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## **TRANSCRIPT OF PROCEEDINGS**

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### **ECONOMIC REGULATION AUTHORITY**

### **DRAFT DECISION ON WESTERN POWER'S PROPOSED ACCESS ARRANGEMENT**

**PANEL:**            **MR LYNDON ROWE**  
                      **MR ALISTAIR BUTCHER**  
                      **MS ANNETTE STOKES**  
                      **MR GREG SHALES**

**SPEAKER:**      **MR PETER MATTNER**

**PERTH**

**2.05 PM, MONDAY, 3 APRIL 2006**

MR ROWE: Good afternoon. This is a public forum on Western Power's proposed access arrangement. For those of you who I haven't met, my name is Lyndon Rowe. I'm the chairman for the Economic Regulation Authority and, on behalf of the ERA, welcome to the forum. This, I guess, is another  
5 important step in the continuing reform in the electricity sector and I guess the number of people here is an indication of the interest in those reform processes.

The purpose of today's forum is, I guess, threefold. Firstly, the secretariat from the ERA will outline the draft decision in a moment. We will then provide an  
10 opportunity for Western Power, Peter Mattner, to give us at least an initial response, Peter, rather than a conclusive respect, but, thirdly and most importantly, it's really an opportunity to get feedback from stakeholders so this needs to be a two-way session. We are very keen to hear from you and to get your responses to the draft decision.

15 I should tell you that the forum is being recorded and there are largely two reasons for that. Firstly, we are keen to capture all the views that might be expressed and, secondly, we will in due course put the transcript on our Web site so it's available to not just yourselves but others who couldn't make it  
20 today. If I can go to the next overhead and introduce the people who will be speaking to you, firstly, from the secretariat Alistair Butcher who is director electricity access, Annette Stokes who is manager projects and Greg Shales who is a consultant project manager and then Peter Mattner who is manager, regulation pricing and access development with Western Power will also speak  
25 to you.

I guess just some overall comments from the authority's point of view to put this presentation into context: the authority is very conscious of the newness of the access regime. Given the newness of the regime, this is the first access  
30 arrangement. It would be nice but it would be unlikely if either the ERA was perfect in its draft decision or indeed Western Power was perfect in its first access arrangement. So I think that needs to be seen in the context. We are keen to get feedback, as I'm sure Western Power are, in order that even if the final decision is not perfect, it is more perfect than the draft and so invite your  
35 comments.

I guess the other general comment is the authority recognise that there are community and industry concerns about the reliability of the network and the service standards on the network. We also recognise the importance for third  
40 party access. A large part, of course, of what is driving the reform agenda is that we might introduce some competition into the electricity sector and clearly for that to happen access issues are very important.

Given all that, the authority in its draft decision has done a number of things.  
45 Firstly, with respect to capital expenditure the authority has accepted the

proposals put to us by Western Power with respect to transmission and distribution and they are substantial increases in capital expenditure on what has happened in the past. Secondly, with respect to OPEX we have largely accepted, both for transmission and distribution, the proposals that Western  
5 Power put to us. There are some cut-backs in OPEX but even after taking those into account there are still significant increases in operational expenditure for transmission and distribution on what has happened in the recent past.

10 Thirdly, as I said, this is important for access and shall be focused on making sure we get the third party access issues as correct as we can and then, fourthly, given the concerns about the reliability and the service standards, given the authority has largely accepted the proposals with respect to - well, it has accepted the proposals with respect to CAPEX and largely accepted them with  
15 respect to OPEX. We are very keen to make sure that consumers get a result and so we have put a particular focus on service standards, those that were proposed by Western Power, some additional ones we have suggested they should include and also, going forward, how we look at making sure over this next access arrangement period we get better information for the next reset so  
20 we are in a better position again to look at service standards at that stage. So those are the sort of key considerations, I guess, that have underlined the draft decision.

If I can go now to the role of the ERA, as everyone in here knows, we are  
25 responsible for regulating third party access in accordance with the code. We are required to consider Western Power's proposal and make a draft decision. If that draft decision is not to approve the access arrangement, which in this case it wasn't, then we are required to specify the amendments that would be necessary for us to accept the access arrangement and we have done and there  
30 were some 193 of those.

