

Further Final Decision on Proposed Revisions to the Access Arrangement for the Western Power Network

Submitted by Western Power

29 November 2012

Economic Regulation Authority



WESTERN AUSTRALIA

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DECISION

Background and summary

1. On 30 September 2011, Western Power submitted proposed revisions to its access arrangement for the Western Power Network (**proposed revisions**)¹ to the Economic Regulation Authority (**Authority**). The proposed revised access arrangement relates to the third access arrangement period, the five year period from 1 July 2012 to 30 June 2017. The proposed revisions were submitted in accordance with the requirements of section 4.48 of the *Electricity Networks Access Code 2004* (**Access Code**) and the revisions submission date specified in the current access arrangement.²
2. The role of the Authority is to determine whether Western Power's proposed revisions:
 - meet the Access Code objective of promoting economically efficient investment in, and operation and use of, electricity networks and services of networks in Western Australia, in order to promote competition in markets upstream and downstream of the networks; and
 - comply with the requirements of the Access Code.
3. On 5 September 2012, the Authority issued a Final Decision in accordance with the requirements of sections 4.52 and 4.17 of the Access Code.³ The Final Decision of the Authority was to not approve the proposed revisions on the grounds that they did not satisfy the requirements of the Access Code. In its reasons for the Final Decision, the Authority provided details of 58 amendments required to the proposed revisions before the Authority would approve them.
4. On 30 October 2012, and in accordance with section 4.19 of the Access Code, Western Power submitted to the Authority amended proposed revisions to the access arrangement (the "**amended proposed revisions**"). The amended proposed revisions and amended access arrangement information are available on the Authority's web site.
5. With Western Power having submitted amended proposed revisions, the Authority is required by section 4.52 and 4.21 of the Access Code, and subject to section 4.23, to issue a further final decision that either approves or does not approve the amended proposed revisions.

¹ Western Power, 30 September 2011. *Proposed revisions to the Access Arrangement for the Western Power network*; hereafter cited as ("Proposed Revised Access Arrangement").
Western Power, 30 September 2011. *Access Arrangement Information for 1 July 2012 to 30 June 2017*; hereafter cited as ("Revised Access Arrangement Information").

² The revisions submission date is specified under the current access arrangement as 1 October 2011 (Western Power, 24 December 2009. *Amended Proposed Revisions to the Access Arrangement for the South West Network owned by Western Power*, clause 1.5, p. 1).

³ Economic Regulation Authority, 29 March 2012, Draft Decision on Proposed Revisions to the Access Arrangement for the Western Power Network.

6. During the course of assessing the amended proposed revisions, Western Power made an additional revision to its proposed amendments.⁴ The addendum included an amendment to the calculation of depreciation in relation to new assets in the tax asset base and consequential amendments. The Authority is satisfied that the revision was necessary, for the reasons set out in this decision (refer to paragraphs 96 to 152).
7. The Further Final Decision of the Authority is to approve Western Power's amended proposed revisions to the access arrangement for the Western Power Network on the grounds that the amended proposed revisions adequately address the matters that prompted the Authority to require the amendments.
8. The Authority's reasons for this Further Final Decision are provided in the following sections of this decision document. These reasons are set out in order of the elements of the proposed access arrangement revisions that the Authority required to be amended under the Final Decision.
9. Under section 4.26 of the Access Code, the Authority is required to specify the "access arrangement start date" on which the amended access arrangement takes effect. The access arrangement start date is required to be consistent with the Code objective and be at least 20 business days after this Further Final Decision, that is, not before 1 January 2013. In its addendum, Western Power has proposed a start date of 1 February 2013 to allow sufficient time for customers to implement the new 2012/13 network tariffs and to roll out the revised Applications and Queuing Policy.
10. Taking into account the impact on business operation processes the Authority considers that the Code objective is best served by the amended access arrangement taking effect in greater than 20 business days. Accordingly, the Authority determines the access arrangement start date to be 1 February 2013.

⁴ Western Power, *Addendum to amended proposed revisions to the access arrangement for the Western Power Network*, 26 November 2012.

