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# Addendum to amended proposed revisions to the access arrangement for the Western Power Network

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# 1 Introduction

This document, issued on 26 November 2012, amends Western Power's *Amended Proposed Revisions to the Access Arrangement*, which was submitted to the Economic Regulation Authority (the Authority) on 29 October 2012.

The 29 October submission proposed a commencement date of 1 January 2013 and included discussion of how Western Power calculated its opening tax asset base in order to implement the Authority's requirement for Western Power to move to post-tax revenue modelling. This document amends the 29 October submission in three areas:

1. After further consideration of issues related to the move to post-tax modelling, Western Power proposes an alternative option for applying depreciation to *new assets* in the tax asset base.
2. In response to customer feedback Western Power proposes a commencement date of 1 February 2013. The impact of this change is that the 2012/13 revenue will be recovered over five months rather than six and increase the average price in that year.
3. The *2012/13 Price List*, which was included in the 29 October submission, has been updated to include prices associated with the new Application & Queuing Policy. These prices were not listed in the 29 October submission.

This document discusses these proposals and lists the necessary changes that Western Power has made to the *Amended Proposed Revisions to the Access Arrangement* and the *Amended Proposed Access Arrangement Information*.

Western Power has reissued the *Amended Proposed Revisions to the Access Arrangement*, *Amended Proposed Access Arrangement Information*, *2012/13 Price List* and *2012/13 Price List Information* to the Authority for its consideration. Copies of the revised revenue, K factor and supporting distribution price models have also been provided.

## 1.1 Depreciation of new assets in the tax asset base

Western Power's opening tax asset base for the AA3 period has been established using expert analysis from Ernst & Young, which applies straight-line depreciation to existing assets. This approach is consistent with practices in other jurisdictions and Western Power considers it the most appropriate method for establishing the tax asset base required for post-tax revenue modelling. Therefore the opening tax asset base proposed in the 29 October 2012 submission is reasonable and should be adopted for the start of the AA3 period.

Following further study of the issues related to moving to post-tax revenue modelling, Western Power has considered options for applying depreciation *going forward* when estimating its tax liabilities. The diminishing-value depreciation method is an option available under the tax regime that can be adopted for network assets. Western Power proposes that diminishing-value depreciation should be assumed for any assets that are added to the tax asset base during the AA3 period. This approach will reduce the costs to be recovered from customers.

The effect of assuming diminishing-value depreciation to new assets results in a \$64 million (real at 30 June 2012) downward adjustment in target revenue compared to that proposed in the 29 October submission.

Revised target revenue for the period is \$6,897 million (real at 30 June 2012).

Table 1 lists the corrections that have been made to the *Amended Proposed Revisions to Access Arrangement* the *Amended Proposed Access Arrangement Information* and the *2012/13 Price List Information* to reflect the revised target revenue.

**Table 1: List of amendments to the access arrangement, access arrangement information and price list information to reflect the revised target revenue**

Document title	Page & section number	Description of amendment
Amended Proposed Revisions to the Access Arrangement	Page 29, Section 5.6.6	The values in Table 28 have been updated to reflect the revised <b>transmission</b> revenue cap in 2014, 2015, 2016 and 2017, which results from the diminishing-value depreciation of new assets in the tax asset base and revised access arrangement commencement date.
Amended Proposed Revisions to the Access Arrangement	Page 31, Section 5.7.6	The values in Table 29 have been updated to reflect the revised <b>distribution</b> revenue cap in 2014, 2015, 2016 and 2017, which results from the diminishing-value depreciation of new assets in the tax asset base and revised access arrangement commencement date.
Amended Proposed Revisions to the Access Arrangement	Page 38, Section 6.5.13	The values in Table 31 have been updated to reflect the revised annual percentage change <b>transmission</b> revenue in 2014, 2015, 2016 and 2017, which results from the diminishing-value depreciation of new assets in the tax asset base and revised access arrangement commencement date.
Amended Proposed Revisions to the Access Arrangement	Page 39, Section 6.5.14	The values in Table 32 have been updated to reflect the revised annual percentage change <b>distribution</b> revenue in 2014, 2015, 2016 and 2017, which results from the diminishing-value depreciation of new assets in the tax asset base and revised access arrangement commencement date.  <i>DX</i> <sub>2012/13</sub> has also been revised to 1.9% (from 1.8%)
Amended Proposed Revisions to the Access Arrangement	Page 51, Section 7.5.11	The incentive rates in Tables 38, 39, 40, 41 & 42 have been updated to reflect the revised target revenue, which results from the diminishing-value depreciation of new assets in the tax asset base and revised access arrangement commencement date.
Amended Proposed Access Arrangement Information	Page 32, Section 4.1	The tax liability resulting from the revised treatment of the tax asset base has been amended from \$385 million to \$323 million. The consequential increase in target revenue has been amended from \$144 million to \$81 million. The values in Table 2, 3 & 4 have been updated to reflect the revised target revenue, which results from the diminishing-value depreciation of new assets in the tax asset base and revised access arrangement commencement date.
Amended Proposed Access Arrangement Information	Page 36, Section 4.3	The working capital values in Table 5 & 6 have been updated to revised target revenue, which results from the diminishing-value depreciation of new assets in the tax asset base and revised access arrangement commencement date.
Amended Proposed Access Arrangement Information	Page 40, Section 4.4.2	Commentary on depreciation of assets has been updated to reflect Western Power's revised position as follows:  'Western Power proposes that diminishing-value depreciation should be assumed for any assets that are added to the tax asset base during the AA3 period. Diminishing-value depreciation is an option available under the tax regime that can be adopted for network assets. This option reduces the amount of revenue to be recovered from customers and reflects Western Power's forward-looking efficient costs.'