So that is where we are now. The draft access arrangement is out. As somebody has already said to me, it is a little large for most people's liking, including mine, but it is a very significant issue and it will require that sort of  
35 degree of consideration and we are now very keen to get feedback from all of the stakeholders before we give our consideration to any amendments to that draft decision finalising, bringing it to a conclusion. With that sort of introduction from me, can I now invite - I think, Alistair, you are going to kick off. You will hear from Alistair, Annette and Greg and then I will invite Peter  
40 then to do his presentation. At the conclusion of that we will throw it open for comment, some questions and discussion. Thank you. Thanks, Alistair.

MR BUTCHER: Thanks very much, Lyndon, and good afternoon everyone. I'm just here briefly to introduce a few of the topics and introduce my team  
45 who will be mainly talking about the subjects for the remainder of the

afternoon. Now, you can see here the background and overview. Certainly Western Power lodged their proposed access arrangement information and also technical rules on 24 August. Since that point we published a documents and issues paper alongside that in September of last year and invited submissions.

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We received about 15 submissions on Western Power's proposals and there was a fairly intensive process of internal work, including utilisation of consultants to assess Western Power's proposal and the submissions received. We published on 21 March the draft decision and, as Lyndon indicated, it was to not approve and require a substantial number of amendments.

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I just wanted to briefly touch upon the required contents of an access arrangement. Section 5.1 lists each of those as being reference service, standard access contract, service standard benchmarks, price control, pricing methods, applications and queuing policy, capital contributions policy, transfer and relocation policy, supplementary matters and revisions and trigger events. Now, the authority chose to assess each of those on a Part A and Part B basis throughout its draft decision so the draft decision is not structured in a chronological manner. What we have done is divide the assessment up into two separate parts. Moving to that, I will ask Greg to provide the assessment on Part A and then Annette to Part B.

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MR SHALES: Thanks, Alistair, and good afternoon, ladies and gentlemen. I will start off on reference services and, as Alistair alluded to, section 5.1 of the Access Code requires for there to be at least one reference service for a reference tariff and section 5.2 specifies what that reference service is required to cover. Western Power has proposed 13 reference services, 11 for its distribution network and two for its transmission network. In the authority's assessment a number of matters were observed. There needed to be required amendment in order to meet the requirements of section 5.2 of the code. You can see them there listed in summary.

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First of all a reference service has to be specific enough to make it clear to an applicant or user the nature of the service to be acquired when they are paying the applicable reference tariff. There needed to be greater clarity as to whether tariffs, the standard access contract and service standard benchmarks were appropriate, that is, there had to be sufficient information there for a user to be able to make that assessment, and in relation to unmetered supplies and streetlighting, for them to be treated as reference services have a relevant standard access contract that applied. Finally, within the assessment the calculation of target revenue for all covered assets covered assets can be used for reference services and non-reference services. There needs to be greater clarity in terms of what constitutes non-reference services and the quantum of target revenue that would be derived from there.

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Service standard benchmarks has been a fairly topical issue. Section 5.1(c) of the Access Code requires service standard benchmarks for each reference service. Western Power in relation to both transmission and distribution provided proposed circuit availability and system minutes at the transmission level and SAIDI or system average interruption index for the distribution network, and just to note there that the SAIDI figure is a feeder performance benchmark as compared to an individual customer performance benchmark.

In order to comply with 5.6 of the code the authority required a number of amendments. Looking at the transmission network, first of all, it is to include transmission circuit availability and average outage duration, as proposed by Western Power, but also to include frequency of off-supply events and intra-regional constraints. In relation to the distribution network, we're requiring SAIDI and SAIFI, SAIFI being system average interruption frequency index, for the feeder classifications of CBD, urban, rural-short and rural-long feeders. That feeder definition is reflective of the SCNRRR or Steering Committee on National Regulatory Reporting Requirements - what they have proposed and what has been adopted elsewhere in Australia for feeder service standard benchmark performance measures.

