LGP

Landfill Gas and Power

5 December 2011

Mr Tyson Self
Manager Projects Access
PO Box 8469
PERTH BC WA 6849

By Email: publicsubmissions@erawa.com.au

Dear Tyson

SUBMISSION ON WESTERN POWER'S PROPOSED REVISIONS TO THE ACCESS ARRANGEMENT FOR THE WESTERN POWER NETWORK

Thank you for the opportunity to make a submission on Western Power's proposed access arrangement revisions. Given the magnitude of Western Power's submission, Landfill Gas and Power Pty Ltd (LGP) has been greatly assisted in focusing its resources by the Authority's Issues Paper.

LGP has been a producer of renewable electricity since 1993 and a boutique electricity retailer since the commencement of the deregulated market. We currently produce some 8MW of landfill gas fuelled intermittent generation and supply some 90 customers operating 370 loads and drawing 45MW. We also operate a 1.3MW diesel-fired Scheduled Generator. These operations are conducted under a single Electricity Transfer Access Contract with Western Power.

Context: Network charges currently comprise around one third of the bundled cost of delivered electricity, and have increased substantially over the period of the current Access Arrangement (AA2). These increases have been a significant driver of increases in the cost of delivered electricity, which is causing financial distress in the community and in industry and commerce. In addition to this, the world financial system is on the brink of a possible second crisis, and the Reserve Bank of Australia has reduced interest rates in response to a slowdown and rising unemployment in the non-resource economy. It is therefore imperative that the State Government and its institutions carefully consider the impact of regulated price increases on the community, both directly through their impact on families and indirectly via employment and taxation income.

Landfill Gas and Power Pty Ltd
78 - 80 Robinson Avenue,
Belmont WA 6104
PO Box 861 Cloverdale WA 6985

ABN: 89 053 919 430
Telephone: +61 8 9475 0144
Facsimile: +61 8 9475 0173
Website: www.landfillgas.com.au

We note that Western Power is seeking a further 70% increase over the prospective five years of third access arrangement, AA3. While we fully support properly funding Western Power to perform the functions expected of it, we are very concerned by the Issue Paper's commentary to the effect that Western Power considers its proposal to not constitute 'price shock'. The contention imputed to Western Power's is that shock would not occur because the increases do not exceed those occurring during AA2. We perceive that this perception is indicative of a culture that does not understand its vital role in the community and does not perceive an imperative to keep its function fit-for-purpose and best value for money. Further, we perceive many aspects of Western Power's proposal to be consistent with a government agency seeking to maximise its budget as an end in itself rather than delivering value to the community.

Paradigm change: While we acknowledge that Western Power's submission seeks accordance with the Access Code, we submit that the underlying paradigm has changed and a different approach is required.

In addition to the slowing global economy, we would propose the Pole Replacement Programme as a further example of the paradigm change. This is proposed to cost $750 million over the first 5 years and last for 20 years in total, being a whole-of-life cost of some $3billion. This compares with Western Power's 2011 Asset Value of $6.2billion.

While LGP supports both Western Power's focus on safety and the function of the Energy Safety Office (ESO), we perceive fuller oversight is required and review of the process by which an order from the ESO is proposed to be converted into such a large and expensive initiative. LGP considers that the access arrangement is not the proper venue for approval of this programme, and that it should be thoroughly reviewed at a higher independent level. We object to its inclusion in AA3 on a business-as-usual basis.

Fictional accounting: LGP welcomes the Issue Paper's comparison of Western Power's proposed pricing and cost structure with that applying in other jurisdictions and in private industry. However, we suggest that the financial distress already endured by the community demands that every reasonable economy be made in optimising functionality and value-for-money.

While it is necessary to integrate Western Power's financial structure with the money paid by consumers by means of an administrative 'fiction', that fiction should be elegant, fit-for-purpose and transparent. In particular, Western Power's necessary functions should be properly funded with the objective of delivering to the community an effective, efficient and economical network. Fictions should only be instituted conditional on them supporting this objective, and any fiction that creates a cost that is not supported by value-for-money should be disallowed.

