

**Response to the Required Amendments  
in the Authority's Final Decision**

**Western Power's amended proposed Access  
Arrangement for the Network of the South  
West Interconnected System**

Submitted by Western Power  
2 April 2007

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## Table of contents

1	INTRODUCTION .....	2
2	OVERVIEW OF WESTERN POWER'S POSITION ON THE REQUIRED AMENDMENTS .....	4
3	STATEMENT OF REASONS FOR WESTERN POWER'S POSITION ON THE REQUIRED AMENDMENTS .....	12
3.1	REQUIRED AMENDMENT 6 .....	12
3.2	REQUIRED AMENDMENT 7 .....	12

## 1 Introduction

On 2 March 2007, the Economic Regulation Authority (the Authority) published its Final Decision on Western Power's revised proposed access arrangement for the South West Interconnected Network (SWIN).

The Authority's Final Decision sets out 26 amendments that must be adequately addressed in the amended proposed access arrangement before the Authority will approve it.

This document sets out Western Power's response to the Required Amendments contained in the Final Decision, and also addresses a further informal amendment suggested by the Authority. The remainder of this document is structured as follows:

- Section 2 contains a table which lists each Required Amendment (numbered 1 to 26 inclusive) in the Final Decision. The table provides a brief explanation of the way in which Western Power has given effect to the Required Amendment, as follows:
  - Where Western Power accepts a Required Amendment the table in section 2 provides appropriate cross references to direct the reader to the relevant section(s) of the amended access arrangement information and/or the amended proposed access arrangement.
- Section 3 contains further explanatory information regarding those Required Amendments where it has been addressed by Western Power rather than accepted in full. In relation to these Required Amendments, this section:
  - sets out the company's understanding of the Authority's position, based on the reasoning contained in the Final Decision as well as any discussion or correspondence that has taken place between the Authority and Western Power since the publication of the Final Decision; and
  - explains the reasons for the company's response in light of the foregoing information.

In addition to submitting this document in response to the Final Decision, Western Power will also be submitting:

- an amended proposed access arrangement; and
- amended access arrangement information.

As noted in section 4.2 of the Code, the purpose of the access arrangement information is to enable the Authority, users and applicants to:

- (a) understand how Western Power derived the elements of the proposed access arrangement; and
- (b) form an opinion as to whether the proposed access arrangement complies with the Code.

In Western Power's view, the amended access arrangement information submitted in response to the Final Decision meets the requirements of section 4.2.

Accordingly:

- Western Power has endeavoured to ensure that wherever possible, this document does not unnecessarily duplicate information that is set out in the separate amended access arrangement information or amended proposed access arrangement lodged as part of Western Power's response to the Final Decision.
- The scope of this document is generally confined to setting out the reasoning underpinning Western Power's responses to the Required Amendments set out in the Final Decision.
- As noted above, this document provides appropriate cross references to direct the reader to the relevant section(s) of the amended access arrangement information or amended proposed access arrangement.

## 2 Overview of Western Power's position on the Required Amendments

Required Amendment	Amendment Wording (abridged)	Summary of Western Power's position	Further details contained in:		
			Access Arrangement	AAI	This document
1	The revised proposed access arrangement should be amended to delete clause 3.4 or to amend this clause to indicate that a user or applicant may obtain a reference service on the terms and conditions of the electricity transfer access contract.	Accepted. Section 3.4 of the revised proposed access arrangement has been amended.	Section 3.4	n/a	n/a
2	The revised proposed access arrangement should be amended to distinguish between rural-short and rural-long feeders in specification of service standard benchmarks for SAIDI and SAIFI for distribution network.	Accepted. Western Power has included benchmarks for rural-short and rural-long feeder categories in the amended AA, with consequential amendment to the benchmarks for the urban feeder category.	Clauses 3.18 and 3.19	Part D, Section 3.5	n/a
3	The access arrangement information should be amended to include substantiated forecasts of forecast maximum demand.	Accepted. Western Power has adopted the IMO's latest demand forecasts. Substation load trend reports provided to the Authority, in confidence.	n/a	Part B, Section 2	n/a
4	The revised proposed access arrangement should be amended to remove provision under sections 5.30, 5.33 and 5.41 and 5.44 for exclusion of revenues from consideration under the revenue cap, other than revenues earned from services that are excluded services or that are otherwise not covered services. Corresponding amendments should be made to remove explanatory notes on this element of the proposed price control from Appendix 8 of the revised proposed access arrangement.	Accepted. Western Power has deleted sections 5.30 and 5.41; and modified sections 5.33, 5.44 and 5.52 to explain that only revenue from excluded services will not be considered for price control purposes.	Sections 5.30; 5.33; 5.41; 5.44 and 5.52	Part D, Section 4.5	n/a