REASONS

Reference services

Introduction

11. A reference service is a service described in the access arrangement and for which a reference tariff is specified in the access arrangement.
12. The current access arrangement lists 11 reference services that are exit services (at clause 3.5), two reference services that are entry services (at clause 3.6) and one bidirectional reference service (at clause 3.6A). Western Power has revised the eligibility criteria for all reference services and added three new bi-directional reference services in the proposed access arrangement revisions.
13. In its Final Decision the Authority required that the eligibility criteria for reference services be amended and that the bi-directional reference services should not be extended to electric vehicles or battery storage systems.

Eligibility Criteria for Reference Services

Final Decision

14. Western Power proposed that users who have been granted an exemption from compliance with Western Power's Technical Rules should not be eligible for a reference service. In the Final Decision, the Authority did not agree that a user's exemption from the Technical Rules would necessarily result in a change to the nature or terms of a reference service as this is not one of the elements of the reference service definition. If an exemption granted did lead to a change in the nature or terms of a reference service, then this is already covered by 4) b) i) of Western Power's proposed eligibility criteria which excludes services where "*the terms and conditions of the access contract under which the service will be provided are materially different to the Applicable Standard Access Contract for this service*". Consequently, the Authority required Western Power to remove criteria 4) a) from its proposed eligibility criteria.

Final Decision Amendment 1

Western Power must remove criteria 4) a) from its proposed eligibility criteria for each reference service.

Amended Proposed Revisions

15. Western Power has amended the eligibility requirements for reference services to delete exemptions from the Technical Rules.

Further Final Decision

16. The Authority is satisfied that the amendments made to the eligibility criteria for reference services as set out in Appendix E of the Access Arrangement implement Final Decision Amendment 1.

Additional Bi-directional Reference Services

Final Decision

17. Western Power proposed that the bi-directional reference services should be extended to electric vehicles and battery storage systems. The Authority considered that reference services must be sufficiently targeted to ensure the service provided and corresponding tariffs reflect the characteristics and costs of the service required by the customer group receiving the service.
18. The Authority considers the characteristics of network usage by electric vehicles or battery storage are likely to differ significantly from those of photovoltaic systems. Domestic photovoltaic systems clearly will only operate during daylight hours and the amount of energy exported to the network will be dependent on the energy usage profile of the relevant household and the weather conditions, whereas usage profiles for electric vehicles and battery storage are likely to be driven by quite different factors. Differences in usage profile would indicate there are also differences in network costs.
19. Consequently, the Authority determined that the proposed bi-directional reference services should not be extended to electric vehicles and battery storage systems.

Final Decision Amendment 2

The proposed revised bi-directional reference tariffs (C1, C2, C3 and C4) must not be extended to battery storage and electrical vehicle systems.

Amended Proposed Revisions

20. Western Power has amended the proposed bi-directional reference services to exclude electric vehicles and battery storage systems.

Further Final Decision

21. The Authority is satisfied that the amendments made to the proposed bi-directional reference services, C1-C4, as set out in Appendix E of the Access Arrangement implement Final Decision Amendment 2.

Total revenue requirement

Introduction

22. Under section 6.2 of the Access Code, the target revenue for a price control may be set by reference to the service provider's approved total costs, or by reference to tariffs in previous access arrangement periods and changes to costs and productivity growth in the electricity industry, or by using a combination of these two methods.
23. Western Power determined a value of target revenue by reference to forecast costs for the third access arrangement period (2012/13 to 2016/17) – the “building block” method. This is consistent with the requirements of section 6.2(a) of the Access Code and with the method used to determine target revenue for the previous two access arrangement periods (2006/07 to 2008/09 and 2009/10 to 2011/12).
24. In considering Western Power's proposed target revenue, the Authority assessed the actual and forecast costs of Western Power over the second and third access arrangement periods, including:
 - an assessment of whether the forecast of non-capital costs for the third access arrangement period meets the requirements of section 6.40 of the Access Code, including only those costs that would be incurred by a service provider efficiently minimising costs;
 - an assessment of whether new facilities investment in the second access arrangement period may be added to the capital base of the network under the provisions of section 6.51A of the Access Code, including an assessment of whether, and to what extent, the new facilities investment satisfies the new facilities investment test under section 6.52 of the Access Code; and
 - an assessment of whether forecast new facilities investment for the third access arrangement period may be taken into account in determining target revenue (by notional addition to the capital base), including an assessment of whether, and to what extent, the new facilities investment satisfies the new facilities investment test under section 6.52 of the Access Code.
25. In the Final Decision, the Authority required several amendments to target revenue that are necessary for the Authority to approve the proposed access arrangement revisions. The Authority's required amendments and Western Power's response to these amendments, including proposed revisions other than required by the Authority, are addressed below.

