Attachment 12.4

Contributions Policy for AA4 Change Summary

Access Arrangement Information

2 October 2017

Access Arrangement Information (AAI) for the period
1 July 2017 to 30 June 2022

westernpower

Contributions Policy for AA4 Change Summary

Summary of proposed changes from AA3

Public

2 October 2017

westernpower

EDM#42809495

An appropriate citation for this paper is:

Contributions Policy for AA4 Change Summary

Western Power

363 Wellington Street
Perth WA 6000
GPO Box L921 Perth WA 6842

T: 13 10 87 | Fax: 08 9225 2660
TTY 1800 13 13 51 | TIS 13 14 50

Electricity Networks Corporation
ABN 18 540 492 861

enquiry@westernpower.com.au
westernpower.com.au

Enquiries about this report should be directed to:

AA4 Project Team

Email: AA4@westernpower.com.au

Contents

westernpower It's ON

1. Introduction

The Capital Contributions Policy is a requirement of Chapter 5 of the *Electricity Networks Access Code 2004* (the Code), and provides for the approach to charging customers seeking to connect a new site to the electricity network, or upgrade an existing connection.

The objectives for the Capital Contributions Policy defined in the Code are that it must:

a. in respect of a required augmentation, it strikes a balance between the interests of:

   i. the contributing user; and

   ii. other users; and

   iii. consumers;

   and

b. it does not constitute an inappropriate barrier to entry.

This document summarises the proposed changes to the Contributions Policy for AA4 and the rationale for each of these proposed changes, as well as feedback from stakeholders.

This summary document is supported by the proposed Contributions Policy (submission document number 1592 and 1567), which details proposed changes in both “tracked change” mode and as an unmarked version.

2. Proposed Amendments

The proposed amendments and their rationale for change are detailed in Table 2.1 below. Where a wording change is proposed, new text is highlighted in red, whilst removed text is highlighted as a strikethrough.

Table 2.1: Proposed amendments to the Contributions Policy

No.	Section	Current State/Definition	Proposed Change	Rationale For Change
1	4.3	Security clauses	It is proposed to amend the existing security clauses for user simplification.	To better enable Western Power's connecting customers to understand when, and for how long, security may be held by Western Power.
2	6	The Distribution Headworks scheme applies for supply upgrades to certain customer types in rural / regional areas (25km or more from nearest substation). The Scheme provides for a levelised $/kVa charge for such supply upgrades.	Western Power is proposing removal of the Headworks Scheme as defined in section 6 of the Contributions Policy and all associated references (as well as the associated Scheme Methodology).	The main issue is that only recovering a portion of costs for supply upgrades (as is the nature of $/kVa charges) leaves Western Power liable for the remainder of the costs. Such costs will rarely meet NFIT (due to being outside natural load growth scenarios), and given little growth in many regional locations means that recovery of the expenditure will rarely occur via the actual customers served (and be cross-subsidised by all customers). Western Power had committed to the State Government not to charge for headworks for the 2012/13 financial year, however the Policy has not been applied since. Western Power's current approach, in line with the issue identified, is to charge the forecast cost of the works (minus any portion deemed to meet NFIT) to supply upgrades in regional areas. Provision of a rural headworks scheme is not a mandatory requirement of the Access Code.

No.	Section	Current State/Definition	Proposed Change	Rationale For Change
3	7 (now section 6)	The Distribution Low Voltage Connection Headworks Scheme (DLVCHS) currently only applies to connection upgrades (brownfield works) and does not apply to new connections (new lots). Application of the DLVCHS allows for the cost of infrastructure required for new customer connections to be shared by all customers using the installed network. The DLVCHS provides a charge on the basis of requested capacity (kVA) rather than on whether the current network will have to be expanded as a consequence of the submitted application (i.e. does not penalise the first mover).	It is proposed to broaden the application of the DLVCHS to all new capacity connections (excluding the connections of gifted assets).	Benefits of expanding the DLVCHS to new connections include: • Enables the development industry to more accurately forecast costs • Consistency in charging between customers • Reduces handling errors incurred by manual processing • Facilitates easier internal assessments - simpler approach to charging customers. • Customer benefit from price certainty Application of the expanded DLVCHS will require some IT automation and process change to implement

No.	Section	Current State/Definition	Proposed Change	Rationale For Change
4	5.2	The revenue offset applied as part of section 5.2 of the Capital Contributions Policy is currently only provided to commercial connections, with revenue generally calculated for a 15 year period and deducted from the capital contribution.	Western Power is proposing to expand the provision of the revenue offset to include both residential and commercial customers. It is proposed to provide the residential revenue offset for the same 15 year period as currently only provided for commercial customers. Western Power believes the change can be given effect without any specific wording change within the Contributions Policy	The provision of a revenue offset recognises that customers making a new connection to the distribution network will incrementally contribute to Western Power's network tariff revenues over time. By accounting for incremental revenue earned over time, Western Power is able to reduce the capital contribution that may be payable by customers at the time of connection. The provision of a 15 year revenue offset for residential customers would also provide greater alignment with policies mandated in other Australian jurisdictions under the National Regulatory Framework.

3. Stakeholder Engagement Summary

3.1 Approach

Western Power conducted a series of engagements during mid-2016 with external stakeholders as part of its preparation for the non-progressed regulatory submission to the Australian Energy Regulator (AER). As part of the submission, Western Power would have been required to include a Connections Policy (replacing the AA3 Contributions Policy) outlining the approach to capital contributions payable by connecting customers, developed in line with the AERs *Connection Charge Guideline.*[1]

Key requirements of the AER Connection Charge Guideline that would have been applied were:

- The removal of the direct application of the tax on capital contributions, the recovery of which would have then been spread across distribution tariffs; and
- Introduction of a 30-year revenue offset for residential customers (to complement the existing 15-year revenue offset afforded to commercial connections)

The application of these requirements would have provided a material shift in the AA3 approach for the recovery of capital contributions from connecting customers.

3.2 Feedback from Stakeholders

Stakeholders including the Urban Development Institute Australia (UDIA), Western Australian Local Government Association (WALGA) and National Electrical and Communications Association (NECA) were very supportive of the proposed changes that would have resulted from alignment with the Connection Charge Guideline.

As a result of feedback from stakeholders, Western Power has included the provision of a revenue offset for residential customers in the proposed AA4 Contributions Policy, for the reasons outlined in Table 1.

However, despite stakeholder interest, Western Power has not included the removal of the direct application of the tax on capital contributions, given the ERAs position defined in the AA3 further final decision.

1 https://www.aer.gov.au/system/files/AER%20-%20connection%20charge%20guideline%20-%2020%20June%202012.pdf