From this perspective, we support the proposition that Western Power invests capital in assets from which it earns revenue that must fund the cost of capital and operation of the assets. On this basis, we make the following observations:

i) Western Power is a state-owned monopoly and not a private company competing in a market. While we acknowledge the appropriateness of benchmarking relative to private companies and similar entities in other jurisdictions to ensure a proper standard of performance, care has to be taken before applying these metaphors to Western Power's financial context. In particular, Western Power is fully funded by the community regardless of its performance, and is not subject to the discipline of consumer choice; if Western Power underperforms financially, it will be bailed-out by the community because it is a vital service.

ii) A significant component of Western Power's funding is derived by application of a subjective Weighted Average Cost of Capital (WACC) to a subjective Capital Base containing a subjective mix of debt and equity (Gearing Ratio). In particular, Western Power is proposing that a WACC of 8.82% be used throughout the five years of AA3, and combined with a Gearing Ratio of 60%. This contrasts with figures contained in the 2011 Annual Report indicating an interest rate of 5.5% ($278 million of borrowing costs payable on $5.017 billion of borrowings) and a Gearing Ratio of 89% (contributed equity of $621 million). We propose that this fiction is not only inaccurate, expensive, complex and laborious, but it also obscures the true operating position and prevents fine tuning according to actual conditions. We suggest that the community can not afford to be subject to the consequences of this fiction.

iii) We perceive no merit in pretending that Western Power relates of its own right with independent bankers and that those bankers apply to Western Power a particular credit rating from which an appropriate interest rate is derived. Instead, we note that Western Power's funding is raised via the WA Treasury Corporation, and propose that consumers should fund only the actual cost of capital plus Treasury's reasonable administration costs;

iv) We propose that Western Power's provision for $967 million of Deferred Revenue should be disallowed. Insofar as Western Power is genuinely incurring capital servicing costs in respect of this amount, then the cost of service should be paid by consumers via AA3. Otherwise, insofar as the Deferred Income is fictional, it should be written off.

v) We propose that it is nonsense for consumers to be required to pay an Equity Raising Cost" when no equity is raised;

vi) We propose that it is a nonsense to change the assumed date of incurring expenses from end-year to mid-year as that will increase the costs to consumers with no improvement in substance.

vii) Insofar as the State Government chooses to require from Western Power a 'dividend' or tax, this should be included as a direct cost and should not be obscured by inclusion in the WACC.

<u>Constrained-Access Model:</u> LGP notes the industry support for the development of a Constrained-Access Model rather than adherence to the traditional unconstrained model. LGP supports review of this as a key strategy for improving the value for money obtained from the network. On this basis, we submit that care should be taken to flexibly accommodate any such initiative during the term of AA3. In particular, structural rigidity in AA3 should not be permitted to delay implementation of constrained access.

<u>Subsidy of Retail Gazetted Tariffs:</u> LGP notes that the Gazetted retail tariffs under-recover the costs of supply and have resulted in substantial subsidies payable to state-owned enterprises. Throughout AA1 and AA2 Western Power has been kept commercially whole as a principle. Fictional accounting (Vesting Contract) originally attributed the losses to Verve Energy, and currently to Synergy (Replacement Vesting Contract).

Insofar as the State Government chooses to under-recover costs of supply via retail gazetted tariffs, then that subsidy is funded by state taxpayers which may or may not enjoy reciprocal benefits via the subsidy. An equivalent way of viewing this is, therefore, that insofar as Western Power pays a dividend to government, then Western Power is in reality subsidising Synergy via the State Government acting as an intermediary. And insofar as Western Power is over-recovering its genuine costs, Synergy is actually being subsidised by its competitors and customers. This clearly negates the intended electricity market reforms to institute a competitive structure.

While AA3 is not the proper venue for assessment of the cost reflectivity of the Gazetted tariffs, it is an important reason for keeping the AA3 pricing to a minimum.

We respond below in detail to the specific issues highlighted in the discussion paper using the numbering of that paper.

If you require further information please contact Dr Steve Gould on 0412 508 291.

Yours sincerely

[redacted]

GRAEME ALFORD BE MBA
CHIEF EXECUTIVE OFFICER

SUBMISSION BY LGP ON WESTERN POWER'S PROPOSED ACCESS ARRANGEMENT

4.1 Recovery of Deferred Revenue from AA2

Submissions are invited from interested parties on the appropriate time period over which deferred revenue from AA2 should be recovered from network users.