Target Revenue

Final Decision

26. The values of target revenue determined by the Authority for its Final Decision are set out below in Table 1 and Table 2. These tables also show the “smoothed” target revenue that becomes the revenue cap under the price control.

Table 1 Final Decision target revenue for the transmission network (real \$ million at 30 June 2012)

	Final Decision					Present Value
	2012/13	2013/14	2014/15	2015/16	2016/17	
Operating costs	103.7	102.8	103.1	105.2	107.8	470.2
Depreciation	85.2	93.8	103.5	110.0	117.5	456.6
Deferred reference service revenue	10.6	10.6	10.6	10.6	10.6	47.7
Return on assets	92.1	99.7	110.2	115.1	120.6	481.7
Return on working capital	0.5	1.3	0.9	0.9	0.8	4.0
Taxation	41.9	20.2	6.1	0.0	0.0	64.8
Imputation Credit	-10.5	-5.1	-1.5	0.0	0.0	-16.2
Investment adjustment mechanism	-47.4					-45.8
Service standard adjustment mechanism	6.1					5.9
Total Costs	282.2	323.3	332.9	341.9	357.2	1,468.9
Annual revenue cap - TR_t (smoothed)	407.7	346.9	315.0	287.7	261.7	1,468.9

Table 2 Final Decision target revenue for the distribution network (real \$ million at 30 June 2012)

	Final Decision					Present Value
	2012/13	2013/14	2014/15	2015/16	2016/17	
Operating costs	347.8	350.9	347.0	342.6	351.6	1,566.5
Depreciation	194.3	214.3	237.7	242.0	255.6	1,025.1
Accelerated depreciation (redundant assets)	3.4	0.5	0.0	0.0	0.0	3.7
Deferred reference service revenue	79.6	79.6	79.6	79.6	79.6	358.3
Tariff Equalisation Contributions (TEC)	150.8	166.0	156.0	134.4	128.9	665.0
Return on assets	139.0	153.0	169.0	184.1	197.9	754.1
Return on working capital	2.1	2.6	2.8	3.0	3.3	12.4
Taxation	25.2	30.7	39.9	59.6	63.4	193.6
Imputation Credit	(6.3)	(7.7)	(10.0)	(14.9)	(15.8)	(48.3)
Investment adjustment mechanism	1.9					1.9
Service Standard Adjustment Mechanism	24.5					23.7
Total Costs	962.3	989.9	1,022.0	1,030.3	1,064.5	4,556.1
Total costs (smoothed)	899.3	959.0	1,005.7	1,072.9	1,144.7	4,556.1
Less TEC	(150.8)	(166.0)	(156.0)	(134.4)	(128.9)	(665.0)
Annual revenue cap - DR_t (smoothed)	748.4	793.1	849.7	938.6	1,015.8	3,891.1

Final Decision Amendment 3

The proposed revised access arrangement values for TRt and DRt must be amended to reflect the Authority's amended revenue values for Transmission and Distribution (as shown in second last row of Table 6 and Table 7 [last row in Table 1 and Table 2]).