Required Amendment	Amendment Wording (abridged)	Summary of Western Power's position	Further details contained in:		
			Access Arrangement	AAI	This document
5	The revised proposed access arrangement should be amended to include, as part of the price list information, full details of calculations to verify that the component charges of reference tariffs are forecast to return the required reference service revenue for the 2006/07 year.	Accepted.	Price list Information – two revenue worksheets provided to the Authority, in confidence	n/a	n/a
6	The price list provided as Appendix 5 of the revised proposed access arrangement should be amended to include charges made in respect of the provision and operation of connection assets for reference services A11 (Transmission Exit Service) and B2 (Transmission Entry Service) except for the charges that are determined by negotiation and subject to confidentiality.	Amendment addressed.	n/a	n/a	Section 3.1
7	The price list provided as Appendix 5 of the revised proposed access arrangement should be amended to reflect an implementation of the price control that, as far as practical, smooths changes in reference tariffs across the access arrangement period.	Amendment addressed.	Section 9.19	Section 5.5.7	Section 3.2
8	Clause 5.6 of the revised proposed access arrangement should be amended to state the methodology to be applied by Western Power to determine the amount to be added to target revenue to reflect unforeseen force majeure events.	Accepted. Western Power has amended section 5.6 of the Access Arrangement to refer to a methodology now included in Appendix 8 of the Access Arrangement.	Section 5.6 and Section 3 of Appendix 8	Cross-reference to the AA is included in Part D, sections 4.3	n/a
9	Clause 5.10 of the revised proposed access arrangement should be amended to state the methodology to be applied by Western Power to determine the amount to be added to target revenue to reflect changes in the Technical Rules.	Accepted. Western Power has amended section 5.10 of the Access Arrangement to refer to a methodology now included in Appendix 8 of the Access Arrangement.	Section 5.10 and Section 4 of Appendix 8	Cross-reference to the AA is included in Part D, sections 4.4	n/a

Required Amendment	Amendment Wording (abridged)	Summary of Western Power's position	Further details contained in:		
			Access Arrangement	AAI	This document
10	The revised proposed access arrangement or access arrangement information should be amended so that the investment adjustment mechanism is applied to new facilities investment undertaken for augmentation of the distribution system under the regional power improvement program and state underground power program. The investment adjustment mechanism should not be applied to investment in information technology assets.	Accepted. Western Power has amended section 5.53 of the Access Arrangement to address Required Amendment 10.	Section 5.53	Part D, section 4.5	n/a
11	The revised proposed access arrangement should be amended to remove provision under clause 5.52 for exclusion of new facilities investment from consideration under the investment adjustment mechanism, other than where the relevant new facilities investment occurs for the provision of excluded services or other services that are not covered services.	Accepted. As noted in relation to Required Amendment 4, Western Power has deleted sections 5.30 and 5.41; and modified sections 5.33, 5.44 and 5.52 to explain that only revenue from excluded services will not be considered for price control purposes.	Sections 5.30; 5.33; 5.41; 5.44 and 5.52	Part D, Section 4.5	n/a
12	Clause 8.1(a)(iii) of the revised proposed access arrangement should be amended to remove the role of the Authority in determining whether a trigger event has occurred.	Accepted. In addition to addressing the Required Amendment, Western Power has also included a provision relating to the designated date, as required by section 4.37(d).	Sections 8.1(a)(iii) and 8.1(b)	Part D, Section 10.4	n/a
13	The revised proposed access arrangement should be amended to either delete clause 3.2 of the electricity transfer access contract, relating to the ability of Western Power to unilaterally determine to reduce a user's contracted capacity, or to amend clause 3.2 to make any such determination subject to agreement with the affected user.	Accepted.	ETAC clause 3.2 deleted	Appendix 9 Section 2.1 deleted	n/a