In the draft decision you will notice the SWIS total SAIDI figures for distribution are being proposed for each year of the initial access arrangement period. The starting point there was based on the financial year ending 2004 of 258 SAIDI minutes for the SWIS total which was in accordance with Western Power's trouble core management system and consistent with Western Power's stated management and objective of achieving a 25 per cent improvement or 25 per cent reduction in SAIDI minutes over the four years to 30 June 2009.

Most importantly of all is the service standard monitoring regime to be introduced and that will be achieved in terms of the actual monitoring and reporting via the licensing mechanisms of Western Power networks, the objective there being to ensure consistent and comparable data is compiled over the initial access arrangement period. As Lyndon mentioned in his introduction, the substantial increases in CAPEX were approved taking into account the requirements there for service standard benchmarks and interested parties' submissions in that regard.

Price control: the whole of chapter 6 of the Access Code relates to price control. Subchapter 6.1 talks about determination of target revenue, 6.2 the calculation of service provider's costs and subchapter 6.3 provides that a service provider can come to the authority at any time to get an assessment or approval of costs. Western Power proposed that it determine its maximum allowable annual revenue on the basis of actual volumes with an intra-period adjustment for variations. What the authority has approved in the draft decision is an endorsement of Western Power's proposed network valuation, in

aggregate about \$2.8 billion comprising \$1,371,000 for the transmission network and \$1,480,000 for the distribution network.

Western Power's proposed CAPEX - you can see the figures there - have been approved in the draft decision. Western Power's proposed OPEX - there were downward revisions to network support and network operations costs for both transmission and distribution and they are the figures of 213,000,000 for transmission and 430,000,000 for distribution over the forthcoming period. Western Power also proposed treatment of capital contributions whereby in the year that a capital contribution is made that comes off target revenue and then from thereafter the capital contribution is rolled into the initial capital base so it provides - a present value equivalent outcome compared to the previous treatment. This approach has been endorsed in Queensland and is a more pragmatic way of treatment capital contributions in the future.

Those elements were approved. However, there are a number of required amendments and they relate to the calculation target revenue, the application of the investment adjustment mechanism, the allocation of costs and revenues across reference and non-references services and the adoption of a pre-tax real WACC of 6 per cent and that was calculated at 28 February 2006, being the last day of the month preceeding the release of the draft decision.

Turning to pricing methods and price lists. Pricing methods are addressed in chapter 7 of the Access Code and relates to the structure of reference tariffs, including the allocation of target revenue across reference services. Chapter 8 prescribes the requirements for price lists and price list information. The draft decision has required Western Power to provide further detail in relation to its pricing methods to demonstrate that the principles of chapter 7 are satisfied. There are a number of mandatory tests or objectives that must be in chapter 7. The authority also requires changes to the proposed treatment of discounts and Western Power is required to submit price list information to accompany a revised price list.

Efficiency and innovation benchmarks: none were proposed by Western Power and nor was a gain-sharing mechanism proposed, the rationale for that being that it was too early in the process to meaningfully set measures and adopt one for the initial access arrangement period. The authority concurred with that view and has approved Western Power's proposal in relation to gain-sharing mechanisms and efficiency and innovation benchmarks. However, 6.2(a)(ii) of the code requires an incentive be provided to the service provider to pursue efficiency and innovation gains greater than any efficiency and innovation benchmarks. There are a couple of provisions within the draft decision relating to reliability-driven capital expenditure and operations and maintenance expenditure which achieve that objective.

Supplementary matters in 5.27 of the code includes a number of things, including stand-by, losses, balancing, ancillary services and metering. Western Power has addressed all of those in its proposed access arrangement. In the main they were consistent with the Access Code. However, in relation to metering there are a number of required amendments there to facilitate greater transparency for users and applicants and greater certainty as to where and when and to what degree metering charges apply. That is it for me and I will now hand over to Annette Stokes who will talk about the Part B matters.

