

Access Arrangement Information

Capital Contributions Policy Demonstration of Code Compliance

ELECTRICITY NETWORKS CORPORATION ("WESTERN POWER")

ABN 18 540 492 861

{Outline: This document is included in Western Power's access arrangement information in accordance with section 4.2 of the Code.}

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1 Introduction

The Capital Contributions Policy (CCP) covers the circumstances where an augmentation is required to the network and there is a need to determine whether a contribution is required and the amount of any contribution.

Western Power's CCP is consistent with sections 2.9 and 5.12 to 5.16 of the Code. Whilst it is broadly consistent with the model CCP, a number of changes have been made relative to the model to facilitate the practical application of the policy.

The main changes are as follows:

- Clause 2 of the CCP states that the policy applies in all circumstances where it is necessary for Western Power to perform 'works' to provide covered services. This is intended to clarify that the policy applies to all parties seeking connection to the network, including applicants that will not become users of the network. An applicant has now been defined under the CCP as someone who has lodged, or intends to lodge, a connection application. This definition captures both customers and developers
- 'Works' is defined in the CCP to mean all works that Western Power is required to undertake to provide the covered services sought by an applicant, including augmentation of the network, alternative options and non-capital costs
- Western Power may require the applicant to provide security over the 'new revenue' (as defined in the CCP) used in the determination of the contribution
- A modified test has been included in accordance with section 6.53 of the Code to cover the circumstances where Western Power is required to make a new facilities investment in response to an access application for a new streetlight, an unmetered connection, a pole to pillar connection, a primary producer or a developer.

2 Code Compliance

2.1 Requirement to Undertake Augmentations and Funding of Augmentations

Under section 2.9 of the Code Western Power must undertake an augmentation in order to provide covered services if the new facility meets the New Facilities Investment Test (NFIT) or, if only part or none of the new facility meets NFIT and, in such circumstances, the applicant must provide a contribution. If the applicant does not provide the contribution Western Power is not under any obligation to undertake the augmentation.

Clause 5.1 of the CCP mirrors section 2.9 of the Code, except that Western Power has provided, by clause 4.1, for an applicant to enter into a contract to provide the contribution before Western Power will undertake the works (rather than requiring the applicant to provide the contribution upfront). This facilitates time payment of contributions.

Where Western Power has determined that part of the new facility meets the NFIT, based on forecast new revenue, there may be a requirement for the applicant to provide security for the forecast new revenue under clause 4.2 of the CCP.

Therefore, the CCP meets the requirements of section 2.9 of the Code.

2.2 Objectives of the CCP

Section 5.12 of the Code defines the objectives of the CCP. In particular, it requires the policy to strike a balance between the interests of the applicant, other users and consumers. In addition, it must not constitute a barrier to entry.

Clause 2 of the CCP is designed so that the CCP covers all cases where Western Power is required to perform works in response to an application seeking covered services. This clause ensures that all contributions that Western Power receives are determined in accordance with the CCP and, thus, ensures that the CCP is applied consistently across all applicants. This ensures a balance between individual applicants, and between applicants and users.

Clause 3 of the CCP ensures that the amount of the contribution cannot exceed the amount that would be required by a prudent service provider seeking to achieve the lowest sustainable cost of providing covered services. This ensures that the amount of the contribution is as low as practicable in the circumstances and, thus, assists in the CCP not constituting a barrier to entry.

Clause 4.2 of the CCP provides Western Power with the opportunity to require security over the 'new revenue' associated with a forecast cost in excess of \$50,000. This provision encourages applicants to accurately assess their forecast energy consumption and, therefore, accurately forecast new revenue. In this way, the policy is not left open to abuse and the determination of the contribution will be equitable across applicants. The provision also ensures that there is no cross subsidy between existing and new users.

Clauses 6.1 and 6.2 of the CCP require Western Power to calculate the contribution over a reasonable period of time (up to a maximum of 15 years), taking into account the nature of the connection. Clause 6.3 (b) ensures that only the cost of the minimum practical works is allocated to the applicant. Works above the minimum practical works would be funded by Western Power and included in the approved costs only if it meets the NFIT. Clause 6.3(c) requires Western Power to take into account forecast future use of the new facility in allocating costs to the applicant. Clause 6.3(d) allows for a negotiated outcome where more than one applicant applies for connection requiring the same works. Clause 6.3(e) requires any saving generated by the works to be taken into account in the determination of a contribution.

Each of the clauses under 6.3 ensures a balance between the applicant and other users (including future users) and customers. They also act to avoid any barrier to entry.