Amended Proposed Revisions

27. In its amended proposed access arrangement information Western Power's amended target revenue differs slightly from the values in the Final Decision which it states is to account for corrections to modelling errors and changes resulting from other required amendments. These include:
- **Investment adjustment mechanism (IAM)** – the revenue model in the Final Decision provides for a return via the IAM on a small amount of investment that did not meet the new facilities investment test. Western Power is not entitled to earn a return on this investment so the revenue model has been adjusted downwards accordingly. The resultant change in target revenue compared to the Final Decision is negligible.
 - **Equity raising costs** – the revenue model in the Final Decision contained an error that double-counted equity raising costs in the cash flow analysis and applied Western Power's inflation adjustment rather than the implied inflation adjustment. The revenue model has been adjusted accordingly. The resultant change in target revenue compared to the Final Decision is negligible.
 - **Wood poles** – Western Power has accepted Final Decision Amendment 13, which requires the introduction of a new regulatory category for wood pole management so that the specific wood pole expenditure is more clearly defined. Western Power notes that using specific dollar amounts results in a more accurate application of depreciation which reduces distribution target revenue by \$0.9 million (present value as at 30 June 2012) compared to the Final Decision.
 - **Updated inputs for 2011/12 results** – Western Power has updated all 2011/12 inputs to reflect end of year results rather than forecasts. These include updated revenue, energy and asset disposals. The first two amendments have no impact on total target revenue for the third access arrangement period. The update in relation to asset disposals has the effect of reducing the capital base by a small amount but has no measurable impact on target revenue during the third access arrangement period.
 - **Operating expenditure** – Western Power has amended operating costs to include expenditure relating to amounts payable under the *Economic Regulation Authority (Electricity Network Access Funding Regulations) 2012*. This adjustment increases total target revenue by \$4.9 million (present value as at 30 June 2012) compared with the Final Decision.
 - **Tax liability** – Western Power's proposed tax asset base varies from the Authority's calculation in its Final Decision as it is based on Western Power's view of the tax asset register, which Western Power considers more accurately estimates the tax liability. Western Power has also included the 2012/13 revenue correction factor in its estimate of taxable revenue for the third access arrangement period. The combined effect of these amendments to the tax liability results in a \$98.6 million (present value as at 30 June 2012) increase in target revenue compared with the Final Decision.

Overall these amendments have increased transmission target revenue by \$13 million (present value as at 30 June 2012) and distribution target revenue by \$89.5 million (present value as at 30 June 2012) compared to the Final Decision. Western Power's revised target revenue is set out in the tables below.

Table 3 Western Power revised target revenue for the transmission network (real \$ million at 30 June 2012)⁵

	2012/13	2013/14	2014/15	2015/16	2016/17	Present Value
Operating costs	104.0	103.3	103.6	105.7	108.2	472.1
Depreciation	85.2	93.8	103.4	110.0	117.4	456.5
Accelerated depreciation (redundant assets)	0.0	0.0	0.0	0.0	0.0	0.0
Deferred reference service revenue	10.6	10.6	10.6	10.6	10.6	47.7
Return on assets	92.1	99.6	110.1	115.0	120.5	481.4
Return on working capital	0.5	1.3	1.0	1.0	0.8	4.1
Taxation	49.5	27.1	8.0	0.0	0.0	80.2
Imputation Credit	(12.4)	(6.8)	(2.0)	0.0	0.0	(20.1)
Investment adjustment mechanism	(47.6)					(46.0)
Service standard adjustment mechanism	6.1					5.9
Net costs after adjustments (unsmoothed)	288.1	328.9	334.7	342.2	357.4	1,481.9
Maximum forecast reference service revenue (smoothed)-TRt	387.3	367.1	326.7	292.5	260.7	1,481.9

⁵ The maximum forecast reference service revenue (smoothed) – TRt does not include the 2011/12 revenue correction factor (k factor), as this does not form part of the approved revenue for the third access arrangement period. The 2011/12 k factor is added separately to 2012/13 price list.

Table 4 Western Power revised target revenue for the distribution network (real \$ million at 30 June 2012)⁶

	2012/13	2013/14	2014/15	2015/16	2016/17	Present Value
Operating costs	348.3	351.8	347.8	343.3	352.3	1569.8
Depreciation	194.1	214.2	237.5	241.7	255.3	1024.2
Accelerated depreciation (redundant assets)	3.4	0.5	0.0	0.0	0.0	3.8
Deferred reference service revenue	79.6	79.6	79.6	79.6	79.6	358.3
Tariff Equalisation Contributions (TEC)	150.8	166.0	156.0	134.4	128.9	665.0
Return on assets	138.9	152.9	168.9	184.0	197.8	753.9
Return on working capital	2.1	2.5	3.0	3.2	3.5	12.8
Taxation	52.8	69.7	72.2	79.4	71.6	309.8
Imputation Credit	(13.2)	(17.4)	(18.0)	(19.9)	(17.9)	(77.4)
Investment adjustment mechanism	1.9					1.9
Service Standard Adjustment Mechanism	24.5					23.7
Net costs after adjustments (unsmoothed)	983.3	1,019.8	1,047.0	1,045.8	1,071.1	4,645.7
Maximum forecast reference service revenue (smoothed)	836.6	1,014.3	1,056.6	1,112.5	1,166.9	4,645.7
Tariff Equalisation Contribution (TEC) ⁷	(150.8)	(166.0)	(156.0)	(134.4)	(128.9)	(665.0)
Distribution reference service revenue (less TEC) – DR_t	685.7	848.4	900.6	978.1	1,038.0	3,980.6

