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Our Ref: 03/3580 D12#150988
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Economic Regulation Authority
PO Box 8438
PERTH BC WA 6849

Attention: Tyson Self, Manager Projects Access 28 May 2012

Dear Mr Tyson,

Proposed Access Arrangement Revisions for the Western Power Network

I refer to the ERA's draft decision of 29 March 2012 on Western Power's proposed access revision arrangement revisions for the Western Power Network. One element of this was a required amendment to the treatment of tax costs due to capital contributions and gifted assets (Required Amendment 21). In essence, Western Power would be required to remove the tax cost on capital contributions and gifted assets from the revenue requirement recovered through network tariffs. This would mean that Western Power would need to recover these tax costs from the party providing the gifted asset or capital contributions. In the case of private parties, the party providing the gifted asset would receive a tax benefit as a result of writing off the asset.

The adoption of this treatment of tax costs is likely to impact on Main Roads practices for relocating existing Western Power infrastructure for roadworks. These relocations are regularly required for roadworks and are undertaken at Main Roads' cost under the existing legislation.

There are two ways in which these relocations for roadworks are undertaken:
1) Main Roads paying Western Power to undertake the relocation directly; or
2) Main Roads procuring a contractor to undertake the works in line with Western Power's requirements and then 'gifting' the infrastructure to Western Power.

The choice between the two ways depends in each case on the type of the infrastructure and the circumstances of the movement. Factors that impact on the choice include the costs of each of '1' and '2' above, site conditions, timing of the roadworks and need for the control of the site by either party.

If the proposed treatment of tax costs is adopted and Western Power recovers tax costs from Main Roads as the party gifting the assets, the cost to Main Roads of the relocation arrangement in paragraph "2" will rise considerably. There will also be no corresponding tax benefit to Main Roads from writing off the asset when 'gifting' it to Western Power.

The timeframes for utility services relocations are already an issue for Main Roads. Economically precluding the alternative in paragraph “2” in circumstances where it would otherwise be a viable option cannot be expected to improve those timeframes. This is particularly so if that alternative is effectively precluded for all service relocations Western Power undertakes for external customers. Any resulting delays have flow-on effects for timeframes for completing Main Roads’ road construction and improvement projects and the delivery of the intended safety measures and improved traffic flows etc.

I would envisage that the impact for local governments would be similar in the course of road works they undertake on their roads.

Main Roads therefore suggests that these tax costs be shared across the entire customer base by allowing Western Power to recover them through network tariffs. This would avoid the problems set out in the preceding paragraphs, including creating an artificial cost imbalance between the two ways of carrying out service relocations in sub-paragraphs ‘1’ and ‘2’ as well as the potential for delays in service relocations.

I am available on 9323 4164 to discuss this if you require clarification or further information.

Yours faithfully,

Philip D’Souza
MANAGER FINANCE SERVICES