MS STOKES: Thanks, Greg, and again good afternoon, ladies and gentlemen. I will now talk about the trigger events. The Access Code provides for a service provider to propose trigger events which essentially lead to the reopening of an access arrangement in its entirety. Western Power proposed three trigger events in its access arrangement. The authority didn't assess the first two trigger events as meeting the Access Code requirements. The first two trigger events related to costs on Western Power as either a decision to facilitate the development of the wholesale market rules or a decision to restructure Western Power.

In relation to the last trigger event proposed by Western Power, the authority considered that it was consistent with the Access Code requirements. The third trigger event dealt with significant unforeseen developments with a material impact that's outside Western Power's control. The authority considered it was consistent with the Access Code requirements as the third one offered certainty to users on when the access arrangement could be reopened in entirety. In relation to the first two trigger events, the authority considered that they would, to the effect that they were material events, be captured under the third proposed trigger event.

Part B of the authority's draft decision then looks at the access contracts and policies proposed by Western Power, the first being the standard access contract. The Access Code provides for a standard access contract to be proposed by a service provider that deals with the terms and conditions attaching to reference services. Western Power proposed a three-pronged approach to submitting their access contracts, the first being an electricity transfer access contract, second, a connection access contract and, third, interconnection works agreement.

The connection access contract which deals with connection services and the interconnection works agreement which is similar to a construction or building-type contract were assessed as not meeting the requirements of standard access contracts which attach to reference services. In relation to the ETAC, the electrical transfer access contract, Western Power stated that it was based upon the model access contract contained within the Access Code.

Now, the majority of subclauses - as you can see, 103 of 141 - were assessed as meeting the Access Code requirements as they didn't materially vary from the model provisions contained within the Access Code. In relation to the balance of the provisions, the authority assessed them on an individual basis as required under section 5.5(b) of the Access Code. Of those required amendments, some of them I will highlight here, firstly, relate to variations in capacity; for example, the authority considered that users cannot have contracted capacity varied by a service provider without the user's consent.

Another required amendment in relation to security is where the authority considered security should only be necessary where Western Power considers there is a material risk to the technical or financial capability of the user; thirdly, in relation to nomination of controllers, a user should procure compliance of all end users or customers except where that customer is of such capacity to be considered a disturbing load for the network, in which case the controller can be called a designated controller which then has the ability to contract with Western Power aside from the user or retailer's ETAC.

Curtailment amendments relate to the authority's consideration for curtailment to only apply in extraordinary circumstances and require the service provider to notify as soon as reasonably practicable and, finally, in relation to the treatment of tariffs, the authority considered that the two options offered under the model access contract offered workable contracts in all situations, so either where there is a price list approved or where one has not yet been approved. In relation to the other required amendments, there are further details in the draft decision.

The Access Code requires a service provider to provide an applications and queuing policy which deals with a process on how an applicant seeks access to the network. Western Power proposed its applications and queuing policy claiming that it was based on the model applications and queuing policy which was contained within the Access Code. The authority again considered that the majority of subclauses did meet the Access Code requirements as they did not materially vary from the model provisions and the remaining provisions were assessed on an individual basis as required under section 5.11(b) of the Access Code.

Again I will just highlight some of the amendments the authority has required in its draft decision. Firstly, in relation to class 1 applications which relate to existing users seeking reference services where no augmentation is required and capacity increase notices, the authority considered that the option for a streamlined process was consistent with the Access Code and has required this to be reflected. In relation to information requirements, the authority considered the information required in an application should reflect the information necessary to assess the application and no more. These

requirements are to be captured under a prescribed form which then gives users certainty about the information required.

5 Again in relation to security, similar to under the electricity transfer access contract security should only be sought where a technical or financial capability is questionable. In relation to dormant access offers, the authority considered the model provision of three years was appropriate and accommodated the interest of users. Preliminary assessments: the authority has required Western Power to provide for preliminary assessments, therefore  
10 setting out the procedures that a user should follow should it seek a preliminary assessment. Again the other amendments are further detailed in the draft decision.

15 Capital contribution: under the Access Code a service provider is required to submit a capital contributions policy which deals with the method and payment of augmentations where the new facilities investment test is not satisfied. Western Power's proposal was again based on the model policy contained within Appendix 4 to the Access Code. There were a number of new concepts introduced in Western Power's proposed capital contributions policy and I will  
20 again highlight some of the required amendments.

