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By email: public_consultation@era.wa.gov.au

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Dear Robert

Western Power's revised proposed access arrangement

Thank you for providing an opportunity to comment on the revised proposals for Western Power's revised proposed access arrangement for the South West Interconnected System (SWIS). Alinta Sales Pty Ltd's (Alinta) comments are set out below.

Reductions in contracted capacity

Western Power has proposed it should be given the power to unilaterally take away, or reduce the Contracted Maximum Demand (CMD) at a connection point if in Western Power's reasonable opinion the user does not need the CMD it has booked. It is Alinta's understanding that Western Power's rationale for this provision is to be able to efficiently utilise the network by ensuring it is not "gold-plated" to cater for non-existent demands and to curb possibilities for anti-competitive behaviour.

Alinta does not support Western Power's proposal. "Use-it-or-lose-it" provisions can be helpful to curb anti-competitive behaviour. However, it is a very heavy handed approach and would restrict opportunities for parties to come to bilateral agreements regarding the allocation of capacity on the network. Wherever possible, Alinta supports market based approaches, and welcomes further consideration of explicitly allowing CMD to be a tradable commodity along the lines outlined in the 10 January 2007 Parsons Brinckerhoff Associates report (PBA report).

Alinta also agrees with the assessment on the final pages of the PBA report that Western Power's role is to facilitate access to the network and that it is the role of the regulator to monitor and curb anti-competitive behaviour. Furthermore, as highlighted by the Economic Regulation Authority (ERA), there are already provisions in place under the Electricity Industry Act 2004 for issuing significant fines to persons that are guilty of anti-competitive behaviour. Users wishing to retain the rights to CMD they are not using for a period of time are also obligated to pay the ongoing network charges related to the CMD, which constitutes a significant financial commitment.

On the SWIS, especially for remote mining locations users often have to pay significant capital contributions to connect. It is not uncommon that some of these operations shut down for periods of a few months up to a few years due to operational reasons or temporary dips in commodity prices. Alinta considers it unreasonable that these users could potentially lose their entitlements to connect to the SWIS and have to go through the entire connection process again when they are ready to resume operations. Instead, these users should be allowed to bilaterally trade their capacity for the period when they do not need it provided they continue to pay Western Power the normal network charges associated with their CMDs.

In summary, Alinta considers that:

- there are sufficient financial and legal incentives in place to deal with concerns regarding anti-competitive behaviour
- it will be beneficial to further explore tradability of CMD to ensure efficient utilisation of CMD on the SWIS.

Treatment of capital contributions in charging base

Western Power has suggested a new method for recognising capital contributions in its revenue. In the year (or subsequent year) when a capital contribution is made, allowable revenue is reduced by the same amount (i.e. the tariffs charged to all users will be lower than it otherwise would have been). The capital contribution is then added to capex, and reflected in tariffs to all users during the economic life of the asset.

Alinta is concerned that the proposed treatment of capital contributions could give raise to cross-subsidies between present and future users of the SWIS. For example, a user that is about to retire its plant is likely to experience improved performance from the system due to the new investment, yet also benefit from reduced charges in the year the capital contribution was made. The windfall would be funded by future users via the increased charges flowing from the higher capex.

Alinta is also concerned the proposal will lead to less transparency in the way investment in the SWIS is funded. By keeping capital contribution assets separate from the asset base it will highlight just how much and which assets have been paid for by users. If a user has negotiated with Western Power that Western Power must reimburse the user for some of the capital contribution if another user starts to utilise the asset then it would be clearer for all concerned if those assets were separately accounted for and not part of the network asset base.

Treatment of capital contributions – headwork charge

The Office of Energy has proposed a change to the capital contribution policy as it considers the current approach may lead to useful investment not being made because a single user cannot afford the cost of the capital contribution. The Office of Energy has suggested a new treatment of capital contributions, where network augmentations that may be triggered by a sole user, but will benefit more than one user should be charged across all users in a region rather than being targeted via a capital contribution to the triggering user. The Office of Energy has suggested that regional headwork charges be calculated to reflect the cost of network augmentations attributable to users in that region.

Alinta fully supports a review of the capital contribution policy keeping in mind the overall objective of the Network Access Code to promote competition in markets upstream and downstream of the networks. The current capital contribution policy represents a barrier to entry for new generation and load with negative flow on effects for competition in the market place, to the ultimate disadvantage of end consumers.

Alinta has commented on the issue of capital contributions on many occasions in the past. Alinta made detailed comments in our previous 10 November 2005 and 19 May 2006 submissions to the ERA. Alinta also refers the ERA to its previous comments which are still valid.

Alinta understands that this issue has been driven by the need to support investment in the regional parts of the SWIS. In taking this proposal forward it should be applied equally across users of the entire SWIS, including the Metropolitan area.

Alinta notes that the ERA is considering numerous matters associated with the access arrangement that may have cost implications to customers. Alinta asks that the ERA ensure that the final tariff path to customers be smooth by having appropriate caps in place to remove a significant step change to customers at the commencement of the access arrangement and within the access arrangement period.

Please call me on 08 6213 7304 if you would like to discuss any of the issues in this letter further.

Yours sincerely

Kristian Myhre
Manager Market Analytics