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Mr Robert Pullella
Executive Director Competition, Markets and Electricity
Economic Regulation Authority
PO Box 8469
PERTH BC WA 6849

Dear Robert

Submission - Western Power's Access Arrangement

Transfield Services wishes to make a submission to the Authority's request for submissions on 17 January 2007 relating to Western Power's Revised Proposed Access Arrangement. In particular, Transfield Services would like to comment on the treatment of Capital Contributions and Headworks Charges.

Transfield Services recognizes that the time for submissions has passed and that others who have made submissions to the Authority have addressed many of the issues that require consideration. The following focuses on an issue in which Transfield Services feel has not been given adequate commentary within the submissions.

Transfield Services acknowledge that the concept of Headwork Charges based on a \$/kVA basis has a place in extending the distribution network to supply future multiple subdivision developments when each particular development is not yet identified but highly likely to occur in the near future (based on prudent and reasonable planning). This concept is not appropriate however in our view, at a transmission or subtransmission level, due to the large capital costs involved and the higher impact of potential stranded transmission assets.

A policy on Capital Contributions and Headwork Charges are fundamentally linked and underlying this also is a linkage between the "Regulatory Test" and the "New Facilities Test". The issue that must be carefully and consistently articulated in decisions by the ERA will be a level playing field with respect to long term investment risk, firstly between different competing solutions in providing capacity (generation, network access and demand side solutions) and secondly a level playing field in terms of the allocation of those costs and risks to the different types of end user stakeholders.

The Regulatory Test has the purpose of determining the most economic solution to provide for a reliable supply of electricity when an expected constraint in the network is expected in the near future. The best solution is determined using a prudent load growth forecast and on an M10 (high temperature) probability basis for future load. The ERA should ensure that alternate options such as generation and demand side options are treated on an equitable basis with network augmentation solutions in respect of long-term investment risk. A network provider, such as Western Power should not be protected through the regulated revenue process where all network end users bear the risk of stranded transmission assets.

This could be the case if a headworks charging mechanism encourages higher than prudent prediction of underlying load growth.

The New Facilities Test is designed to ensure that Western Power will have sufficient revenues to support new transmission augmentations through future use of system charges plus Capital Contributions, plus Headwork Charges where applicable. As it stands the Capital Contribution policy will require significant new loads to pay a contribution to the network augmentation on top of an underlying standard use of system charge. In effect Capital Contributions fund the cost of bringing forward an augmentation of the system earlier than otherwise would be the case on a reliability basis alone (based on the general load growth in the region).

Any shift of approach from a Capital Contribution approach to a Headworks Charge approach is essentially shifting the long-term risk of stranded transmission assets from providers of the Capital Contribution to all other Western Power's network users on the SWIS. An earlier version of the access arrangement proposed a limit of 5 years on refunds which would have been too onerous a risk on the original contributor of capital. We understand this limit of 5 years will be removed in the final version.

Transfield Services' view is that for significantly large capital asset augmentations (primarily transmission and subtransmission assets) that a Headworks Charge approach alone would place too much risk on all consumers on the network. A Capital Contributions approach is more appropriate with refunds being applicable over a negotiable period (typically minimum 20 year period). This would mean a more reasonable sharing of the risk of stranded network assets. The specific payment arrangement for Capital Contributions and refunds in these cases should also be a negotiated process to enable a financially efficient payment arrangement to be structured for the contributor.

We would welcome the opportunity to discuss our comments with you further at a convenient time.

Yours faithfully

Ian Nichols
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Transfield Services Limited