Required Amendment	Amendment Wording (abridged)	Summary of Western Power's position	Further details contained in:		
			Access Arrangement	AAI	This document
14	The revised proposed access arrangement should be amended so that clause 3.5(c)(i) of the electricity transfer access contract includes the circumstance of a user relocating contracted capacity between connection points in accordance with clause 6 of the transfer and relocation policy.	Accepted.	ETAC new clause 3.4(c)(i)(F) and definition of "Relocation"	Appendix 9 Section 2.2(old 2.3) retained	n/a
15	The revised proposed access arrangement should be amended to delete clause 3.7 of the electricity transfer access contract, relating to reduced demand payments.	Accepted.	ETAC clause 3.7 deleted	Appendix 9 Section 2.2.5 deleted	n/a
16	Section 6.1(a) of the revised electricity transfer access contract should be amended so that the obligation on a user to nominate a person as the controller of a connection point applies only where: <ul style="list-style-type: none"> <li>(i) generating plant with installed capacity exceeding 30 kVA is connected at the connection point;</li> <li>(ii) connection assets for the connection point are operated at 66 kV or greater; or</li> <li>(iii) the rating of the largest motor connected at the connection point is greater than 0.4 per cent of the three phase short circuit fault level at the attachment point.</li> </ul>	Accepted.  Amended ETAC clause 6.1 now limits the controllers for which the User must nominate a person. Reference to the Metering Code has been deleted.	ETAC clause 6.1 amended  ETAC clause 6.2 deleted – moved to clause 6.1  Opening paragraph of ETAC clauses 6.2(d), and 6.2(d)(ii) amended such that reference to 6.3(c) is replaced with 6.2(c)	Appendix 9  Section 2.6 (new 2.5) amended	n/a



Required Amendment	Amendment Wording (abridged)	Summary of Western Power's position	Further details contained in:		
			Access Arrangement	AAI	This document
17	<p>The revised proposed access arrangement should be amended so that the applications and queuing policy indicates that Western Power must accept an electricity transfer application to increase contracted capacity if it forms the view as a reasonable and prudent person that:</p> <p>(iv) accepting the capacity increase would not be likely to impede the ability of Western Power to provide a covered service sought in an access application lodged by another applicant; and</p> <p>(v) it is not likely that an augmentation would be required to provide the capacity increase.</p>	<p>Accepted.</p> <p>The amendments result in clause 10.2 having equivalent effect to A3.15 - A3.17 of the ETAC.</p>	<p>Applications and queuing policy clause 10.2(c) amended</p> <p>New clause 10.2(d) added, Clause 10.2(e) [was (d)] amended.</p>	<p>Appendix 7</p> <p>Section 4.4 amended</p>	n/a
18	<p>The revised applications and queuing policy should be amended so that:</p> <p>(vi) clause 7.1(e) requires Western Power to use reasonable endeavours to make an access offer within the later of 5 business days of receiving the electricity transfer application or within 5 business days of an access offer being signed for any associated connection contract; and</p> <p>(vii) clause 7.1(f) requires Western Power to use reasonable endeavours to make an access offer within the later of 10 business days of receiving the electricity transfer application or within 5 business days of an access offer being signed for any associated connection contract.</p>	<p>Accepted.</p>	<p>Applications and queuing policy clauses 7.1(e) and 7.1(f) amended</p>	<p>Appendix 7</p> <p>Table 1 in section 2.3 amended</p>	n/a

