



**Western Power**

24 August 2005

Dr Lyndon Rowe  
Chairman  
Economic Regulation Authority  
Level 6, 197 St Georges Terrace  
Perth WA 6000

Dear Lyndon

## **PROPOSED ACCESS ARRANGEMENT**

I am pleased to provide to you, by today's deadline, Western Power's:

- Proposed Access Arrangement;
- Access Arrangement Information; and
- Proposed Technical Rules,

as required by the Electricity Networks Access Code 2004.

An electronic (pdf) version and two printed copies of the submission documents are attached. In addition, we will be pleased to provide you, on request, an MSWord version of large documents contained in the Access Arrangement appendices to assist in your detailed review process.

I would like to bring to your attention a number of particular aspects of our submission:

### **1. Proposed Modified Regulatory Treatment of Capital Contributions**

The current regulatory framework provides network tariff revenue derived from the return on, and depreciation of, the network assets funded by the business (i.e. total value nett of capital contributions), with capital contributions accounted for as separate additional revenue.

An equally valid approach is to base the allowed total revenue on the full asset value but for the capital contributions to be included as part of this revenue, with the balance recovered through the tariffs. (Capital contributions are, in effect, equivalent to the future earning potential of the asset (in NPV terms), and the network business simply earns a combination of annual payments and up front payments for its investment in the network.) The Queensland distributors (Energex and Ergon) are regulated by the QCA in this manner.

The primary financial effects of this alternative approach are to increase future regulated revenue due to growth in asset value, with substantially lower initial prices due to offset by the capital contributions portion of the target revenue. Given the prospective large price rises using the current regulatory framework, adopting the alternative approach from the start of the new regulatory term seems prudent in order to minimize initial network tariff increases and customer impacts.

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It is noted that while the proposed regulatory approach is entirely consistent with the intent of the Code in terms of price outcomes, an issue remains in regard to compliance with the current wording of Clause 6.56. However, the Office of Energy has indicated support for the amendment of this Code provision and a copy of a recent letter from the Coordinator of Energy is attached.

## **2. Energy and Demand Forecasts for South West Interconnected System**

The proposed Access Arrangement is based on particular energy and demand forecasts for the 3 year regulatory term derived by Western Power and validated by an independent expert consultant. To date, Western Power has been unable to reconcile its forecasts with those published recently by the Independent Market Operator in its "Statement of Opportunities, South West Interconnected System, July 2005".

In any event, it is planned to use the most up-to-date forecasts available during the latter stages of the Authority's Access Arrangement review process as the basis for final revenue and price setting prior to the final approval stage.

## **3. Tariff Equalization Contribution (TEC)**

Western Power is advised that the imminent enactment of the Electricity Corporations Bill 2005 and a subsequent Code change will require the recovery of a Tariff Equalisation Contribution (TEC) by Western Power from its customers via networks tariffs. Since this Code change is anticipated well before the Authority's completion of the Access Arrangement review and will become a binding requirement for both Western Power and the Authority, a provisional (estimated) TEC amount of \$60 million has been included in the proposed Access Arrangement and is reflected in the proposed reference tariffs.

## **4. Capital Contributions Policy**

A number of elements of the Code's model Capital Contributions Policy which are known to be of particular interest to customers (namely, the manner of contributions and future rebates) have been included in the proposed Capital Contributions Policy but limited in application to large network users only, where individual management of contract accounts is the norm.

The wider application of these elements is contingent on the provision of new IT support systems and the redesign of internal processes. Detailed assessment of these particular aspects and the associated costs has not yet been undertaken. We recognise the importance of these issues to customers and intend to fully investigate options that consider issues such as customer benefit, business risk, cross subsidies, administration costs etc. This is an extensive piece of work and we have therefore divided the task into two parts:

- A. The review of alternate arrangements for the payment of capital contributions other than the current single up front payment. We anticipate this will take approximately 6 months to complete and therefore propose to provide a revised payment policy for small customers for your review by March 2006.
- B. The methodology to be used to assess the extent of forecast load growth from other customers that should be taken into account when assessing the level of initial capital contributions for small customers. This is a major project which is expected to take at least 12 months to complete. We propose to provide a revised capital contributions policy for small customers that addresses this issue by September 2006.

## 5. Technical Rules

### **General**

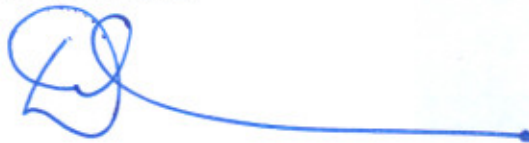
As you are aware, review of the proposed Technical Rules by the Authority's Technical Rules Committee is well advanced but not yet complete. Therefore the submitted Technical Rules document represents the current state (with the exception of the distribution design standards mentioned below) on which the proposed Access Arrangement is based. Western Power reserves the right to adjust detailed aspects of its Access Arrangement proposals should material changes to the submitted version of the Technical Rules eventuate.

### **Design Standards**

In particular, a number of distribution network design standard enhancements were recently incorporated in the proposed Technical Rules for consideration by the Committee. The financial effects of these changes have not been included in the proposed Access Arrangement. However, should these changes be endorsed by the Committee and be included in the approved Technical Rules, a corresponding increase in forecast distribution capital expenditure would be proposed by Western Power in a revision to the proposed Access Arrangement. Despite the increase in required capital expenditure, the overall financial effect of these changes is for tariffs to actually decrease due to the additional associated capital contributions.

Lyndon, this submission achieves a significant milestone in further development of a competitive electricity market in WA and Western Power looks forward to working with the Authority over the coming months to attain an approved Access Arrangement in early 2006.

Yours sincerely



**DOUG ABERLE**  
**GENERAL MANAGER NETWORKS**

cc: Mr Tony Ianello  
Managing Director  
Western Power Corporation