

NOTICE

Draft Decision on Western Power's proposed Access Arrangement

The Economic Regulation Authority (Authority) today published its Draft Decision on Western Power Corporation's (Western Power) proposed Access Arrangement for the regulated electricity networks in the South West interconnected system (SWIS).

The Draft Decision of the Authority is to not approve Western Power's proposed Access Arrangement.

Key aspects of the Draft Decision

The Authority has generally accepted Western Power's proposed asset base valuation and expenditure forecasts recognising the need for additional expenditure to improve network reliability and service standards during the access arrangement period. The Draft Decision accepts Western Power's proposed:

1. Asset base valuation of \$1,371.4 million for its transmission network and \$1,480.7 million for its distribution network.
2. Transmission network capital expenditure (capex) representing average expenditure of approximately \$162 million (real) per annum over the initial access arrangement period. This compares with an average level of transmission capex for the three years ending 30 June 2003 to 30 June 2005 of \$111 million (real) per annum.
3. Distribution network capex representing average expenditure of approximately \$241 million (real) per annum over the initial access arrangement period. This compares with an average level of distribution capex for the three years ending 30 June 2003 to 30 June 2005 of \$177 million (real) per annum.
4. Transmission operating and maintenance expenditure (opex), subject to some downward revisions. However, after these adjustments the average annual level of transmission opex for the period is approximately \$71 million (real) which represents an increase of approximately 16 per cent over the average level for the three years ending 30 June 2003 to 30 June 2005.
5. Distribution opex, subject to some downward revisions. However, after these adjustments the average annual level of distribution opex for the period is approximately \$143 million (real) per annum which represents an increase of approximately 14 per cent over the average level for the financial years ending 30 June 2003 to 30 June 2005.

The Authority notes the safety, reliability and growth factors underpinning Western Power's forecast costs and expects that reliability and service standards in the networks will improve

over the access arrangement period. Accordingly, the Authority's assessment of Western Power's proposed capital base, capex and opex is predicated on required amendments to ensure compliance with the Access Code and the achievement of reliability and safety standards. Amendments have also been required, consistent with the Code objective, to ensure all users and applicants have adequate information to assess the services underpinning reference tariffs.

The Authority found that Western Power's submission in relation to its proposed reference services, service standards, price control, pricing methods, price lists, weighted average cost of capital, standard access contract and policies do not meet the respective Access Code requirements or the Access Code objective.

An access arrangement is also required to contain a standard access contract and several policies. The Authority's assessment identified a number of issues relating to Western Power's proposed terms and conditions for access contained in its standard access contract and policies.

The Draft Decision therefore requires Western Power to make 193 amendments to its proposed Access Arrangement and access arrangement information. The Authority's Draft Decision is based on its assessment of information provided by Western Power, submissions from interested parties and reports by the Authority's expert advisers.

A summary of the matters that the Authority requires Western Power to address follows.

Reference services

The access arrangement is required to include reference services, which reflect the services that Western Power will offer to users. Reference services are the cornerstone of an access arrangement.

The Authority's Draft Decision is that Western Power's proposed reference services are not sufficiently detailed for a user or applicant to know with certainty which service they will receive for the applicable tariff. Importantly, a user or applicant is not offered the detail upon which to decide which reference service best meets their requirements.

The Draft Decision specifies the amendments that will be needed to the proposed reference services for the Authority to assess them as consistent with the Access Code requirements and the Code objective.

Interested parties are asked to provide comment on whether the proposed reference services provide the services sought by a significant number or substantial proportion of the market as required under section 5.2 of the Access Code.

Weighted average cost of capital

The Authority does not approve Western Power's proposed pre-tax real weighted average cost of capital (WACC) of 7.3 per cent, determining that this value is outside of a reasonable range of WACC estimates. The Authority's Draft Decision is that a pre-tax real WACC estimate of 6.0 per cent is consistent with the Code objective.

Price control

The Authority does not approve Western Power's proposed form of price control as it does not meet the Access Code requirements or satisfy the Code objective.

The Authority's Draft Decision for target revenue for the initial access arrangement period is summarised in the following table.

Authority's assessment of tariff revenues (\$m real as at 30 June 2006)				
Financial year ending 30 June:	2007	2008	2009	Present value
ERA Draft Decision tariff revenues (pre-tax real WACC of 6%)				
Transmission network target revenue	\$201.73	\$213.51	\$222.51	\$567.16
Less Capital Contributions	\$13.65	\$2.57	-	\$15.16
Transmission network tariff revenue	\$188.08	\$210.95	\$222.51	\$552.00
Distribution network target revenue	\$322.78	\$331.72	\$348.08	\$891.99
Less miscellaneous services revenue	\$6.21	\$6.06	\$5.90	\$16.21
Plus Tariff Equalisation contributions	\$58.49	\$57.02	\$55.59	\$152.60
Less Capital Contributions	\$88.37	\$87.85	\$88.40	\$235.78
Distribution network tariff revenue	\$286.68	\$294.84	\$309.35	\$792.60
Draft Decision total target revenue	\$524.51	\$545.23	\$570.59	\$1,459.15
Draft Decision total tariff revenue	\$474.76	\$505.79	\$531.86	\$1,344.60

Service standard benchmarks

The Authority's Draft Decision does not approve Western Power's proposed service standard benchmarks or service standard adjustment mechanism. These are assessed as being inconsistent with the Access Code requirements for reasons including they:

- do not provide users with sufficient transparency for actual network feeder performance, particularly given the nature of proposed exclusions and the reporting benchmarks of Western Power's peer network service providers in other states;
- do not set a challenging benchmark which could be considered to be reasonably commensurate with Western Power's forecast levels of reliability related expenditures of both capital and operations and maintenance types; and
- propose some benchmarks below targets achieved by Western Power in recent years.

