum period of 36 months, or other such periods as reasonably determined by Western Power acting as a reasonable and prudent operator.
  - Where the forecast costs are equal to or greater than \$1 million, Western Power may require the applicant to provide security on terms acceptable to Western Power acting as a reasonable and prudent person.
360. The Authority considered that the requirements for security, under clause 4.3 of the contributions policy, may impose a significant additional cost on applicants for connection to the network without any commensurate benefit in the efficiency of investment.
361. In a submission to the Authority, Western Power indicated that it will amend clause 4.3 of the contributions policy to provide for different requirements for projects where the project works are less than \$15 million in value and for where the cost of the project works exceed \$15 million.<sup>61</sup>

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<sup>61</sup> Western Power submission of 13 August 2009, including Attachment F.



362. Taking into account Western Power's submission, the Authority required the following amendment to the proposed access arrangement revisions.

#### Final Decision Amendment 45

The proposed access arrangement revisions should be amended to delete provisions proposed under clause 4.3 of the contributions policy that allow for security to be required for a total period of greater than two years where forecast costs with respect to a connection application are less than \$15,000,000.

### Amended Proposed Revisions

363. Western Power has amended clause 4.3 of the contributions policy as follows.

4.3. *Applicant must provide security for new revenue*

- (a) Where the forecast costs with respect to a connection application are greater than \$50,000, but less than \$15,000,000, Western Power may require the applicant to procure before the commencement of the works, and maintain for a period of 18 months after the commencement of the associated exit service, entry service, or bidirectional service, an unconditional, irrevocable bank guarantee, or equivalent financial instrument, in terms acceptable to Western Power (acting as a reasonable and prudent person), guaranteeing the portion of new revenue that was used to calculate the contribution and is expected to come from providing an exit service, entry service, or bidirectional service using the works.~~Where the forecast costs with respect to a connection application are greater than \$50,000, but less than \$1,000,000, Western Power may require the applicant to procure before the commencement of the works, and maintain for a period of 24 months after the commencement of the associated exit service or entry service, (or other period as reasonably determined by Western Power acting as a reasonable and prudent person), an unconditional, irrevocable bank guarantee, or equivalent financial instrument, in terms acceptable to Western Power (acting as a reasonable and prudent person), guaranteeing the portion of new revenue that was used to calculate the contribution and is expected to come from providing an exit service or entry service using the works.~~
- (b) Where an *applicant* has provided security under clause 4.3(a), then after 12 months, Western Power may:
- (i) ~~re-determine~~re-determine the *contribution* under this *contributions policy*, and recover from, or rebate to, the *applicant* any difference from the amount of the original *contribution*; or
- (ii) require the applicant to maintain the bank guarantee or equivalent financial instrument for a further 12 months before re-determining the contribution in accordance with clause 4.3(b)(i)~~require the applicant to maintain the bank guarantee or equivalent financial instrument for a further 12 months, (or other period as reasonably determined by Western Power acting as a reasonable and prudent person) before re-determining the contribution in accordance with clause 4.3(b)(i).~~
- (c) Where the forecast costs with respect to a connection application are equal to or greater than \$15,000,000, Western Power may require the applicant to procure before the commencement of the works, an unconditional, irrevocable bank guarantee, or equivalent financial instrument, in terms acceptable to Western Power (acting as a reasonable and prudent person), guaranteeing the portion of new revenue that was used to calculate the contribution and is expected to come from providing an exit service, entry service, or bidirectional



~~service, using the works~~ Where the forecast costs with respect to a connection application are equal to or greater than \$1,000,000, Western Power may require the applicant to procure before the commencement of the works, an unconditional, irrevocable bank guarantee, or equivalent financial instrument, in terms acceptable to Western Power (acting as a reasonable and prudent person), guaranteeing the portion of new revenue that was used to calculate the contribution and is expected to come from providing an exit service or entry service using the works.

### *Further Final Decision*

364. Western Power has amended clause 4.3 of the contributions policy to remove provisions that allow for security to be required for a total period of greater than two years, where the forecast costs with respect to a connection application are less than \$15 million.
365. The Authority is satisfied that Western Power's amendments to clause 4.3 of the contributions policy implement Final Decision Amendment 45.