Clause 7 defines the policy as it applies to applicants who meet the modified test.

Clause 7.1 defines the policy that applies to primary producers and rural residential customers. This policy has been in place many years and was originally developed as government policy under legislation since replaced by section 61 of the Energy Operators (Powers) Act 1979. The policy allows for rebates and provides for equitable treatment of these customers.

Clause 7.2 defines the pole to pillar policy in which customers pay a published standard price for underground connection. This policy provides for an average price to be paid by applicants recognising the potential for several customers to be connected to the same pillar.

Clause 7.3 requires applicants, normally state or local government agencies, to pay the full cost of street light installation. This provides for an equitable outcome in that there are no costs for these services carried by other users.

Clause 7.4 provides for developers to pay the full cost to provide services to their subdivisions consistent with government policy. Such an outcome does not provide any barrier to entry and also provides for a balance between the interests of applicants, users and customers.

Clause 8 sets out the general provisions that apply where the modified test applies and the provisions that apply where the modified test is not applicable.

Clause 8.1 states that the applicant must pay the full cost of connection assets. In reality, this applies to transmission customers and large distribution customers where there is a clearly identified dedicated asset that connects the applicant to the existing network. In many cases, the applicant could choose to provide this asset itself or elect for Western Power to provide the asset. The decision to request Western Power to provide the asset is generally made on economic or practical grounds. On this basis, Western Power requires the applicant to fund the full cost. This is not seen as a barrier to entry and strikes a balance between the interests of existing users and applicants.

Clause 8.2 requires applicants to pay the full cost of non-capital costs associated with the works. This requirement ensures that costs that cannot be capitalised are paid by the applicant and not passed onto other users.

Under clause 8.3, customers who require works above the standard normally provided in accordance with the relevant technical standards, must fund the cost of the difference between the works required and the standard works. This ensures that other users do not meet any part of the cost to provide works that a particular applicant requires to satisfy an individual need. This ensures a balance between the applicant and other users.

Clause 8.4 is included for clarity. This provision ensures that applicants fund the cost of works that are required, as part of the works required to provide the covered service sought by the applicant, to meet technical compliance. This ensures a balance between the applicant and other users.

Clause 8.5 provides for applicants to fully fund any temporary works required by an applicant. Such works cannot be capitalised and as such, this provision ensures a balance between the applicant and other users.

Clause 8.6 provides for applicants to fully fund any undergrounding of network assets carried out in response to an applicant's request. Such works are carried out for the benefit of the applicant and the CCP ensures these costs are not passed onto other users, which ensures a balance between the applicant and other users.

Clause 9 describes the manner of payment of a contribution. It provides for time payment where the contribution is in excess of \$30,000 or an up-front payment. The time payment option is designed to reduce any barrier to entry. The threshold of \$30,000 was selected because applicants will normally be able to get unsecured credit for amounts up to that level. Western Power does not seek to be a provider of credit but accepts that time payment may be an appropriate component of an applicant's financial arrangements.

Clause 10 provides for the payment of a rebate to an applicant where a subsequent applicant gains a benefit from works associated with the previous applicant. This issue has been highlighted over the years as being a particular barrier to entry for rural customers where the contribution can be large. The promise of a rebate from likely future users would enhance the viability of a rural project. This clause reduces any barrier to entry and provides for a balance between the applicant and future users.

Therefore, the CCP meets the requirements of section 5.12 of the Code.

2.3 Contribution policy must facilitate operation of the Code

Section 5.13 of the Code requires the CCP to facilitate the operation of the Code including section 2.9, NFIT, and the regulatory test.

As described in section 2.1 of this Appendix, the CCP facilitates the requirements of section 2.9 of the Code.

It is expected that section 5.14 of the Code will be changed to allow for the modified test under section 6.52 and 6.53 of the Code. Under this change, the application of the NFIT (as defined in section 6.52) will apply to new facilities that do not meet the modified test.

Clause 5.1 of the CCP provides that where new facilities do not meet the modified test, a contribution is required only where a new facility does not meet the NFIT. In such cases, the contribution is determined under clauses 6 and 8 of this CCP. Where new facilities do meet the modified test the contribution is determined under clause 7 and 8 of the CCP.

On the understanding that the expected Code change to clause 5.14 takes place, the CCP facilitates operation of the NFIT.

Nothing in the CCP prevents the operation of the regulatory test. This includes any alternative option that may be the outcome of a regulatory test determination.

Therefore, the CCP meets the requirements of section 5.13 of the Code.

