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Dear Karen

66/11 kV MEDICAL CENTRE NEW FACILITIES INVESTMENT TEST

Alinta Sales Pty Limited (Alinta) appreciates the opportunity to comment on the Economic Regulation Authority's (the Authority) draft determination on the new facilities investment test for a 66kV Medical Centre Zone substation expansion and voltage conversion of the distribution network.

Alinta supports the Authority's draft determination not to approve Western Power's application made under clause 6.71 of the Electricity Networks Access Code 2004 (the Code) that the forecast new facilities investment associated with the 66kV Medical Centre Zone substation expansion and voltage conversion of the distribution network be found to meet the new facilities investment test.

Alinta notes that based on the information provided in Western Power's pre-approval application and subsequent analysis by the Authority and its consultant, the Authority concluded that:

- the efficient project cost is almost nine per cent lower than that proposed by Western Power (\$25.86 million instead of \$28.37 million); and
- a substantially greater proportion, in fact almost all, of the efficient project cost satisfies the new facilities investment test (up to \$24.9 million instead of \$18.7 million).

Western Power's augmentation proposal also indicated that to the extent that the investment for the 66kV Medical Centre Zone substation expansion and voltage conversion of the distribution network does not meet the new facilities investment test, it would require the customer to make a capital contribution. The amount of the customer's capital contribution was originally estimated at \$9.7 million by Western Power, but if the Authority's final determination is consistent with its draft, it appears this amount may fall to \$0.96 million.

However, the Authority also concluded that the proportion of the efficient project cost that satisfies the new facilities investment test may exceed \$24.9 million due to a range of unquantified benefits cited by Western Power, including lower line losses, higher load supplies, less operational constraints and a more reliable supply.

Alinta notes that clause 5.14 of the Code restricts Western Power from requiring a capital contribution where new facilities investment satisfies the new facilities investment test. This implies that the capital contribution required to be made by the customer may ultimately be less than \$0.96 million.

In order to comply with the Code requirements, Alinta expects that the range of currently unquantified benefits associated with investing in the 66kV Medical Centre Zone substation expansion and voltage conversion of the distribution network would be quantified by Western Power before it determined the final amount of the capital contribution required to be made by the customer.

Nevertheless, Alinta notes that the Authority's draft determination not to approve Western Power's application appears due only to the fact that it concluded that the forecast amount of the new facilities investment exceeded the amount that would be invested by a service provider efficiently minimising costs [as required by clause 6.52(a) of the Code]. It is not clear whether the Code would permit the Authority to withhold approval of Western Power's application if:

- the amount of the investment in the new facilities did not exceed the amount that would be invested by a service provider efficiently minimising costs [as per clause 6.52(a)]; but
- the amount of new facilities investment that the application proposed be added to the capital base under clause 6.51A(a) of the Code was less than the amount that in aggregate satisfied the incremental revenue, net benefits and safety and reliability criteria in clause 6.52(b) of the Code (and where the amount added to the capital base did not exceed the amount invested by a service provider efficiently minimising costs).

For example, in the case of the current project, it would appear that if Western Power were to reduce the amount of the investment in the 66kV Medical Centre Zone substation expansion and voltage conversion of the distribution network to \$25.86 million (the amount of new facilities investment consistent with efficiently minimising costs), but apply to add only \$18.7 million to the capital base (as proposed in its application), the Code would require that the Authority approve the application. Alinta considers such an outcome is unlikely to have been intended by the drafters of the Code.

If the Code did not permit the Authority to withhold approval of an application in such circumstances, a determination that an amount of forecast (or actual) new facilities investment satisfied the new facilities investment test and could be added to the capital base under clause 6.51A(a) could not automatically be taken to mean that any remaining investment¹ did not meet the new facilities investment test and must therefore be funded by the customer through a capital contribution.

¹ The amount that would be invested by a service provider efficiently minimising costs less the amount added to the capital base under clause 6.51A(a). In the case of the 66kV Medical Centre Zone substation expansion and voltage conversion of the distribution network, this amount is \$7.16 million, the difference between \$25.86 million and \$18.7 million.

Further, to the extent that Western Power sought to add a portion of the amount of new facilities investment that was consistent with efficiently minimising costs to the capital base under clause 6.51A(b), the Authority's approval would appear to be contingent only on whether a contribution had been received and whether there was a mechanism in the access arrangement that was designed to ensure there was no double recovery of costs.

While it may not necessarily be possible for these matters to be resolved in the context of Western Power's current application, Alinta requests that the Authority give consideration to these matters and to whether further clarification of the Code is necessary and/or desirable.

Should the Authority require further information on any of the above issues, I can be contacted on 9486 3749.

Yours sincerely

A handwritten signature in blue ink, appearing to read "Corey Dykstra", is visible over a faint, light blue rectangular background.

Corey Dykstra
Manager Regulatory Affairs
Alinta Sales Pty Ltd