LGP notes that Western Power is seeking 'recovery of deferred revenue from AA2' in the amount of $967 million. Western Power proposes that the recovery period should be the five year term of AA3, in contrast to the Authority's preference of the lifetime of the assets (42 to 50 years). Western Power considers that this would not constitute 'price shock' because the average price increases over AA3 is no greater than that occurring under AA2.

Following the general philosophy outlined above, LGP perceives that the $967million is a bookkeeping fiction and is not being expressly financed. We therefore consider that it should be written off and should not feature in the cost structure recovered from consumers.

Insofar as the fiction is to be proceeded with, LGP considers that it is substantive only in so far as it actually requires to be financed by capital (State debt) that otherwise would not be employed. In this case, it would incur a cost of service which should be passed through to customers. However, the question then arises as to whether it is of more benefit to the community to continue servicing this debt, or to pay it down. On this basis, LGP would support the Authority's position that it should be serviced over the lifetime of the asset, and thereby reduce consumer prices relative to Western Power's proposal.

4.2.1 Benchmark Credit Rating

Submissions are invited from interested parties on the most appropriate benchmark credit rating for electricity transmission and distribution service providers in Western Australia.

AND

4.2.2 Credit Rating for Government-Owned Public Utilities in Western Australia

Submissions are invited from interested parties on whether a benchmark credit rating should be applied to Western Power given the different risks faced by government owned public utilities, such as Western Power, in Western Australia.

LGP considers that Western Power's actual borrowing costs should be paid and that it is not appropriate to create a fiction in which Western Power is considered to deal in its own right with private banks and pay an interest rate decided by them in accordance with a presumed credit rating.

That said, insofar as the fiction is to be permitted to persist, the credit rating of the WA Treasury Corporation should be used. There is no justification for charging consumers more than is necessary to service debt.

4.2.3 Treatment of Taxation

Submissions are invited from interested parties on the most appropriate method of incorporating taxation liabilities in a service provider's revenue requirement.

LGP considers that tax liabilities should be transparently passed through to consumers as a separate component rather than being obscured and approximated as a part of the return on capital.

4.2.4 Equity Beta

Submissions are invited from interested parties on the appropriate range or value for the equity beta for Western Power.

LGP considers that the equity beta arises as a component of a fictional calculation of the Weighted Average Cost of Capital, which fiction should be replaced by payment of actual capital servicing costs.

Insofar as the fiction is to be allowed to persist, the equity beta should be chosen so as to minimise the cost to end-users. In particular, Western Power is a state-owned monopoly that would be bailed out in the event of under performance; it is not a private company competing in a market.

4.2.5 Equity Raising Costs

Submissions are invited from interested parties on whether equity raising costs should be included in Western Power's revenue requirement and if so what is the appropriate methodology for calculating these costs.

LGP notes that Western Power is a State Government trading enterprise which does not incur equity raising costs. We therefore consider Western Power's proposal that such fictional costs should be passed through to consumers to be nonsense and it should be disallowed.

4.3 Investment from Prior Periods

Submissions are invited from interested parties on whether this investment from AA1 should be considered as 'speculative investment' and if so, should it be added to the AA3 capital base.

LGP notes that Western Power is proposing to include in its capital base an amount of $244 million notwithstanding that the Authority determined that in respect of AA2, this amount did not meet the New Facilities Investment Test (NFIT) and was therefore disallowed. The Issues Paper states that Western Power contends that this investment does in fact meet the requirements of the NFIT.

LGP considers that that investment entered into by Western Power, regardless of whether it meets reasonable investment performance or otherwise will necessarily be funded under the State's capital raising processes and the cost of service will be born by the community, either via taxpayers or electricity consumers. It is fictional to pretend that the community is protected from the consequences of 'disallowed investment'. It is therefore important that proper processes are in place to ensure that the state's borrowing capacity is properly rationed and invested only in response to suitable investment criteria. In particular, processes should be instituted to ensure that unsuitable investments are prevented. LGP considers the NFIT to be the regulatory test of the appropriateness of deploying the state's borrowing capacity on Western Power projects.

In this particular case, insofar as the fiction is to be proceeded with, several years of operating experience has been recorded and the achievement or otherwise of the NFIT criteria can be more accurately assessed. If the investment does qualify for the NFIT criteria, the expenditure should be included in the capital base. Otherwise, it should continue to be excluded.