Required Amendment	Amendment Wording (abridged)	Summary of Western Power's position	Further details contained in:		
			Access Arrangement	AAI	This document
19	The revised applications and queuing policy should be amended to clearly indicate that the queuing provisions of the policy apply generally to access to spare capacity at locations on the network more generally.	Accepted. Applications and queuing policy clause 24.4, being a part of the section on queuing rules, could have been interpreted as narrowing the effect of old clause 23 (new clause 22). Clause 24.4 has been moved outside the section on queuing rules and made subject to new clause 22 (with some clarifying amendments).	Applications and queuing policy clause 24.4 moved to new clause 23 and amended	Appendix 7 Section 6.2 amended	n/a
20	The revised proposed access arrangement should be amended to delete clause 3.8 of the applications and queuing policy, relating to the requirement that an applicant must not apply for a greater capacity than is reasonably required by the facilities and equipment connected or to be connected at the connection point.	Accepted.	Applications and queuing policy clause 3.8 deleted	Appendix 7 Section 3.6 deleted	n/a
21	The revised applications and queuing policy should be amended to provide for a change in the identity of the applicant, for electricity transfer applications to be amended or withdrawn and for appropriate changes to, or refunds of, lodgement fees where an electricity transfer application is amended or withdrawn.	Accepted. Clause 21 has been amended and moved to the common provisions so that the amendment and withdrawal provisions apply to both Electricity Transfer Applications and Connection Applications.  Refund of part or all of lodgement fees, as appropriate, is captured by new clauses 3.13(b) and (d).  Change in the identity of the applicant is included in clause 3.13(e).	Applications and queuing policy clause 21 amended and moved to new clauses 3.13 and 3.14	Appendix 7 New section 3.7 inserted	n/a

Required Amendment	Amendment Wording (abridged)	Summary of Western Power's position	Further details contained in:		
			Access Arrangement	AAI	This document
22	The revised capital contributions policy should be amended so that the capital contributions policy is applied in accordance with the requirements of sections 5.14 and 5.14A of the Access Code for works associated with supply extension schemes, residential pole to pillar connections, public-road street lighting and subdivisions.	Accepted.	Capital contributions policy clause 2(b) and 2(c) inserted	Part D, Section 7 revised Appendix 8 revised	n/a
23	The revised capital contributions policy should be amended to clearly indicate that capital contributions under the terms of clause 8 of the revised capital contributions policy will only be required to the extent consistent with sections 5.14 and 5.14A of the Access Code.	Accepted.	Capital contributions policy clause 6 (previously clause 8) modified	Appendix 8 revised	n/a
24	The revised capital contributions policy should be amended to include a general provision for capital contributions to be made by provision in-kind, subject to agreement by Western Power.	Accepted.	Capital contributions policy clause 7.1(c) and 7.4 inserted	Appendix 8 revised	n/a
25	The revised capital contributions policy should be amended so that rebate provisions applying to capital contributions made in respect of a supply extension scheme are consistent with the extension and expansion policy for the SWIN.	Accepted.	Capital contributions policy clause 8.3 inserted.  Capital contributions policy clause 8.1(b)(ii) amended - 5 year period changed to 10 years	Appendix 8 revised	n/a

Required Amendment	Amendment Wording (abridged)	Summary of Western Power's position	Further details contained in:		
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26	The revised capital contributions policy should be amended to provide for the period over which rebate provisions to be consistent with any relevant provisions of the extension and expansion policy, or otherwise to be negotiated between Western Power and the contributing applicant or user where the value of the contribution is in excess of \$100,000.	Accepted.	Capital contributions policy clause 8.1(a) inserted	Appendix 8 revised	n/a
Additional amendment	Although not a formal amendment, the Authority has suggested that Western Power may wish to consider amending its proposed access arrangement to enable the adjustment of revenues for any differences between forecast and actual capital contributions to be applied over a number of future access arrangement periods, rather than concentrating any required revenue adjustment in the next access arrangement period.	Accepted.	Sections 5.32 and 5.43, and Appendix 8	Part D, Section 4.5.2	n/a

### **3 Statement of reasons for Western Power's position on the Required Amendments**

#### **3.1 Required Amendment 6**

This amendment requires Western Power to amend the price list "to include charges made in respect of the provision and operation of connection assets for reference services A11 (Transmission Exit Service) and B2 (Transmission Entry Service) except for the charges that are determined by negotiation and subject to confidentiality".

The Authority's concern, as articulated in Paragraphs 634 of the Final Decision, is that the price list should "state connection charges where these charges are determined at a standard rate or are not considered confidential".

For transmission reference tariff TRT1 (A11 - transmission exit service) and TRT2 (B2 - transmission entry service) the connection charge is a user specific charge. In these circumstances, publishing existing connection charges may confuse prospective users, whose actual connection charges would reflect their particular connection asset requirements, and not any published price. Furthermore, publishing connection charges for specific users raises confidentiality issues.