Firstly is the method of contribution. The authority considered users should be offered the three options, the up-front, periodic financial payments or provision in kind which were provided for under the model. Again the security only  
25 required where there is a material risk to the technical or financial capability of the user. Rebates and recoupment - there are actually a number of amendments under those so I won't go into the details of those. They are just to clarify the operation of rebates and recoupment.

30 Finally, an urban-shared network concept was proposed by Western Power. This effectively was a 50-kilometre radius from the Perth GPO where all of the augmentations within that were automatically deemed to satisfy the new facilities investment test. The authority considered that all capital contributions should have the new facilities investment test applied and a user  
35 be liable for the balance of the cost irrespective of location. Again the balance of required amendments are in the draft decision.

A service provider is also required to propose a transfer and relocation policy as required under the Access Code which details a transfer of access contracts or rights between users and relocations of capacity. The proposed transfer and relocation policy was considered to be largely consistent with the Access Code's requirements. The authority did, however, have some required amendments to some aspects of the proposed policy; for instance, requiring a bare transfer to be permitted in any circumstance as the user remains liable to  
45 Western Power for those contractual rights.

5 The Access Code requires a proposed revisions submission date and revisions commencement date and particular to the first access arrangement period it can be no greater than a three-year period. Western Power proposed a revisions submission of 31 December 2008 and revisions commencement of 1 July 2009. The authority's draft decision considered the revisions commencement date to be consistent with the Access Code requirements of three years. However, in relation to the revisions commencement date, the authority considered that greater time was necessary for the review, assessment and consultation of the revised proposed access arrangement and, as such, has required that to be 10 1 October 2008. I will pass back to Alistair now.

15 MR BUTCHER: Just a few comments from me before we hand over to Peter Mattner from Western Power to make a brief presentation himself. You will have all seen that public submissions, as required by the Access Code, were required 20 business days from the publication of the draft decision. An application was received to extend that period of time and the application was actually granted to give all parties an additional 20 business days to make submissions. As you can see here, submissions must now be received by 20 19 May 2006 and I must emphasise that there is no possibility to extend that further.

25 What we do expect - and I imagine Peter will comment upon this - is that Western Power will submit a proposed revised access arrangement by the end of the public submission period to assist the authority and users going forward. At that point what the authority will do is consider all submissions received and make a final decision within 30 business days. Now, I would like to invite Peter to come to the microphone and make a presentation, then, depending on time, there will be an open forum, question and answer session or comments.

30 MR MATTNER: There certainly will be time because this is quite short. Ladies and gentlemen, thanks for the opportunity of responding to this. This is very much a watch this space because we are only 13 days old in terms of our assessment and I have to admit I haven't even read it twice yet. I have skip 35 read it once but it is a bit mean when you hand someone 1200 pages and you get 600 back, but that's another story.

40 What I would like to cover is to just summarise the main outcomes from the draft decision, what we think of them and then where we think we are going to go from there. Just in terms of getting minds around all this stuff it is useful, I think, to consider three areas. One is financial and that covers our revenue entitlement which is sort of all up around the 600,000,000 per annum and then the building blocks for developing that revenue, the asset valuation, the WACC, expenditures and depreciation so that all sort of sits under the financial 45 heading.

5 Then there is all the mechanistic stuff which the code sort of is particular on;  
form of regulation; the definition of services; service standards; adjustment  
mechanisms. You name it, it is all detailed there. Much of that should be  
mechanistic and once we have reached a landing on it, it should be totally  
uncontroversial so hopefully we can reach a landing on those things. Lastly  
but certainly not leastly, we have got the standard contract, the queuing policy  
and the CAPCON's policy which are the things that are going to be used in  
dealing with users and customers and they are pretty much the most important  
10 thing there.

15 In terms of outcomes on the financial front, there were some positive outcomes  
and they are positive both for Western Power and consumers. We have got  
pretty much all the asset-related - I stress asset-related - capital and operating  
expenditure approved. There are some unprecedented growth rates out there  
which are being demanded of us and also we have set a fairly challenging  
target of a 25 per cent improvement in reliability so that is a very positive  
outcome for Western Power and/or consumers.