The Authority's required amendments include changing service standard benchmarks to take into account benchmarks set in other states, Western Power's historic performance and approved forecast expenditures. Western Power will also be required to report against the achievement of service standard benchmarks as part of its licensing conditions.

Pricing methods

Chapter 7 of the Access Code requires a service provider to comply with various pricing methods and principles. On the basis of the information provided to the Authority by Western Power the Authority is unable to confirm that Western Power has complied with the Access Code requirements.

The Authority will require further information before it can verify that Western Power's proposal for allocating costs across tariff and revenue pools complies with the Access Code requirements.

Price lists

Western Power's proposed price list was found to not comply with the Access Code requirement, which requires that each reference service must have a tariff specified in a price list. Western Power's proposed price list contains numerous unspecified tariffs, denoted by an asterisk, rather than ascribing an actual value.

Standard access contract and proposed policies

The Access Code requires Western Power to propose an amended standard access contract, applications and queuing policy, capital contributions policy and transfer and relocation policy. The Access Code provides models for the contract and policies. The requirements of a transfer and relocation policy were articulated in the Access Code itself but no model policy was provided.

Western Power submitted proposals based on the models, but with numerous and material additions, omissions and variations.

Following a comprehensive assessment of the proposals, the Authority has determined that the proposed access contract and policies do not meet the Access Code requirements and are not consistent with the Code objective.

Background

Third party access to regulated distribution and transmission networks such as Western Power's South West Interconnected Network (SWIN) is provided for under the *Electricity Networks Access Code 2004* (Access Code).

The Access Code provides the framework for preparing, reviewing and approving an access arrangement for a regulated network. Under the Access Code the Authority is responsible for the approval of access arrangements for regulated networks. An access arrangement sets out the terms and conditions for third party use of a covered network.

As required by the Access Code, Western Power submitted to the Authority a proposed Access Arrangement and access arrangement information for the regulated electricity distribution and transmission networks in the SWIS, on 24 August 2005. Western Power also submitted its proposed technical rules at the same time. The Authority will issue its draft technical rules for public consultation in the next 15 business days, as required by the Access Code.

During its assessment the Authority required further information from Western Power and issued a notice under section 51 of the *Economic Regulation Authority Act 2003*. Western Power responded to this notice on 16 November 2005 and the non-confidential portions of the response are now published on the Authority's website.

Invitation to make a submission

Pursuant to section 4.15 of the Access Code, interested persons are invited to make submissions to the Authority on the Draft Decision within 20 business days, by **4:00pm WST, Thursday 20 April 2006**.

Submissions on any matters raised in this Draft Decision should be in printed and electronic form and addressed to:

Mr Alistair Butcher
Director, Electricity Access
Economic Regulation Authority
PO Box 8469
Perth Business Centre
PERTH WA 6000

Telephone: (08) 9213 1900
Facsimile: (08) 9213 1999

Alternatively submissions can be sent to the email address:

wpcdraftdecision@era.wa.gov.au

The Authority will consider any submissions on the Draft Decision which are received by the due date before issuing its final decision.

Confidentiality

In general, all submissions from interested parties will be treated as in the public domain and placed on the Authority's website. Where an interested party wishes to make a submission in confidence, it should clearly indicate the parts of the submission in respect of which confidentiality is claimed, and specify in reasonable detail the basis upon which the claim is made. Any claim of confidentiality will be considered in accordance with the requirements of section 14.14 of the Access Code.

The receipt and publication of any submission lodged for the purposes of the Access Code shall not be taken as indicating that the Authority has formed an opinion as to whether or not any particular submission contains any information of a confidential nature.

Public access to submissions

Subject to any confidentiality constraints, submissions will be available for public inspection at the offices of the Authority, or on its website at www.era.wa.gov.au. If you experience any difficulty gaining access to documents please contact the office on (08) 9213 1900.

Public forum

The Authority will hold a public forum on the draft decision and has published a further notice to this effect at www.era.wa.gov.au/electricity/networksAccessNotices.cfm.

The public forum will be held on **Monday 3 April 2006**, commencing at 2:00pm WST at:

Westend Room 2
Rydges Perth Hotel
Hay Street, Perth

Further information

The Draft Decision is available on the Authority's website www.era.wa.gov.au. Printed copies of the Draft Decision are available from the Authority on request at a cost of \$25.00 each.

For further information contact:

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LYNDON ROWE
CHAIRMAN

21 March 2006