Further Final Decision

28. The Authority notes that Western Power's amendments in relation to the IAM, equity raising costs, wood poles and actual results for 2011/12 all have either a negligible impact or slightly reduce target revenue compared with the Final Decision.
29. The Authority has verified Western Power's corrections and amended revenue model for these four adjustments. The Authority is satisfied that these four amendments to the revenue model are to correct errors that were discovered during the course of responding to the Authority's decision or to update for the actual results for 2011/12 and that the consequences for target revenue and reference

⁶ The distribution reference service revenue - DR_t does not include the 2011/12 revenue correction factor (k factor), as this does not form part of the approved revenue for the third access arrangement period. The 2011/12 k factor is added separately to 2012/13 price list.

⁷ The TEC is a separate component of the price control (refer to section 5.7.6 of Western Power's access arrangement).

tariffs are minor. The Authority therefore accepts the amendments in relation to the IAM, equity raising costs, wood poles and actual results for 2011/12.

30. At the time of the Final Decision the *Electricity Network Access Funding Regulations* (2012) had not been enacted. As the legal obligation was not in place at that point it was not possible to include these costs in target revenue. As the regulations came into effect on 10 October 2012, the Authority accepts that the proposed increase in target revenue to meet the obligation is required.
31. The Authority has accepted the revised estimate of tax liability for the reasons set out in paragraphs 96 to 152.
32. The adjustments outlined above increase total target revenue by \$102.5 million (present value as at 30 June 2012) or 1.7 per cent compared to the Final Decision. For the reasons outlined above, the Authority accepts Western Power's proposed amended target revenue as set out in Table 3 and Table 4 and considers that the requirements of Final Decision Amendment 3 have been complied with. The Authority has published a revised target revenue model as Appendix A to this decision.

Forecast Operating Expenditure

Final Decision

33. Under section 6.40 of the Access Code, the Authority must be satisfied that the forecast operating costs for the third access arrangement period include only those costs that would be incurred by a service provider efficiently minimising costs.
34. In the Final Decision the Authority determined that Western Power's proposed forecast operating expenditure did not satisfy the requirements of section 6.40 of the Access Code and required the forecasts to be amended for the Authority to approve the proposed access arrangement revisions. The Authority's required amendments and Western Power's responses to these amendments are addressed below.

Network control expenditure

35. Network control services are payments made to generators to operate at times of peak demand as a means to defer the need for capital expenditure in areas of network constraint.
36. The Authority recognises that network control services are a cost effective way of deferring grid augmentations, particularly on fringe areas of the network, where loads tend to be relatively low and the cost of network augmentation is high because of the distances involved. The Authority also recognises that a regulatory framework that favoured grid augmentation over network control services could result in perverse outcomes.
37. The Authority considers the factors driving consideration of network control services are similar to the type of expenditure already covered by the D-factor scheme. Consequently, in the Final Decision the Authority determined that expanding the D-factor scheme to incorporate network control services would provide certainty to Western Power that it will be able to recover the costs of all efficiently incurred network control services, and ensure that only efficient investment decisions are made.

38. The Authority therefore required that network control services be excluded from operating costs for the purposes of determining target revenue and the D-factor scheme should be modified to include network control services.

Final Decision Amendment 4

Network control services must be excluded from operating cost forecasts for the purposes of determining target revenue and the D-factor scheme must be modified to include network control services.

Amended Proposed Revisions

39. Western Power has amended forecast operating expenditure to remove the amounts relating to network control services and has modified the D-factor scheme to include network control services.

Further Final Decision

40. The amendments to the D-factor scheme are considered further in paragraphs 242 to 248. The Authority is satisfied that the amendments made to forecast operating expenditure and the D-factor scheme implement Final Decision Amendment 4.