4.3.1 Service Standards Adjustment Mechanism

Submissions are invited from interested parties on proposed revisions to the access arrangement to allow adjustments to target revenue in the next access arrangement period for the service standard adjustment mechanism proposed by Western Power.

LGP notes that the Service Standards Adjustment Mechanism (SSAM) allocates to Western Power financial "rewards" and "penalties" according to its service quality performance. In particular we note the discussion paper's comment:

> *"Western Power has lowered the benchmarks that applied in AA2 in order to ensure it meets its licence conditions and also to reduce the possibility of not receiving benefits under the gain sharing mechanism."*

We find this to be bizarrely detached from commercial reality. If Western Power is unable to achieve licence conditions, then either the conditions are unreasonable and should be changed, or they are reasonable and Western Power should be structured and funded to properly perform the functions. Further, we challenge the applicability of "rewards" and "penalties" to a state owned monopoly. We note that in private industry, rewards increase profits, which may be either retained by the company or allocated to owners or employees. Similarly, penalties decrease profits. In effect, owners and employees bear risk, be it relating to financial return or continuation of employment. On this basis, we object to Western Power being allocated 'rewards', and doubly so if there is any prospect of these being passed through to manager's who qualify for them simply by re-defining the required performance standards. Furthermore, we perceive the notion of "penalties" to be equally inapplicable as these will presumably have to be funded by a reduction in dividend payable to government, reduced working capital, or increased borrowing; in effect the community itself bears the penalties.

4.4.1 Mid-year Capital Expenditure Timing

Submissions are invited from interested parties on Western Power's proposed mid-year timing assumption for new facilities investment (capital expenditure), including:

- *the appropriateness of a change in timing assumption from the historically (AA1 and AA2) approved approach for the current AA2 period and the future AA3 period; and*
- *the impact of differences existing between the capital expenditure timing assumptions, depreciation timing assumptions and revenue collected timing assumptions.*

LGP understands that Western Power is proposing to add to the Capital Base some $80 million for commencement of AA3, which is then to be increased by some $210 million during the term of AA3. We understand the purpose of this adjustment is to assume that expenditure occurs at the middle of the year instead of the present practice of assuming that it occurs at the end of the year. LGP submits that this adjustment is without substance and is entirely fictional. We are deeply concerned that Western Power would propose that the community fund such a nonsense at a time of financial distress as the global economy is on the brink of possibly another major recession. We propose that this be disallowed.

LGP advises that the issue of capital expenditure timing assumptions, depreciation timing and revenue collected timing assumptions are of an esoteric nature beyond our expertise. However we would reiterate our general ethos that substance should be properly accounted for and funded, while fictional bookkeeping should not be entertained.

4.4.2 Tax on Capital Contributions

Submissions are invited from interested parties on whether an amount for tax on capital contributions should be allowed to be recovered from all network users.

LGP advises that the issue of tax on capital contributions is esoteric and beyond our expertise. That said, we understand that the underlying cost is substantive and the issue pertains to the allocation to customers of that cost. In response, we note that Access Arrangements necessarily construct cross subsidies between user classes, and we perceive no objection to fine-tuning the existing practice one way or the other. We equally support resolution of the issue through Western Power 'negotiating' arrangements directly with prospective users. We perceive that this could be constructively integrated with non-reference services. That said, we submit that care must be taken to prevent Western Power simply unilaterally imposing its terms as a condition of access.

4.4.3 Working Capital

Submissions are invited from interested parties on the need to include an allowance for a return on working capital.

LGP considers that insofar as interest expenses are incurred on working capital, then these expenses should be passed through to consumers at cost. However, fictional opportunity costs should not passed through. We find it especially ironic that Western Power should seek such a return when it refuses to pay interest to users on cash security deposits.

4.5 Applications and Queuing Policy

Submissions are invited from interested parties on

- *the operation of the applications and queuing policy in the current access arrangement period;*
- *the revisions proposed by Western Power; and*
- *whether any revisions to this policy, in addition to those proposed by Western Power, are required to meet the requirements of the Access Code.*

LGP has utilised the applications and queuing policy during the term of AA2 and found it to deliver reasonable outcomes. That said, Western Power generally failed to comply with its delivery times and we consider that it should improve its performance in this regard.