2.4 Contribution policy and the NFIT

Section 5.14 of the Code provides that the CCP must not require a contribution for any part of a new facility that meets the NFIT. It is expected that section 5.14 of the Code will be changed to allow for the modified test under section 6.52 and 6.53 of the Code. As outlined above, under this change the application of NFIT (as defined in section will 6.52) will apply to new facilities that do not meet the modified test.

On the understanding that the expected Code change to clause 5.14 takes place the CCP meets the requirements of section 5.14 of the Code.

2.5 Contribution policy must contain

Section 5.14 of the Code requires the CCP to set out the circumstances in which an applicant is required to make a contribution, the method to calculate the contribution and the terms under which the contribution is to be made.

Clause 2 describes the application of the CCP and clause 5 describes the circumstances under which a contribution will be required, including where a new facility does or does not meet the modified test.

Clauses 5, 6, 7, and 8 describe the method by which a contribution is to be calculated.

Clauses 4, 9, and 10 describe the terms under which the contribution is to be made.

Therefore, the CCP meets the requirements of section 5.15 of the Code.

2.6 Basis for contribution policy

Section 5.16 of the Code provides that the CCP may be based in part, or whole, on the model CCP, or be prepared without any reference to the model CCP.

The CCP is based in part on the model CCP. Therefore the CCP meets the requirements of section 5.16 of the Code Section 2.7 below describes the differences between this CCP and the model CCP.

2.7 The Authority must

Section 5.17 of the Code requires the Authority to have regard to the model CCP in its review of the CCP.

3 Differences between CCP and the Model CCP

3.1 Definitions

The definitions in the CCP are consistent with:

- the model CCP,
- other proposed policies and contracts, and
- the Code.

The following items have been further defined for clarity:

- applicant means 'a person (who may be a *user*, a *customer* or a *developer*) who has lodged, or intends to lodge, a *connection application*'
- connection application means 'an application lodged with Western Power under the applications and queuing policy that has the potential to require a modification to the network, including an application to:

- (a) *connect facilities and equipment* at a new *connection point*; or
- (b) *increase consumption* or *generation* at an existing *connection point*; or
- (c) *materially modify facilities and equipment connected* at an existing *connection point*; or
- (d) *augment the network* for any other reason,

{Note: this might be, for example, to service a subdivision.}

and includes any additional information provided by the *applicant* in regard to the application'

- works means 'all works that Western Power is required to undertake to provide the *covered services* sought by an *applicant* to the *applicant*, including works associated with:
- (a) *augmentation of connection assets*; and
- (b) *augmentation of shared assets*; and
- (c) *alternative options*; and
- (d) *other non-capital works*'
- pole to pillar connection means 'the provision of an underground 415 V or 240 V supply to a *residential customer* in an area otherwise serviced by an overhead network'

- scheme, means an extension of the network beyond the normal range of the *network* under section 61 of the *Energy Operators (Powers) Act 1979*.
- primary producer means 'a person assessed as a primary producer under the *Income Tax Assessment Act 1997* or equivalent enactment, and includes a person who carries out or is engaged in the business of farming or grazing on land that is:
 - (e) zoned for rural purposes under a town planning scheme; and
 - (f) used solely or principally for agricultural or grazing purposes or for a combination of those purposes'.

The model CCP had separate sections for contributions for capital works (augmentations) and for alternative options. These sections were largely repetitive, and so are combined into a set of single definitions in the CCP, being, contribution (for any capital or alternative option contribution) and forecast costs (for all of the costs related to works). This also caters for a combination of augmentation and an alternative option to provide services, which is the most likely scenario.

3.2 Modified Test

In anticipation of a Code change to clause 5.14 and the definition of test application threshold, Western Power has included a modified test definition under clause 6.53 of the Code to facilitate the inclusion of existing well established contribution policies regarding street lighting, unmetered supplies, pole to pillar connections, primary producers and subdivisional development.

The definition is:

'Where Western Power is required to make a *new facilities investment* in response to an *access application*:

- (g) for a new streetlight; or
- (h) for an *unmetered connection*; or
- (i) for a *pole to pillar connection*; or
- (j) by, or on behalf of, a *primary producer* or *residential customer* seeking to connect to a *scheme*; or
- (k) by, or on behalf of, a *developer* in relation to the *distribution system*,

then the *new facilities investment* meets the *modified test* under section 6.53 of the Code.

