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Dear Robert

Revised Forecast Expenditures Proposed by Western Power

Alinta Sales Pty Limited (**Alinta**) welcomes the opportunity to comment on the Revised Expenditure Forecasts Proposed by Western Power for the South West Interconnected Network that was submitted to the Economic Regulation Authority (**ERA**) on 26 September 2006.

Alinta has concerns in relation to the adverse pricing outcomes that may be borne by market participants resulting from the increased forecast expenditures proposed. Alinta sets out those concerns in the following sections of this letter. The comments in this letter should be read as supplementing the relevant passages in the previous submissions made by Alinta.

'Revised Regulatory Expenditure Forecasts 26 September 2006 Supporting Information' Paper

Alinta has been unable to review in detail the revised expenditure forecasts due to the lack of detail in the supporting information paper.

Alinta highlights the following two examples:

Distribution Asset Replacement - Western Power seeks an additional \$39M during the access arrangement period for distribution pole replacement.

Figure 1 in the supporting document attempts to show pole integrity performance being below an industry benchmark. Given that the industry benchmark is not defined and that the sample size appears insufficient (only 1 year compared to the asset life of 50 years) it is difficult to draw any credible conclusions from the chart. Furthermore, the reference to the existence of a draft audit report (not included in the submission) are not particularly convincing as to the need for such a significant increase in expenditure in this area. Finally, no information is provided to convince the reader that the unit costs underlying the expenditure increase are efficient.

Given the significant increase sought, Alinta suggests that the ERA scrutinise this area of additional expenditure closely and consult further with stakeholders once more information is available, ahead of making any final decision.

Distribution Support Costs - Western Power seeks an additional \$26M during the access arrangement period for distribution support costs.

The supporting information paper states "*The RPAA understated the forecast distribution support expenditure significantly – this was simply an inexplicable error in WP's preparation of the RPAA forecasts.*" The revised forecast equates to an average spend on distribution support costs of approximately \$12M per annum.

The Western Power supporting document accompanying the Revised Proposed Access Arrangement titled 'Justification of expenditure forecasts: Western Power SWIS Network' states '*an average*

expenditure of \$3.5M per annum has been forecast which is in line with recent historical expenditure levels.'

Alinta suggests that the ERA scrutinise this area of increased forecast expenditure closely to ascertain the reasons for annual distribution support costs increasing by three-fold.

Price Shock

In its previous submissions, Alinta commented that it is concerned about the risk of a price shock at the outset of the initial access arrangement period. Given that Western Power is proposing further significant increases to expenditure this concern remains.

Alinta suggests that the ERA obtain revised price lists from Western Power (incorporating the proposed changes to expenditures and the investment adjustment mechanism) to allow a comparison with the current pricing. Alinta suggests that the ERA ensure that Western Power implement strategies to ensure no adverse transitional price effects from the current regime to the commencement and during the new access arrangement.

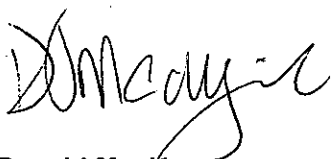
Submission

For the reasons set out above, Alinta submits that the ERA should not accept the revised expenditure forecasts without subjecting the amounts and underlying supporting information to a rigorous and independent review. Furthermore, Alinta suggests that the ERA confirm that Western Power has a suitable Asset Management Strategy in place to provide market participants comfort that the forecast expenditures represent a works program that is both prudent and efficient.

Further information

If you have any questions in relation to Alinta's position on the issues set out in this letter, please do not hesitate to contact Mark McKinnon 9486 3386.

Yours sincerely



Donald MacKenzie
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