

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, 2.9A, 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 subject to sections 5.14 and 5.14A of the Code.

Section 5.14A of the Code allows for capital contributions to be determined in accordance with the Approved Extensions and Expansions Policy (AEEP) for assets that otherwise meet the new facilities investment test. The CCP allows for capital contributions to be determined under the AEEP if that policy applies. In all other circumstances capital contributions are determined under this CCP.

- '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

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 4.1 of the CCP mirrors section 2.9 of the Code, except that Western Power has provided 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 4.3 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 5.2 and 5.3 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 5.4 (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 5.4(c) requires Western Power to take into account forecast future use of the new facility in allocating costs to the applicant. Clause 5.4(d) allows for a negotiated outcome where more than one applicant applies for connection requiring the same works. Clause 5.4(e) requires any saving generated by the works to be taken into account in the determination of a contribution.

Each of the sub-clauses under 5.4 ensures a balance between the applicant and other users (including future users) and customers. They also act to avoid any barrier to entry.

Clause 6 sets out the general provisions that apply to all applicants.

Clause 6.1 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 6.2 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 6.3, 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 6.4 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 6.5 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 7 describes the manner of payment of a contribution. It provides for three options, those being:

- Up-front capital contribution,
- Time payment of a capital contribution, or
- The applicants may, with the approval of Western Power, construct the asset themselves and transfer ownership of that asset to Western Power.

The time payment option is available where the contribution is in excess of \$30,000. 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.

The option for applicants to construct the asset themselves allows for the applicant to seek a competitive price for provision of the connection. This option provides assurance to the applicant that the cost of connection reflects a fair market price for the service.

Clause 8 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 may 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.

Section 5.14 provides for capital contributions to only be made where part or all of an investment does not meet the NFIT. Clause 5 of the CCP describes the method by which the amount of a capital contribution is to be determined and the approach is entirely consistent with the requirements of clause 5.14 of the Code.

Section 5.14A of the code provides for a capital contribution to be made in accordance with the “approved extensions and expansions policy” (AEEP). The Coordinator of Energy has now approved the AEEP. The CCP makes reference to that policy in clause 2(b) such that if the approved extensions and expansions policy applies to works, then the contribution for those works is the amount determined under the approved extensions and expansions policy

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. Equally the CCP facilitates the operation of the NFIT because the capital contributions calculated under the CCP relate only to assets that do not meet the NFIT.

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. Section 5.14A of the Code allows for capital contributions to be charged whether or not the investment meets the NFIT, provided the capital contribution is determined under the AEEP.

The CCP has been designed to meet the requirements of both sections 5.14 and 5.14A of the Code. This is achieved through clause 5 of the CCP in which a capital contribution can only be determined under the CCP, or under the AEEP. Capital contributions determined under provisions of the CCP, other than through the AEEP, can only apply to investments that do not meet the NFIT.

Therefore, the CCP meets the requirements of section 5.14 and 5.14A of the Code.

2.5 Contribution policy must contain

Section 5.15 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, including the circumstances under which a capital contribution is determined under the AEEP, and clause 5 describes the circumstances under which a contribution will be required under the provisions of the CCP..

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

Clause 7 describes the terms under which the contribution is to be made.

Clause 8 describes the circumstances under which a rebate may be determined.

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 3 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.

All defined terms used in the CCP that have definitions the same as in the code have the definition repeated in the CCP for ease of use.

In addition the following items have been further defined for clarity:

“access contract” has the same meaning given to "access agreement" in the *Code*.

{Note: Under the *Code* “access agreement” has the meaning given to it in part 8 of the *Act*, and under section 13.4 (d) of the *Code* includes a "*deemed access contract*". The definition of **“access agreement”** under the *Act* is "an agreement under the *Code* between a network service provider and another person (a “network user”) for that person to have access to services".}

“access arrangement” means the current *access arrangement* approved in respect of the *network* under the *Code*.

“Act” means the *Electricity Industry Act 2004*.

“alternative option contribution” means a contribution made, or to be made, by an *applicant* in respect of an *alternative option*.

“alternative option test”, in respect of the *network*, means the test set out in section 6.41 of the *Code*.

“applicant” means a person (who may be a *user*, a *customer* or a *developer*) who has lodged, or intends to lodge, a *connection application*, and includes a person who does so on behalf of another person.

“applications and queuing policy” means the applications and queuing policy (as defined in the *Code*) in the *access arrangement*.

“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.

“connection point” means an *exit point* or an *entry point* identified or to be identified as such in an *access contract*.

“consumption”, for a *connection point*, means the amount of electricity *consumed* at the *connection point*, and is measured in Watt-hours.