LGP supports Western Power's initiative to reform and improve the Applications and Queuing Policy and congratulates Western Power on its innovation and consultative process. We also welcome the style of using footnotes to provide relevant supplementary information, thereby making the document more self-contained.

i) We suggest the following minor modifications:inclusion of timeliness in the objectives at clause 1.2;

ii) addition of an obligation for Western Power to act reasonably in the several instances where 'failure to agree' between Western Power and the applicant lead to a deemed withdrawal of the application; and

iii) include in clause 20.2.c.ii provision for reasonable notice of a cost blow-out and a limit of liability to protect the applicant from an otherwise uncontrolled liability

5.1.2.2 Operating Expenditure

Submissions are invited from interested parties on the level of actual operating expenditure for AA2, and whether or not the actual costs are consistent with a service provider efficiently minimising costs.

Submissions are also invited from interested parties on the level of underspend in operating expenditure in the distribution network from the forecast in AA2.

Submissions are also invited from interested parties on the forecast operating expenditure for AA3, the methods used by Western Power to derive its forecasts, whether the forecasts should include an amount for efficiency gains in base operating expenditure, and the adequacy of Western Power's supporting information for this forecast.

LGP does not possess the expertise to fully address these issues and comments only in general terms. We would reiterate our earlier comments that the financial structure is a fiction and that this fiction should not be permitted to justify price gouging of the community. We would prefer instead that a system based on recovering short term forecasts of actual expenses be instituted.

LGP considers that the under-spend relative to forecast does not of itself demonstrate incompetence or inappropriate behaviour, especially given that the AA2 period was affected by the Global Financial Crisis. Given that it is practicably certain that any forecast of this complexity over a five year period will be incorrect, insofar as this process is to be applied, we would advocate a systematic bias to the downside, which would flow into lower prices and limit unnecessary financial distress. From this perspective, we would advocate inclusion of a stretch-target of large efficiency gains.

5.1.2.3 Opening Capital Base for AA3

Submissions are invited from interested parties on Western Power's calculation of the capital base values at the start of AA3 and, in particular, on whether Western Power has adequately demonstrated that new facilities investment in AA2 meets the requirements of the Access Code to be added to the capital base.

Reiterating our earlier comments, we challenge the appropriateness of including "Investment from prior periods" and the "Mid-year timing assumption". We oppose any fictional accounting that will increase the cost paid by the community without commensurate substance.

LGP does not possess the expertise to comment on whether or not the new investment meets the criteria for inclusion in the capital base. We reiterate our earlier comments that investment necessary requires capital and consequently a cost of capital service. We support the Authority's processes for ensuring that that capital is allocated efficiently, effectively and economically.

5.1.2.4 Forecast Capital Base for AA3

Submissions are invited from interested parties on whether information provided by Western Power in the revised access arrangement information is sufficient for the Authority to be satisfied that the forecast capital expenditure may be reasonably expected to meet the new facilities investment test.

Submissions are also invited as to Western Power's proposed management plan and expenditure on pole replacements and reinforcements to reduce a public safety risk.

We reiterate our earlier comments that investment necessary requires capital and consequently a cost of capital service. We support the Authority's processes for ensuring that that capital is allocated efficiently, effectively and economically.

LGP understands that the Energy Safety Office has issued to Western Power an order to repair its wood poles. In response, Western Power has instituted a 20 year plan of replacement, which will cost $748 million during the period of AA3. LGP supports fit-for-purpose compliance with the spirit of the Energy Safety Office's order. Taking the issue at face value, a suitable plan must be developed and properly funded, with the costs being passed through to the community. That said, the inference is that the community will be subject to costs in the range of some $3 billion over the life-span of the initiative. LGP considers that the large scale and discontinuous nature of this issue ought to be the subject of a stand-alone higher level review rather than obscured as one of many issues in a business-as-usual esoteric process. Such a large investment demands assessment of the entire context in which it arises, its appropriateness, and ways of resolving it. We propose that the Pole Replacement Programme should be excluded from AA3.

5.1.2.6 Return on Regulated Capital Base

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

LGP notes the Issue Paper's comment,

> *"The return on the regulated capital base provides a service provider with a return on the amount of capital it has invested in its business and should be commensurate with a fair and reasonable rate of return given the risks of its business."*

LGP observes that Western Power is state-owned and therefore has invested no capital in its business. Furthermore, Western Power takes no business risk because it is a monopoly which would be bailed out by the community in the event of adverse performance or circumstances. This is identical to the way in which Verve and Synergy have been bailed out despite both those companies operating in supposedly competitive markets. We therefore object to the community having to fund Western Power beyond its actual cost of debt service.