20 The ERA has also given the asset valuation a tick which gives us sort of a good  
feeling looking forward to the future in that we are a sustainable business  
financially. There is always the opportunity to revisit that but at least it gives  
us some regulatory certainty going forward. As per usual, we beg to differ on  
the adjudication on the WACC. Watch this space. We will have all the  
25 necessary bantering and backroom about the WACC point estimate. It is a  
fairly subjective thing and we will have some further discussions with the ERA  
on that.

30 One of the significant things that did arise is that to our surprise our revenue  
models were tested fairly substantially by the ERA and stuff that we have been  
doing since 1997 has had a few holes picked in it and not unreasonably but  
they have been through various levels of audit before so we're quite surprised  
to see some changes justified, but we generally think - we haven't assessed all  
of that in detail but we think that is okay.

35 That combined with the WACC decision and some cut-backs in the OPEX  
areas actually amount to an overall annual revenue reduction of about  
105,000,000 per annum which on a base of 600 is pretty substantial. So I think  
you could rest easy that they have done their job if bringing prices down is the  
40 appropriate thing to do. Now, I'm not suggesting that it will remain at 105. It  
really depends on our response on a number of things and a final WACC  
decision but a substantial reduction in revenues and we have yet to really  
assess what that means in a high-level financial sense but we are working on  
that now.

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In terms of the mechanics, there are lots of required amendments. I would hesitate to say a majority but some are clearly acceptable to us and will happen. We remain of a somewhat different opinion on some things. No codes are perfect. They are open to interpretation. We happen to interpret them a different way to the ERA and we have some sort of divergence of views but the whole idea is to actually try and get convergence over those views over the next few weeks.

They particularly revolve around the form of regulation where the ERA is promoting a revenue cap, the investment adjustment mechanism to adjust for variations in CAPEX and service standards. We are not altogether happy with what the ERA have asked us to do there but again watch this space. We would contend that some amendments are somewhat impractical to implement and maybe we can convince the ERA on some fronts that that is the case and, as Lyndon or one of the previous speakers suggested, if the draft decision isn't exactly right, it might be a bit more right in the final decision.

On the customer instruments there are lots of required amendments. I think out of 193 there is sort of something in the order of 120 on the contract and the queuing policy. We have some different views again on some of the matters; some due to interpretation; some due to some definitional issues that have arisen in the code where provisions of the Access Code don't necessarily line up with definitions in other codes and related documents and things like that. For example, the model contract talks about users paying capital contributions, whereas in practice it is actually end customers that pay capital contributions so there are sort of definitional issues there that have to be corrected so that the contract reads right in a legal sentence. Again some amendments are considered impractical but we are working on those.

So from our perspective the main issues to be resolved are what are the high-level business financial implications for us as a business. We will have our mandatory argument about WACC. We want to resolve the issue around the most appropriate form of regulation. The investment adjustment mechanism which we proposed was fairly limited in that it was just confined to large transmission investments which are very large, very lumpy and very unpredictable, whereas the ERA's decision suggests that we should have with minor exceptions reconciliation of actuals and forecast CAPEX across the board which sort of hints at the concept of rate of return regulation which we don't consider to be ideal.

They have asked for higher or more challenging and a wider scope of service standards and incentives. Our current position is that while that is sort of aligning us with other parts of the country perhaps, they are not necessarily sending good signals to us or customers but watch this space. People may have reacted to the ERA's decision to agree with us that setting efficiency and

innovation benchmarks and not having any gain-sharing mechanism was probably being a bit lenient to us but we are actually in the midst of desegregation.

5 I mean, we are desegregated and I should have pointed out right at the start this is a fairly momentous day by coincidence, the fact that we are standing here as Western Power in the new company, but in that environment it is damn hard to sort of lock down any meaningful financial benchmarks when the picture is changing so quickly. We are actually facing new and unprecedented cost  
10 pressures even emerging since we actually put in our draft proposal and market rates for getting things done out there for those involved in the resources sector won't be surprised are just a bit frightening at the moment. We had a job recently for a 132KV line for about 4.7,000,000 estimate and we got three tenders, the cheapest of which was 12 so that knocks a big hole in your  
15 approved capital spend. So watch our revised draft access application.