There is a significant change from the model CCP. That is, the requirement in the model CCP that contributions cannot be sought for any assets that meet NFIT (under section 5.14 of the

Code) does not apply to works that qualify for the modified test. This change has the benefit of allowing a number of existing, well accepted, policies to be included in the CCP.

3.3 Application

The CCP applies if it is necessary for Western Power to perform works to provide covered services. This is consistent with the requirement of section A4.4 of the model CCP.

3.4 Lowest sustainable cost

Clause 3.4 of the CCP is directly based on clause A4.6 of the model CCP.

3.5 Circumstances where a contribution must be made

The CCP makes it clear that, if the application of the CCP in relation to the works produces a contribution amount that is greater than zero, Western Power is not required to undertake any works relating to an application for a service until the applicant enters into a contract with Western Power in which it agrees to provide the contribution to Western Power in accordance with the CCP.

Additionally, where the forecast costs are greater than \$50,000, Western Power may require the applicant to provide security. This provision is designed to ensure that the forecast new revenue that results from the augmentation, and was used to determine the contribution, is achieved. After 12 months, Western Power may redetermine the contribution and recover from, or rebate to the applicant, any difference from the amount of the original contribution.

This meets the intent set out in A4.8 of the model CCP and section 2.9 of the Code, but expands on these provisions to ensure Western Power can recover the costs of works and cater for periodic payments.

3.6 Contribution

Clause 5 of the CCP provides guidance as to which sections of the CCP apply depending on the particular nature of the works required. This clause provides additional guidance in support of clause 2 (Application) of the CCP. It distinguishes between works that meet the modified test and those that do not.

3.7 Where modified test does not apply

Where the modified test does not apply, the contribution is calculated under clause 6. This provision requires Western Power to:

- determine the appropriate portion of the forecast costs of the works to allocate to the applicant; and
- deduct the amount likely to be recovered in the form of new revenue gained from providing covered services to the applicant,

calculated in a reasonable time, at the contributions rate of return.

A reasonable time is the expected commercial life of the works (up to a maximum of 15 years), depending on the purpose for which the applicant requires the covered services.

Where the modified test does not apply, the full amount of forecast costs apply unless there is an apportionment. The policy describes the specific circumstances where Western Power will apportion costs.

Clause 6 of the CCP is equivalent to Clause A4.5 and A4.7 of the model CCP. The CCP expands on the provisions of Clause A4.7 of the model CCP including provisions for works in excess of the minimum practical works, and forecast new revenue from future applicants.

3.8 Where modified test does apply

Clause 7 of the CCP relates to where the modified test applies. There is no equivalent clause in the model CCP. The clause has been inserted because it reflects the long-standing policies applicable to the relevant types of applicant. It is also framed on the expectation of Code changes to section 5.14 and the definition of modified test to facilitate Western Power's approach

The modified test applies to the following:

- Primary producers including rural domestic customers.
- Residential customers qualifying for a pole to pillar connection.
- Public street lighting and Unmetered supplies
- Subdivision

3.9 General Provisions

The section on general provisions covers the following issues.

- Connection assets
- Non-capital costs
- Works over and above standard works
- Costs related to technical rules compliance
- Temporary supplies

- Relocation or underground of network assets

These particular circumstances are not covered in the model CCP. However they clarify the approach taken in each of the cases, and as demonstrated in section 2 of this Appendix, they comply with the various provisions of the Code.

3.10 Manner of contribution

Clause 9 of the CCP deals with the options for payments of contributions. This clause is consistent with clauses A4.11, A4.12 and A4.14 of the model CCP, with one exception. There is no provision for payment of a contribution 'in kind'.

Western Power is prepared to accept payment 'in kind' for greenfield subdivisional work related to the distribution network. This forms a large part of the distribution capital programme and the processes to facilitate this are well established and used regularly.

For all other cases, Western Power considers that it should retain the power and obligation to construct or upgrade the covered network. Western Power chooses not to take on the technical compliance risk, nor the safety, integrity and security risks, of allowing customers to construct part of the covered network.

Western Power will also offer time payment for applicants where the contribution exceeds \$30,000. This facility is offered for works that do not meet the modified test and for primary producers. The reasons for this distinction are covered in section 2 of this Appendix.

3.11 Rebates

Rebates are offered under clause 10 of the CCP. The provision is consistent with clause A15 of the model CCP.

The 'current owner' receives the benefit of rebates and recoupment. This reflects the fact that contributions 'capitalised' in the price of an asset will transfer to the new owner if a facility changes ownership. It also ensures that the correct party obtains the benefit of any rebates or recoupment.