“contracted capacity” means the maximum rate at which a *user* is permitted to transfer electricity at a *connection point* under the *user’s access contract*.

“contribution” means a *capital contribution* or an *alternative option contribution*, or both as applicable.

“contributions rate of return” means the rate of return most recently approved by the *Authority* for use in *price control* for the *network*.

“cpi” means the “all capitals consumer price index” as defined by the Australian Bureau of Statistics.

“customer” has the meaning given to it in the *Act*.

“entry point” has the same meaning given to it in the *applications and queuing policy*.

{Note: Under the *applications and queuing policy* "entry point" means "a single, indivisible (except as allowed under this *applications and queuing policy*) point, that for purposes under the *access arrangement* involving the transfer of electricity, is deemed to consist of a single *attachment point*, connected to or to be connected to a *user's connection point*, with a single *meter* (regardless of the actual configuration of *network* assets making up the entry point), at which electricity is more likely to be transferred into the *network* than out of the *network*".} **“exit point”** has the same meaning given to it in the *applications and queuing policy*.

{Note: Under the *applications and queuing policy* "exit point" means "a single, indivisible (except as allowed under this *applications and queuing policy*) point, that for purposes under the *access arrangement* involving the transfer of electricity, is deemed to consist of a single *attachment point*, connected to or to be connected to a *user's connection point*, with a single *meter* (regardless of the actual configuration of *network* assets making up the entry point), at which electricity is more likely to be transferred out of the *network* than into the *network*".}

“facilities and equipment” has the same meaning given to it in the *Code*.

{Note: Under the *Code*, "facilities and equipment" in relation to a *connection point*, means "the apparatus, equipment, plant and buildings used for or in connection with *generating, consuming* and *transporting* electricity at the *connection point*".}

“forecast costs” means the *forecast new facilities investment* or the *alternative option costs*, or both, as applicable, to be incurred by Western Power with regards to *works*.

“generation”, for a *connection point*, means the amount of electricity *generated* at the *connection point*, and is measured in Watt-hours.

“minimum practical works” with regard to *covered services* sought by an *applicant*, means the minimum *works* Western Power must undertake, acting efficiently in accordance with *good electricity industry practice*, to provide only those *covered services* required by that *applicant*.

“network” means those parts of the SWIS that are owned and operated by Western Power.

“new revenue” means the *anticipated incremental revenue* or *additional revenue* or both, as applicable, with respect to *works*.

“non-capital costs” means the *non-capital costs* (as defined in the *Code*), but excluding *alternative option costs*, to be incurred by Western Power with regards to *works*.

“reasonable time” means the time determined in accordance with clause.

“retailer” has the meaning given to it in the *Act*.

“technical rules” means the *technical rules* (as defined in the *Code*) applying from time to time to the *network* under Chapter 12 of the *Code*, as modified in accordance with the *Code*.

In addition the definitions of “Code objective”, “new service”, “non-capital contribution”, “payment contract”, “provision in kind”, “provision in kind contract”, “relevant applicant”, and “required augmentation” have been excluded from the CCP because the terms have not been used.

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. Alternative option costs are treated separately from non-capital costs.

3.2 Application

Clause 2 of the CCP sets out the circumstances under which the CCP applies. It directly reflects the requirements of sections 5.14, and 5.14A of the Code.. This is consistent with the requirement of section A4.4 of the model CCP, with the addition that it now reflects the changes to section 5.14 of the Code with the addition of section 5.14A.

3.3 Lowest sustainable cost

Clause 3 of the CCP is directly based on clause A4.6 of the model CCP.

3.4 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.

3.5 Contribution

Clause 5 of the CCP provides guidance as to how a capital contribution is to be determined under the CCP.. This clause provides additional guidance in support of clause 2 (Application) of the CCP.

3.6 Where the approved extensions and expansions policy does not apply

Where the approved extensions and expansions policy does not apply, the contribution is calculated under clause 5 and 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 over a reasonable time, at the contributions rate of return.
- add any amount determined under clause 6.

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.

The full amount of forecast costs applies unless there is an apportionment. The policy, in clause 5.4 describes the specific circumstances where Western Power will apportion costs.

3.7 Where the approved extensions and expansions policy does apply

- Clause 2(b) of the CCP defines where the capital contribution is to be determined under the provisions of the approved extensions and expansions policy. There is no equivalent clause in the model CCP. The clause has been inserted because it reflects the requirements of the new section 5.14A of the Code.

3.8 General Provisions

The section 6 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

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, including the requirement that capital contributions would only be required under this clause if the works do not meet the NFIT.

3.9 Manner of contribution

Clause 7 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.

Western Power will also offer time payment for applicants where the contribution exceeds \$30,000.

3.10 Rebates

Rebates are offered under clause 8 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.