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8 February 2007

Mr Robert Pullella
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Economic Regulation Authority
PO Box 8469
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Dear Rob

ERA NOTICE - 17 JANUARY 2007

**CALL FOR SUBMISSIONS ON MATTERS RELATING TO WESTERN POWER'S
REVISED PROPOSED ACCESS ARRANGEMENT**

Western Power welcomes the opportunity to provide further information to assist the Authority in its decision making on the 3 matters referred to in its call for submissions, namely:

1. Reductions in Contracted Capacity;
2. Treatment of Capital Contributions; and
3. Headworks Charges.

Items 2 and 3 are addressed in this document.

Western Power's response to Item 1 is contained in the separate attached document entitled "Contracted Capacity Rights" dated 8 February 2007, document reference DMS# 3488365v2.

In regard to Item 2, it is requested that the Authority specifically clarify in its response to stakeholder submissions that this matter has been raised independently by the Authority, and is not in relation to any proposed change to the May 2006 revised proposed access arrangement by Western Power.

Yours sincerely

(SIGNED)

Doug Aberle

ITEM 2 – TREATMENT OF CAPITAL CONTRIBUTIONS

Western Power's comments on the ERA's observations are as follows:

1. Under Western Power's approach of including capital contributions within the revenue cap, overall revenue levels in the immediate term are reduced (compared to those that would be calculated by accounting for capital contributions outside the revenue cap). However, revenue levels in the future are increased by a compensating amount.

This approach was developed with the objective of managing the substantial increase in network tariffs that would otherwise be required in the short term.

2. The ERA's consultation paper presents an example in which there is an unexpected increase in capital contributions during the forthcoming access arrangement period. The ERA suggests that this may create financing issues because tariff revenue will be lower than would otherwise be the case. However, this is an incorrect interpretation.

Western Power's proposed Access Arrangement clearly states that tariff revenue during this access arrangement period will not be affected by differences between forecast and actual capital contributions (see clauses 5.31 and 5.42). Any adjustment to tariff revenue to address errors in forecast capital contributions will be applied in the next access arrangement period via the "capital contributions adjustment mechanism".

Any such adjustments are "smoothed" over the course of the next (5 year) regulatory period, thereby moderating any consequential revenue and price impacts (whether positive or negative).

It is important to note, however, that in the event of actual capital contributions being lower than forecast, cash flows (and consequential financing arrangements) will be negatively affected in the short term.

3. It would of course be practical to adjust for differences between forecast and actual capital contributions over a number of future regulatory periods, rather than concentrating any required adjustment in the next (single) regulatory period. In effect, this approach could be interpreted as applying a hybrid approach to capital contributions that combines the proposed approach with the conventional treatment that more closely aligns the revenue stream with the life of the asset. This could be readily accommodated by minor drafting changes to clauses 5.32, 5.43 and appendix 8 of the Access Arrangement.

While Western Power believes the capital contributions adjustment mechanism in its proposed Access Arrangement provides outcomes which meet the Code objectives, Western Power will give further consideration to amending its proposed Access Arrangement in this regard.

ITEM 3 – HEADWORKS CHARGES

Western Power fully supports the Office of Energy's suggested concept of a "headworks charge" approach to capital contributions in regions of the network where the nature and size of a new capacity increment would otherwise impose a prohibitive capital contribution on an applicant seeking a new connection which would trigger the need for substantial capital investment.

Western Power also agrees with the Authority's view that "... there is nothing in either the Access Code or the capital contributions policy of Western Power's revised proposed access arrangement that would, in principle, prevent Western Power from levying such charges."

The headworks charge formulation and application details could be incorporated in the Extensions and Expansions Policy, which is subject to the independent approval of the Coordinator of Energy. This would provide the necessary transparency and formality, alongside other established capital contribution requirements for particular new connections.

Western Power has already undertaken substantial preparatory work in developing this headworks charge approach and will shortly commence a period of formal consultation with key stakeholders.

ENDS