The connection charge in reference tariff RT11 (distribution entry service) is determined at a standard rate and this is specified in the price list.

It is concluded that the definition in the price list of TRT1 and TRT2 does not require any amendment to include a flat rate connection charge as each connection charge is user specific and confidential to that user. Western Power therefore believes that no changes to the price list are required in order to address Required Amendment 6.

#### **3.2 Required Amendment 7**

This amendment requires Western Power to amend the price list "to reflect an implementation of the price control that, as far as practical, smooths changes in reference tariffs across the access arrangement period".

The Authority's concern, as articulated in Paragraphs 644 and 645 of the Final Decision, is that whilst tariffs have been smoothed in relation to expected increases in 2007/08 and 2008/09, the smoothing process has not been applied to 2006/07 with the result that some tariffs would be subject to significant increases.

Western Power wholeheartedly supports the Authority's view in Paragraph 647 that in meeting the objective of section 7.4(d) of the Code (to avoid price shocks) the price control should be implemented in a manner such that, to the extent practically achievable, increases or decreases in tariffs over the access arrangement period are spread across all years of the period and tariff shocks are avoided.

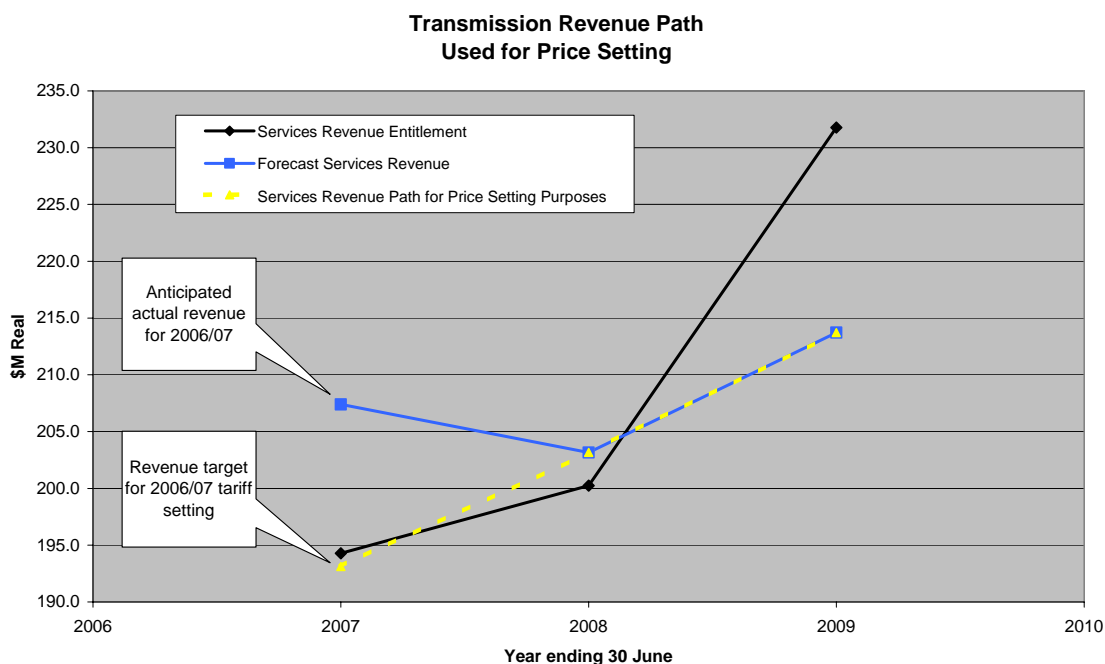
Western Power believes that these desired outcomes are now effectively achieved in this amended proposed Access Arrangement, as explained below. (Note: For the sole purpose of this explanation, "services revenue" is defined as total target revenue minus capital contribution revenue.)