Input Cost Escalation

41. In the Final Decision the Authority required Western Power to amend the real input escalation factors used to estimate operating expenditure and amend forecast operating expenditure accordingly. The Authority's determination of real input escalation factors and forecast cost escalation are set out in the tables below.

Table 5 Final Decision real input escalation factors (per cent above CPI)

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Labour Escalation	1.9	1.5	2.2	2.4	2.0	2.0
Material Escalation	0.0	0.0	0.0	0.0	0.0	0.0

Table 6 Final Decision Real Input Escalation (real \$ million at 30 June 2012)

	2012/13	2013/14	2014/15	2015/16	2016/17	Total
Labour Escalation	5.2	12.7	20.5	26.9	34.1	99.3
Materials Escalation	0.0	0.0	0.0	0.0	0.0	0.0

Final Decision Amendment 5

The revised proposed access arrangement should be amended to reflect a forecast of operating expenditure which applies real labour and material escalation rates to the amended values in Table 43 and Table 44 [Table 5 and Table 6].

Amended Proposed Revisions

42. Western Power has adopted the escalation factors determined by the Authority and amended its forecast operating expenditure accordingly.

Further Final Decision

43. The Authority is satisfied that the amendments made to forecast operating expenditure implement Final Decision Amendment 5.

Other adjustments to operating expenditure

44. In the Final Decision the Authority determined that Western Power's proposed forecast operating expenditure did not satisfy the requirements of section 6.40 of the Access Code. The Authority's Final Decision in relation to operating expenditure is set out in Table 7 and Table 8 below.

Table 7 Final Decision Operating Expenditure (real \$ million at 30 June 2012)

Expenditure	2012/13	2013/14	2014/15	2015/16	2016/17	AA3 Total
Recurrent network base	250.2	250.2	250.2	250.2	250.2	1,250.9
Step changes	7.7	9.1	9.1	9.1	9.1	44.0
One-off adjustments	8.7	8.7	8.7	0.0	0.0	26.1
Growth escalation	9.6	14.7	19.9	25.2	30.6	100.1
Total recurrent network costs	276.1	282.6	287.9	284.5	289.9	1,421.0
Non-recurrent network costs	20.5	20.2	14.0	15.3	16.4	86.4
Expensed indirect network costs	44.3	41.9	41.0	39.4	44.8	211.4
Corporate costs	105.4	105.2	104.9	109.2	111.1	535.8
Gross operating expenditure	446.3	449.9	447.8	448.4	462.2	2,254.6
Efficiency adjustment	-	8.9	18.2	27.4	37.0	91.5
Total before cost escalation	446.3	441.0	429.7	421.0	425.2	2,163.2
Input cost escalation	5.2	12.7	20.5	26.9	34.1	99.3
Total after cost escalation	451.5	453.7	450.1	447.8	459.3	2,262.4

Table 8 Final Decision forecast operating expenditure (real \$ million at 30 June 2012)

	2012/13	2013/14	2014/15	2015/16	2016/17	Total
Transmission	103.7	102.8	103.1	105.2	107.8	522.6
Distribution	347.8	350.9	347.0	342.6	351.6	1,739.9

45. The Final Decision required forecast operating expenditure to be amended to the amounts determined by the Authority.

Final Decision Amendment 6

The revised proposed access arrangement must be amended to reflect a forecast of operating expenditure as indicated by the Final Decision values in Table 52 [Table 8].

Amended Proposed Revisions

46. Western Power has amended forecast operating expenditure in line with the amounts determined by the Authority.

Further Final Decision

47. The Authority has verified the level of forecast operating expenditure included in Western Power's amended revenue model and is satisfied that the amendments implement Final Decision Amendment 6.

Opening Regulatory Capital Base for the Third Access Arrangement Period

Final Decision

48. The capital base is the value ascribed to the network assets that are used to provide covered services. Where the target revenue for the price control is set by reference to the service provider's approved total costs, section 6.43 of the Access Code provides for the value of capital related costs to be calculated by determining a capital base and calculating a return on the capital base and an amount of depreciation.
49. In the Final Decision, the Authority required several amendments to the opening regulatory capital base that are necessary for the Authority to approve the proposed access arrangement revisions. The Authority's required amendments and Western Power's response to these amendments are addressed below.