Insofar as the fictions of the Capital Asset Pricing Model and WACC are to be utilised, we propose that the Market Risk premium should be zero and the Debt to Total Value should be 100% (that is, no cost of funding equity). The debt raising cost of 0.125% should be disallowed.

While we acknowledge that Western Power's Balance Sheet does provide for Contributed Equity, we suggest that insofar as this does not represented assets "gifted" by users, then it is provided by the community. On this basis, we object to any mechanism that forces a financially distressed community to pay a return on its own equity to a third party.

We would also reiterate our earlier comments that it is not appropriate to pretend that Western Power is BBB rated when the true cost of capital is based on the State Government's AAA rating. Insofar as the fiction is to be persisted with, we also support the Authority's application of its Bond Yield Approach.

5.2.1 Access Code Requirements

AND

5.2.3 Proposed Revisions

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

Submissions are also invited from interested parties on the proposed revision to the list of reference services and the proposed new non-reference service.

LGP congratulates Western Power on its participative development of the suite of bi-directional tariffs and the pragmatic linkage to existing consumption-only tariffs.

LGP has been a user of the current network tariffs since their inception and has found them to be reasonable. However, we perceive a need for a new class of time of use tariffs in order to promote more efficient use of the network. This is especially relevant in managing the cost of the system peaks. In particular, the current time-of-use tariffs adhere to the traditional broadly defined "Peak" and "Off Peak" time periods, with no regard for seasonality, public holidays, or other 'shoulder' features. Whereas the Wholesale Electricity Market (WEM) facilitates the development of innovative time of use tariff signals, these signals are dissipated when combined with the averaging implicit in the network tariffs. This situation is also becoming more severe as the network tariffs become an increasingly large proportion of the cost of supply. In particular, the WEM exhibits a minimum in energy prices in the middle of business days in winter which is around one quarter of the network tariff at that time. Consequently, when combined with the network tariff, the latter masks the signal despite the network, presumably, experiencing the same consumption phenomenon.

5.3.3 Proposed Revisions

Submissions are invited from interested parties on the changes proposed by Western Power to the side constraint on year-to-year changes in reference tariff components.

Western Power's submission includes side constraints under the heading "Avoidance of price shock" and in the preceding statement notes,

> *"6.5.9 In accordance with section 7.4(c) of the Code, users can predict the likely annual changes in reference tariffs. All reference tariffs are specified for the first year of the access arrangement. For the remainder of this access arrangement period rebalancing of reference tariffs is constrained by the imposition of side constraints on annual revenue movements. In addition, the revenue caps have been smoothed across this access arrangement period to facilitate smooth price movements."*

LGP notes that the side constraints throughout AA2 were +/-13% for transmission and +/-18% for distribution. LGP understands Western Power's proposal to be that these be changed to around 7% and 19% respectively. Assuming that the Distribution to Transmission revenue ratio is 2.3 (70% distribution), the weighted average proposed is 15.4%, compared to the current 16.5%. We note that the side constraint in AA1 was CPI+ 5%.

While LGP supports the 'smoothing' of pricing, we find it bizarre that Western Power considers that potential changes of 15% each year avoid price shock and permit users to forecast prices. This is especially the case when the side constraint applies to increases beyond the proposed values that are already excessively high. We infer that this is tacit acceptance that the entire pricing structure is fictional and cannot be accurately forecast. We reiterate our earlier comments that Western Power should receive the necessary revenues to administer its operation based on the actual cost of servicing its actual debt, and that this should be forecast from year to year.

LGP considers that insofar as the fiction is to be proceeded with, such large side constraints effectively negate the function of utilising a constraint. We consider as ridiculous any system that would authorise a price increase of 16% in year 1 followed by (11+15=26%) in subsequent years.

5.5 Service Standard Benchmarks

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

- *the level of service standard benchmarks proposed by Western Power for AA3;*
- *the proposed exclusions for the measures of SAIDI, SAIFI, circuit availability and call centre performance; and*
- *whether the supporting information provided by Western Power is sufficiently detailed to enable users or applicants to determine the value represented by the reference service at the reference tariff.*

Submissions are also invited on whether Western Power's revised service standards are reasonable, given the levels of actual and forecast expenditures for AA2 and AA3.