Details of the standard contract - we are working through those now but there are some significant issues, the queuing policy likewise and there are a few issues with CAPCON's policy that we need to sort through as well. We will, as  
20 allowed by the code, submit a revised proposed access arrangement. It's a significant assignment given the number of amendments. The amendments are easy to read but the work behind sort of gathering any extra information or complying with them is something else.

25 The ERA has generously granted us an additional 20 business days which Alistair pointed out is the maximum. Our objective is to submit a new proposed access arrangement that these guys can tick. We don't want to go through another iteration but what will be, will be. We will see when we get there. The ERA has offered to discuss all our key issues. We are already in  
30 dialogue with them and progressively working through that stuff.

Now, to that end - and I hope I'm not treading on your turf here - the fact that everyone has been given an extra 20 days respond, not just us to get our revised submission in, it would be really, really, really valuable to us if you  
35 don't wait and put them in on the 39th or the 40th day because if you do that, we won't have any transparency or any view of what people are thinking about the draft decision.

40 It's a bit selfish but, gee, if you could get them in in 20 days as planned, it would sure as hell help us and increase the probability of us getting something to these guys that they can tick off rather than us doing something and then having a whole lot of people say, "Well, we actually think they should be doing something different." So if you could put pen to paper in 20 days, I think it would serve the purposes very well. So that's it for me, thank you.

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5 MR ROWE: Thanks, Peter, and, as per his overhead, Peter is happy to take questions clearly. So can I now throw it open to the floor? Can I ask you to indicate if you would like to either ask a question of the secretariat or of Peter or make a general comment? Can you come to the microphone because, as I indicated at the start, we are recording the session and can I please ask you to identify yourself and your organisation? Over to you. I was going to try and get you some feedback today, Peter, not in 20 days.

10 MR MATTNER: Albert Konig must have a question.

MR ROWE: 600 pages obviously overwhelmed him. Here I keep thinking we should put out short decisions; maybe we shouldn't. If there are none, I'm not going to hold you up. I'm sure the secretariat and Peter have plenty of work they can do. I'm sure you have too. There is one at the back - two.

15 MR CLIFFORD: This is a general comment. It's Michael Clifford representing Urban Development Industry of Australia. I run an electrical engineering company, Jenkins Clifford Consulting Engineers. I guess the concern I have is the cost of development.

20 MR ROWE: Just a second, Michael. Can everyone hear Michael? Yes, sorry.

25 MR CLIFFORD: That's okay. Primarily the developers pay a lot of money for the infrastructure for the development industry and I guess that's gifted to Western Power and I just want a clarification of how that's going to be treated with Western Power's return on that infrastructure. Another question is the way that there were changes to the technical part of the network calculation of load, what's required for sub-provisions. It's quite large which means the infrastructure is going to be quite expensive. In turn, that means the access charges will be expensive because you have got to recoup the cost of the infrastructure so I just wondered if I could have a couple of comments on those.

35 MR ROWE: Alistair?

MR BUTCHER: Yes, I will have a bit of a go at that if that's okay, Michael. First up, certainly "how treated" was your first comment on the cost of development. You would be aware - and I think it was remiss of us not to mention it earlier - the authority is obliged to publish draft technical rules. Now, we must do so by 11 April. Those draft technical rules will, amongst other things, have included within them revised planning criteria, particularly for distribution developments, subdivisions, for example.

Now, you would be aware that Western Power in their access arrangement information actually foreshadowed that they would be arguing for increases to the ADMD, the after diversity maximum demand criteria, from, I think 3KVA up to about 11KVA per lot size. Now, the authority is yet to make a draft  
5 decision on those particular elements and it will be in the draft technical rules which are shortly to be published. However, it is available, depending on what the authority actually decide upon that. It's open to Western Power to revise its capital expenditure forecasts commensurate with those decisions.