Document title	Page & section number	Description of amendment
Amended Proposed Access Arrangement Information	Page 41, Section 4.4.3	The 'Total depreciation over AA3' values in Table 11 have been updated to reflect the diminishing-value depreciation of new assets in the tax asset base.
2012/13 Price List	Pages 16-18, Section 5.2.1	Table 6 has been updated to correct a formatting error where values were not aligned with the correct zone substation
2012/13 Price List Information	Page 8, Section 1.4.2	The DRt and MDRt values in Table 3 have been updated to reflect the revised target revenue that results from the change in tax asset base method and the revised access arrangement commencement date. All values in Table 4 have been updated to reflect the revised target revenue that results from the change in tax asset base method and the revised access arrangement commencement date.
2012/13 Price List Information	Page 9, Section 1.5	The forecast over-recovery of distribution revenue during 2012/13 has been updated in Table 6. This reflects the revised target revenue that results from the change in tax asset base method and the revised access arrangement commencement date.
2012/13 Price List Information	Page 56, Section 7.2.3	The forecast over-recovery of distribution revenue during 2012/13 has been updated in Table 14. This reflects the revised target revenue that results from the change in tax asset base method and the revised access arrangement commencement date.
2012/13 Price List Information	Page 61, Section 8.1	The DRt value in Table 22 has been updated to reflect the revised target revenue that results from the change in tax asset base method and the revised access arrangement commencement date.
2012/13 Price List Information	Page 62, Section 8.1	The transmission % change in weighted average revenue has been updated for tariffs RT11, TRT1 and TRT2 in Table 24. This is to correct typographical errors.

## 1.2 Commencement date

Western Power proposes that the access arrangement commences on 1 February 2013. Western Power considers a 1 February commencement date will allow sufficient time for customers to implement the new 2012/13 network tariffs and to roll-out the revised Application & Queuing Policy.

The impact is that the 2012/13 revenue will be recovered over five months rather than six, which will cause the average price increases for the first year of AA3 to rise by approximately 1%.

The change start date only impacts the distribution prices. Transmission prices are unchanged.

Table 2 lists the corrections that have been made to the *Amended Proposed Revisions to Access Arrangement* the *Amended Proposed Access Arrangement Information* and the *2012/13 Price List Information* to reflect the revised commencement date.

**Table 2: List of amendments to the access arrangement, access arrangement information and price list information to reflect the revised commencement date**

<b>Document title</b>	<b>Page &amp; section number</b>	<b>Description of amendment</b>
Amended Proposed Revisions to the Access Arrangement	Page 7, Section 1.31.	Commencement date changed from 1 January 2013 to 1 February 2013
Amended Proposed Revisions to the Access Arrangement	Page 37, Section 6.5.13	Commencement date changed from 1 January 2013 to 1 February 2013
Amended Proposed Revisions to the Access Arrangement	Page 39, Section 6.5.14	Commencement date changed from 1 January 2013 to 1 February 2013
Amended Proposed Access Arrangement Information	Page 9, Section 2	Commencement date changed from 1 January 2013 to 1 February 2013
2012/13 Price List Information	Pages 3,5,7,8, Section 1	Commencement date changed from 1 January 2013 to 1 February 2013. All distribution prices have been revised as a result of revenue from 12/13 being recovered over 5 months instead of 6 months.
2012/13 Price List Information	Pages 26 to 27, Section 4.5	Commencement date changed from 1 January 2013 to 1 February 2013. Distribution prices revised as a result of the revenue from 12/13 being recovered over 5 months instead of 6 months.
2012/13 Price List Information	Page 59,62-64 Section 7	Commencement date changed from 1 January 2013 to 1 February 2013. Distribution prices revised as a result of the revenue from 12/13 being recovered over 5 months instead of 6 months.
2012/13 Price List Information	Page 65-77 Section 8	Commencement date changed from 1 January 2013 to 1 February 2013. Distribution prices revised as a result of the revenue from 12/13 being recovered over 5 months instead of 6 months.
2012/13 Price List	Page 1, Section 1	Commencement date changed from 1 January 2013 to 1 February 2013.
2012/13 Price List	Page 13-24, Section 5	Commencement date changed from 1 January 2013 to 1 February 2013. Distribution prices revised as a result of the revenue from 12/13 being recovered over 5 months instead of 6 months.

### 1.3 Processing fees associated with the Application & Queuing Policy

The revised Application & Queuing Policy includes fees that are chargeable when preliminary offers are processed and when preliminary offers are accepted by applicants. These fees should be listed in the 2012/13 Price List, but were omitted from the 29 October version.

To correct this, the Preliminary Offer Processing Fee and Preliminary Acceptance Fee have been added to Table 19 in Section 6 of the 2012/13 Price List:

Fee type	Price
New Standard Access Contract Fee	\$1,150.00
Access Contract Modification Fee	\$140.00 per modification
Transmission Enquiry Application Fee	\$3,500.00
Transmission Connection Application Fee	\$5,000.00
Distribution Connection Application Fee	\$2,500.00
Preliminary Offer Processing Fee	Details available from Western Power's website <sup>1</sup>
Preliminary Acceptance Fee	Details available from Western Power's website <sup>1</sup>

Note that the prices for the Preliminary Offer Processing Fee and the Preliminary Acceptance Fee are not quantified because they are variable and will be determined based on the methodology published on Western Power's website.

<sup>1</sup>Available from 1 January 2013 from:  
<http://www.westernpower.com.au/aboutus/accessArrangement/Networkaccessprices.jsp>