Actual new facilities investment

50. Section 6.51A of the Access Code provides that new facilities investment may be added to the capital base if it passes certain tests:

6.51A New facilities investment may be added to the capital base if:

- (a) it satisfies the new facilities investment test; or
 - (b) the Authority otherwise approves it being adding [sic] to the capital base if:
 - (i) it has been, or is expected to be, the subject of a contribution; and
 - (ii) it meets the requirements of section 6.52(a); and
 - (iii) the access arrangement contains a mechanism designed to ensure that there is no double recovery of costs as a result of the addition.
51. In the Final Decision the Authority determined that expenditure relating to cancelled and deferred projects (as identified in the statutory accounts) did not satisfy the new facilities investment test and therefore must not be included in the regulatory capital base.

Final Decision Amendment 7

The actual capital expenditure for 2009/10 and 2010/11 must be restated to exclude expenditure relating to the cancelled or deferred projects identified in the statutory account audit.

52. Taking account of advice from its technical consultant the Authority determined the following expenditure items did not meet the new facilities investment test:
- \$5.7 million in relation to a cost overrun on phase 1 of the Mobile Work Solution Project, which forms part of the Strategic Program of Works (**SPOW**);
 - \$4.5 million in relation to planning and environmental costs, which are not directly related to a specific project or program; and

- \$1.9 million in relation to transmission line relocations, which Western Power intends to recover in full from the customers concerned; and
 - \$9 million in relation to a cost overrun on elements of the SPOW.
53. The Authority, accordingly, required that the amount of new facilities investment for the second access arrangement period that is to be added to the capital base should be reduced to exclude investment to the value of \$21.1 million. The Authority estimated that \$11.9 million of the adjustment relates to transmission and \$9.2 million relates to distribution and for modelling simplicity, the Authority assumed the adjustments apply evenly over the second access arrangement period.

Table 9 Final Decision-Amounts of new facilities investment in the second access arrangement period to be added to the capital base (real \$ million at 30 June 2012)⁸

	2009/10	2010/11	2011/12
Transmission	195.2	149.5	139.8
Distribution	431.2	431.7	505.1

Final Decision Amendment 8

The proposed revised access arrangement must be amended to reflect the values shown in Table 57 [Table 9] above.

Amended Proposed Revisions

54. Western Power has amended capital expenditure for 2009/10 to 2011/12 period to remove the expenditure relating to cancelled and deferred projects and the expenditure determined by the Authority as not meeting the new facilities investment test.

Further Final Decision

55. The Authority has verified the amendments made to capital expenditure in Western Power's amended revenue model and is satisfied that the amendments implement Final Decision Amendments 7 and 8.

Investment from Prior Periods

56. Western Power proposed to include an amount of capital expenditure incurred during the first access arrangement period. This expenditure was disallowed by the Authority at the last access arrangement review on the basis that it did not meet the new facilities investment test.
57. In the Final Decision the Authority considered that the analysis put forward by Western Power did not substantiate a reduction in the amount of expenditure disallowed at the last access arrangement review. The Authority, therefore,

⁸ Expenditure on Strategic Program of Works projects which does not meet the new facilities investment test was allocated based on the ratio of Western Power's proposed allocation of IT expenditure to transmission and distribution in each year of the regulatory period.

required that the previously disallowed expenditure relating to the first access arrangement period should not be included in the capital base.

Final Decision Amendment 9

Expenditure relating to investment from prior periods does not meet the new facilities investment test and must not be included in the capital base.

Amended Proposed Revisions

58. Western Power has amended the capital base to exclude investment relating to prior periods.

Further Final Decision

59. The Authority has verified the amendments made to the capital base in Western Power's amended revenue model and is satisfied that the amendments implement Final Decision Amendment 9.

Inflation of capital base

60. Western Power proposed a modelling assumption that, for the purposes of applying inflation, capital investment during the second access arrangement occurs mid-year.
61. In the Final Decision, the Authority did not consider Western Power's proposed new methodology for inflating the opening capital base was appropriate. The Authority, therefore, required that capital expenditure incurred during the second access arrangement must be inflated using year-end inflation rates as is the case in the current access arrangement and consistent with all other cash flows in the determination of target revenue.