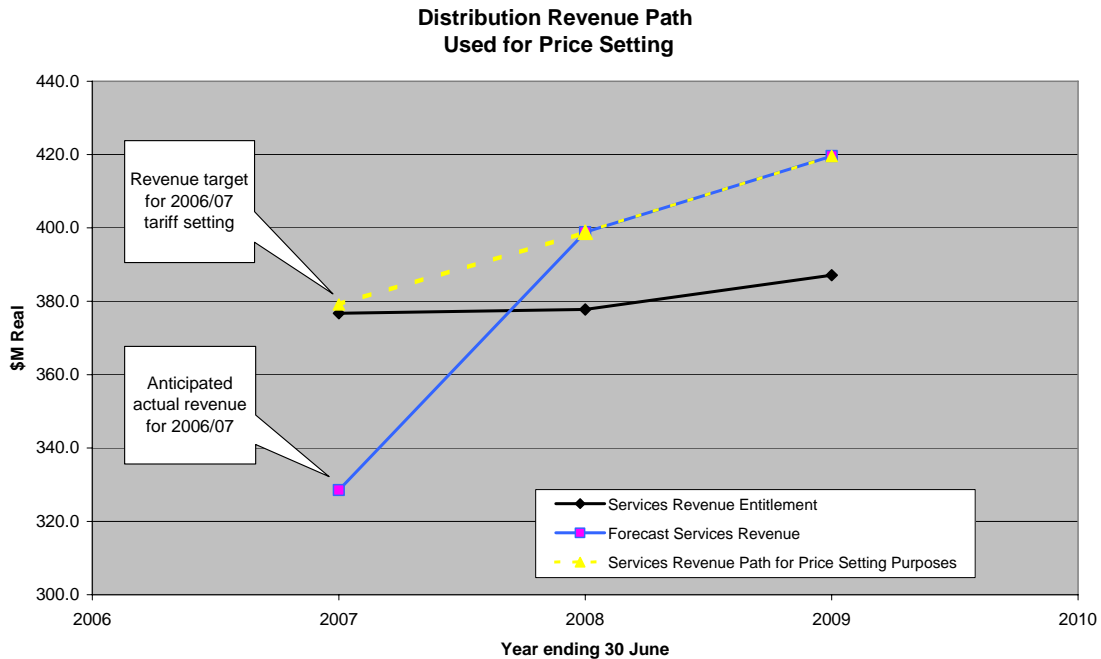
In smoothing tariff prices for this access arrangement period, two factors must be taken into consideration:

- 1) As a result of the delay in commencement of the Access Arrangement and application of new tariffs, Western Power's actual services revenues will be substantially different to the services target revenue in this financial year, resulting in estimated K-factors of approximately \$13.1M (real \$) over recovery for transmission and \$48.2M (real \$) under recovery for distribution.
- 2) The revenue caps have increased significantly as a result of increases in forecast operating and capital expenditure as explained in Western Power's section 51 submission dated 26 September 2006.

The consequent transmission and distribution "services revenue" are shown in the following graphs, noting that the 2007 values of "forecast services revenue" are the anticipated actual revenues for the 2006/07 financial year.

**Figure 1 - Transmission Services Revenue Path**



**Figure 2 - Distribution Services Revenue Path**

The “services revenue path for price setting purposes” represents planned average annual revenue increases of CPI+3% for both transmission and distribution. This rate of increase and the 2006/07 tariff settings have been chosen, in combination, as an optimal “best fit” which provides:

- Tariff increases in the second and third years comparable with the proposed initial tariff movements in year 1 (compared with current published tariffs);
- Tariff increases in the second and third years sufficient to compensate for the K factors in year 1; and
- The ability to manage possible positive K factors in the second and third years within the tariff side constraints.

A comparison of the proposed 2006/07 tariffs and current published tariffs is provided in the following table. The outcomes are the calculated average bundled tariff movements for all customers on the respective tariffs (based on c/kWh or \$/kW, as appropriate).

Reference Service	Average Price Movement
A1	+7.4%
A2	+4.7%
A3	+7.5%
A4	+6.4%
A5 & A6	+3.9 to +6.8%
A7 & A8	-0.7% to + 6.8%
A9	+1.1% 0% (asset)
A10	<1%
A11	-6.3% to +5.0%
B1	-7.9% to +7.9%
B2	-7.9% to +7.9%

It is concluded that the initial price movements are generally comparable with the projected average tariff increases of CPI+3% in the second and third years, thereby satisfying the required amendment.