10 I think certainly Western Power certainly in their access arrangement information noted that the ADMD criteria appear to be quite low and particularly given the increased take-up of the airconditioning load in particular in WA. Certainly in terms of "how treated" - well, yes, you're right. Developers do put in that infrastructure and then gift it to Western Power. The  
15 intention is that that will be treated as part of the capital contributions netting off which Greg indicated.

Now, that means that there will be less total revenue requirement for the year in which it's put in so access charges will not be as high as it would be and the  
20 cost of that would be recovered over a longer period of time. So all up-front costs will not be borne and you might find access charges in fact don't go up as significantly as you would expect. Does that answer your question, Michael?

MR ROWE: Peter?  
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MR MATTNER: Yes, Alistair is pretty much spot on there. I'm just wondering what I can add to that. A gifted asset is treated exactly the same as a capital contribution, as if we have received payment. I mean, effectively that's netted off our annual revenue in the year in which that gifted asset occurs  
30 but then we earn a return on that asset over time so effectively rather than getting cash up-front in the form of a capital contribution we actually earn a return over time. So it's equivalent in net present value terms but it's not double-dipping or anything like that.

35 MR CLIFFORD: Just one last general question is the transmission. I was talking primarily distribution but certainly the way that the network is growing, transmission is growing, is there any future of developers paying any contribution to the transmission network?

40 MR MATTNER: What, are you suggesting the subdivision developer might be up for transmission charges?

MR CLIFFORD: Yes.

45 MR MATTNER: No.

MR CLIFFORD: Thank you.

MR ROWE: You have got a question?

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MR JONES: Ladies and gentlemen, my name is Cliff Jones from Beacons Consulting. We're planning to build a 45-megawatt power station down at Albany and another one up at Neerabup near Wanneroo. These are base-load bio-energy power stations and we hope to get them financially closed this year, earlier than later. We currently have connections offers to consider from Western Power for both projects and we are rather concerned as to how fast we should move with these negotiations to finalise these in the light of the changes that are occurring and whether there is a potential for claw-back in the context if we sign anything today or tomorrow, as we're being invited to do so to get on with the job, whether we're going to be caught given that I see with great glee that there's some reductions in costs and there's some improvements in services and so forth being foreshadowed and we're wondering under those circumstances whether we should wait until a further situation arises where we know what the actual prospect is for the connection charge and for the ongoing annual connection charges as well. So that was the question.

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MR ROWE: I think from the authority's point of view we're working to get you the answer to what it might be as quickly as we can, but I don't know whether Peter wants to provide some free commercial advice.

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MR MATTNER: I don't know about free. Mr Chivers - where is he? There he is. Correct if I'm wrong. The whole basis of going into the new access arrangement is that any sort of predetermined contractual arrangements, you know, take precedence. Any commercial negotiations that are under way now - and I'm certainly not party to them - will be taking into account the best view of the future world.

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The current capital contribution policy for connection to remote generators which is based on this wonderful concept of a 50-kilometre radius around the GPO is probably lending you some benefit in the current negotiations which could actually be taken away by the ERA's decision so maybe there's an incentive to do it quickly. In the end, you know, that's up to you and the Western Power account manager or whoever you're negotiating with to discuss those issues, but it's probably five bob each way. You will just need to make a call, sorry.

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MR BUTCHER: Can I just also add to that slightly? If you're sitting in the queue at the time an access arrangement is in fact approved, the intention is that you will simply be transitioned to a new queue in an equivalent position. So that's the intention if you're currently negotiating a contract.

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MR ROWE: I'm not sure we answered the question for you.

MR JONES: No.

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MR ROWE: I think you knew we couldn't. Anyone else? If not, can I on your behalf thank Peter, firstly? Peter, thank you for that. We appreciate it. To Alistair, Annette and Greg, would you please join me in thanking them? Thank you for your attendance. We look forward to your submissions and I would endorse Peter's comment the sooner we get them, the sooner we can look at them, the better. Thanks very much.

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**ADJOURNED**

**[2.56 pm]**