LGP considers that assessment of the system performance parameters is an esoteric issue best contemplated by independent specialist consultants. From the perspective of individual users, the key issue is the level of the access charges and their impact on the financial position of the owner of the connection, be it a family or corporation. In particular, it should not be pretended that users seek to "determine the value represented by the reference service at the reference tariff". The reality is that the reference tariffs are average charges applied to classes of large numbers of customers, and each customer may choose the lowest cost tariff for which they are eligible by dint of their consumption characteristics. Each customer is also subject to a particular level of quality and reliability of supply that is unrelated to its chosen reference tariff and entirely dependent on its location and connection to the electricity network. Thus, a given distribution feeder would typically contain customers on several reference tariffs, with all of them subject to exactly the same reliability and quality of supply.

LGP supports the appropriateness of service standard benchmarks as a basis for assessing Western Power's performance and the desire of the community for continuous improvement. However, it must be expressly recognised that improving standards, or maintaining them in an aging network, has a cost attached and it is important to apply a value-for-money perspective. Further, it is not appropriate to place on Western Power onerous targets unless they are expressly funded. In this respect, and as detailed in our initial comments, LGP is very concerned at the proposed high level of overall cost increases in general and advocates that cost economy be prioritised over improvements in standards. In particular, LGP advocates more transparency and communication of the relationship between service levels and cost and in the absence of compelling reasons for improving or maintaining standards advocates that economy should be prioritised.

We also note that the benchmarks are averages applying to large classes of customers, while actual under-performance can be isolated more specifically. We would prefer that Western Power propose for review specific projects to improve performance in specific locations, so that cost-benefit might be more readily discerned.

5.6 Adjustments to Target Revenue in the Next Access Arrangement Period

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

- *the proposed gain sharing mechanism; and*
- *the "D factor scheme".*

LGP challenges the applicability of gains, rewards and penalties to a State owned monopoly. We reiterate our earlier comments that in private industry, rewards increase profits, which may be retained in the company or allocated to owners or employees. Similarly, penalties decrease profits. In effect, owners and employees bear risk, be it relating to financial return or continuation of employment. On this basis, we object to Western Power being allocated 'rewards', and doubly so if there is any prospect of these being passed through to manager's who have achieved them simply be re-defining the required performance standards. Furthermore, we perceive the notion of "penalties" to be equally inapplicable as these will presumably have to be funded by a reduction in dividend payable to the State Government, reduced working capital, or increased borrowing.

LGP perceives no objection per se to the D factor scheme notwithstanding that it is not expressly authorised by the Access Code. However, we reiterate our philosophy that only substance should be funded at that it should be funded at cost. Insofar as 'wriggle room' (or forecast inaccuracies) are legitimately required to optimise the interplay of Demand Side Management, local generation and capital investment, this should be properly permitted and funded.

5.7.2 Changes to the current access arrangement

Submissions are invited from interested parties on any practical issues and/or difficulties experienced with the electricity transfer access contract during the current access arrangement period, and whether interested parties foresee any potential issues arising from the revisions proposed by Western Power to the electricity transfer access contract for AA3 that:

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

LGP supports the nominated changes to the ETAC, which are minor and clarify the administration. Regarding the changes to the security, LGP considers that Western Power should also pay interest on cash security deposits, in common with the practice of the IMO.

We also welcome the Authority's support that the access contract should be 'commercially workable'. From this perspective, LGP considers that the terms of the contract should have regard to fitness for the purpose. For example, LGP is a small Generator-Retailer operating four small power stations and supplying fewer than 100 customers; we submit that the Insurance obligations should be commensurate with this, rather than the same as apply to much larger entities.

Regarding the 'value' issue, we would reiterate our earlier comment that it should not be pretended that users seek to determine the value represented by the reference service at the reference service. Rather, the ETAC manifests as an administrative conduit to connecting to the network. Given that electricity retailers are arms-length users with no practical functionality to affect the network, the network contract should reflect this through less onerous conditions.

5.8 Contributions Policy

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

LGP supports the proposed changes to the Contributions Policy, which are of a clarifying nature.