13 October 2008

Alinta Sales Pty Ltd
ABN 92 089 531 984
12-14 The Esplanade
Perth WA 6000
PO Box 8348
Perth BC WA 6849
T 08 9486 3000
F 08 9221 9128
www.alinta.net.au

Attention: Ms Karen Tilsed
66/11kV Medical Centre New Facilities Investment Test
Electricity Access
Economic Regulation Authority
PO Box 8469
Perth BC WA 6849

by e-mail to: medicalcentrenfit@era.wa.gov.au

Dear Karen

New Facilities Investment Test
Western Power Proposed 66/11kV Medical Centre Substation Expansion

This submission from Alinta Sales Pty Ltd (**Alinta**) is in response to a request for submissions from the Economic Regulation Authority (**ERA**) concerning the following:

(a) "Pre-Approval of New Facilities Investment – 66/11kV Medical Centre Zone Substation expansion and voltage conversion of distribution network" submitted by Western Power, dated 6 August 2008 (**Western Power Submission**); and

(b) "Issues Paper on the New Facilities Investment Test for a 66/11kV Medical Centre Zone Substation Expansion and Voltage Conversion of the Distribution Network" from the ERA, dated 26 September 2008 (**Issues Paper**).

Alinta has a number of concerns with the Western Power Submission. These concerns are detailed below.

Passing the Regulatory Test

Alinta notes from paragraph 3 of the Issues Paper that the ERA waived the requirement for the regulatory test partly because the nature of the funding of the proposed substation will not cause a net cost to other network users. Alinta takes this to mean that payment of a capital contribution by Sir Charles Gairdner Hospital has helped satisfy the requirements of the regulatory test.

Alinta submits that the decision whether or not to impose a capital contribution should be taken as part of the New Facilities Investment Test (**NFIT**) and should not be pre-empted as a condition for the proposed new facilities investment to pass the regulatory test.

Efficiency Test

Western Power claims in section 4.1 of the Western Power Submission that if the regulatory test has been satisfied or waived then the best option has already been determined. That option should be considered to meet the efficiency test requirements in clause 6.52(a) of the NFIT. Alinta disagrees with Western Power's position on this matter.

The regulatory test may have identified the best option to implement, but there are still a number of factors Western Power should be required to demonstrate before the new facilities investment is deemed to pass the efficiency test. Specifically:

- the ERA should be satisfied – through a review of Western Power's contracting methodology, tendering processes, cost estimates, contingency allowances and project schedule – that the proposed capital works will be undertaken in a way that minimises project costs; and

- the ERA should be satisfied that use of 132kV rated cable at a 66kV substation, installation of higher capacity transformers and use of GIS switchgear is justified as part of the new facilities investment.

Safety and Reliability Test

The two primary reasons for undertaking work at a zone substation would seem to be:

(a) the substation has reached the end of its useful life and needs to be replaced; and

(b) electricity demand in the region supplied by the substation has increased beyond the substation's existing capacity.

The Medical Centre zone substation is 50 years old, so it is reasonable to expect that it has reached, or is close to reaching, the end of its useful life and needs to be replaced. The cost of replacing the Medical Centre zone substation with a similarly rated substation as a result of the Medical Centre zone substation having reached the end of its useful life would, in Alinta's opinion, pass the safety and reliability test of the NFIT. As such, the cost of replacing the Medical Centre zone substation should be added to the network asset base.

Western Power is only proposing to replace the Medical Centre zone substation in 2020 because load growth will require the substation to be upgraded. If there was no load growth in the area, Alinta questions at what stage Western Power would be proposing to replace the Medical Centre zone substation. Alinta submits that a substation that is 50 years old could reasonably be replaced on the grounds that it has reached the end of its useful life since the substation can no longer be considered to provide an acceptable level of supply reliability.

The need to enhance or replace the Medical Centre zone substation to cater for load growth is a separate issue to replacing an ageing substation. Alinta understands from the Western Power Submission that:

- a single large customer (Sir Charles Gairdner Hospital) is supplied from the Medical Centre zone substation and that customer plans to increase its demand;

- a large number of small customers (generally domestic customers) are supplied from the Medical Centre zone substation and for various reasons those customers are gradually increasing their demand each year;

- the Medical Centre zone substation does not have the capacity to meet the increase in demand of the large customer; and

- if the large customer does not increase its demand then the Medical Centre zone substation has sufficient capacity to meet the gradual annual increase in demand of the large number of domestic customers until 2020.

Western Power is proposing that:

- new facilities investment required to supply "general load growth for customers" passes the NFIT safety and reliability test; but

- new facilities investment required to supply Sir Charles Gairdner Hospital's load growth does not pass the NFIT safety and reliability test.

Alinta submits that the Western Power Submission is not consistent in the way it treats various types of load growth. Load growth of any kind – whether due to a large number of users each increasing demand by a small amount or due to a single user increasing demand by a large amount – should be treated the same way when applying the NFIT to the new facilities investment triggered by such load growth. If the load growth triggers new facilities investment then the new facilities investment either passes the safety and reliability test or it does not. It cannot be deemed to pass the test for some types of load growth and not for other types.

Capital Contribution Requirements

Alinta submits that the ERA should require Western Power to reapply the NFIT tests to take account of the following:

(a) There is a reasonable need to replace the Medical Centre zone substation because of its age. The cost of replacing the substation would be added to the network asset base since it would pass the safety and reliability test.

(b) Possible discretionary costs, such as the installation of 132kV rather than 66kV cable, the installation of higher capacity transformers and the use of GIS switchgear, will be deemed to not form part of the new facilities investment if they cannot be appropriately justified.

(c) New facilities investment triggered by load growth should be treated the same irrespective of whether the load growth is associated with a large number of small customers, or with a single large customer, or with a combination of small and large customers.

In applying the NFIT tests to cater for new facilities investment associated with load growth, Western Power may choose to propose that such investment passes the safety and reliability test because to do nothing with loads growing would jeopardise the safety and reliability of the network. This is consistent with the ERA's final determination on 3 September 2008 concerning a proposed 330kV transmission line and associated works in the Mid-West region of Western Australia.

Summary

Alinta submits that, in respect to the Western Power Submission:

1. Any decision to impose a capital contribution should be made as part of the NFIT and should not be a condition imposed as part of a regulatory test waiver.

2. Western Power has not demonstrated that the proposed new facilities investment has passed the efficiency test.

3. For the new facilities investment to pass the efficiency test, Western Power should satisfy the ERA that it will minimise project costs and will be managing the project effectively and efficiently in accordance with best project management practices.

4. Western Power has not justified the use of 132kV rated cable, the installation of higher capacity transformers and the use of GIS switchgear and should do so to the ERA's satisfaction before the costs of that equipment is included as part of the new facilities investment costs.

5. The cost to replace the Medical Centre zone substation with a similarly rated substation should be deemed to pass the safety and reliability test on the grounds that the medical Centre zone substation has reached the end of its useful life.

6. The ERA should ensure that the NFIT tests are applied consistently to any new facilities investment triggered by load growth. That is, the NFIT implications associated with load growth of a large number of small customers each having incremental increases in demand should be the same as for the load growth of a single large customer that is increasing demand.

7. Alinta supports the ERA's determination on a 330kV transmission line and associated works in the Mid-West region of Western Australia, where new facilities investment triggered by load growth is deemed to pass the safety and reliability test on the grounds that to do nothing would jeopardise the safety and reliability of existing loads. Alinta submits that the ERA's precedent should be applied to the Western Power Submission.

Alinta looks forward to the ERA's feedback on each of the above issues.

Yours sincerely

David Randle
Commercial Manager