Final Decision Amendment 10

The opening capital base for 1 July 2012 in the proposed revised access arrangement must be inflated using the same methodology as the current access arrangement and must not include the additional half year inflation in relation to expenditure during the second access arrangement proposed by Western Power.

Amended Proposed Revisions

62. Western Power has amended the revenue model to adopt the same methodology as the current access arrangement in relation to inflation of the capital base.

Further Final Decision

63. The Authority has reviewed the methodology used to inflate capital expenditure in Western Power's amended revenue model and is satisfied that the amendments implement Final Decision Amendment 10.

Opening Capital Base

64. The Authority's calculation of the revised capital base values in its Final Decision are shown in Table 10 and Table 11 below.

Table 10 Final Decision capital base at 30 June 2012 for the transmission network (real \$ million at 30 June 2012)

	30 June 2009	30 June 2010	30 June 2011	30 June 2012
Opening asset value		2,319.7	2,435.1	2,504.9
New facilities investment		195.2	149.5	139.8
Asset disposals		-5.4	-0.3	0.0
Depreciation		-74.4	-79.5	-90.0
Accelerated depreciation		0.0	0.0	0.0
Closing asset base	2,319.7	2,435.1	2,504.9	2,554.7

Table 11 Final Decision capital base at 30 June 2012 for the distribution network (real \$ million at 30 June 2012)

	30 June 2009	30 June 2010	30 June 2011	30 June 2012
Opening asset value		3,003.0	3,276.5	3,538.1
New facilities investment		431.2	431.7	505.1
Asset disposals		-0.9	-0.0	0.0
Depreciation		-152.7	-166.0	-183.6
Accelerated depreciation		(4.1)	(4.1)	(3.9)
Closing asset base	3,003.0	3,276.5	3,538.1	3,855.6

Final Decision Amendment 11

The opening capital base for 1 July 2012 in the proposed revised access arrangement must be amended to reflect the values in Table 64 and Table 65 [Table 10 and Table 11] above.

Amended Proposed Revisions

65. Western Power has amended the capital base to reflect the values determined by the Authority. In addition, it has reduced the capital base by \$2.2 million to reflect the value of asset sales for 2011/12 which was not available at the time of the Final Decision.

Further Final Decision

66. The Authority has verified the amounts included in the capital base in Western Power's amended revenue model and is satisfied that the amendments implement Final Decision Amendment 11.

Forecast Capital Base for the Third Access Arrangement Period

67. Section 6.51 of the Access Code provides for the target revenue for an access arrangement period to include capital costs calculated in respect of an amount of forecast new facilities investment that at the time of inclusion is reasonably expected to satisfy the test in section 6.51A of the Access Code when the forecast new facilities investment is forecast to be made.
68. In the Final Decision the Authority required amendments to Western Power's forecast capital base that are necessary for the Authority to approve the proposed access arrangement revisions. The Authority's required amendments and Western Power's responses to these amendments are addressed below.

Wood Poles

69. In the Draft Decision the Authority determined that expenditure in relation to distribution wood pole management should be subject to the investment adjustment mechanism to ensure Western Power was appropriately incentivised if additional expenditure was required. In response to the Draft Decision, Western Power proposed also including expenditure in relation to its stay wire program in the investment adjustment mechanism.
70. In the Final Decision the Authority took the view that the inclusion of stay wire expenditure in the investment adjustment mechanism for the third access arrangement period was not appropriate. The Authority's requirement to include wood pole replacement in the investment adjustment mechanism is a one-off provision and the Authority does not consider that wood pole asset replacement would be included in the investment adjustment mechanism past the third access arrangement period. The Authority only required the inclusion of wood pole expenditure because Western Power was not expected to meet its obligations under an EnergySafety Order and the potential investment needed for wood pole management may change as Western Power further develops its understanding of what is required.

Final Decision Amendment 12

The revised proposed access arrangement revisions must be amended to remove all stay wire programs from the investment adjustment mechanism.

71. The Final Decision also required that the forecast amounts relating to distribution wood pole management be explicitly stated in the access arrangement for the purposes of calculating the investment adjustment at the next access arrangement review.

Table 12 Final Decision Wood Pole Management Forecast Expenditure for the third access arrangement (real \$ million at 30 June 2012)⁹

	2012/13	2013/14	2014/15	2015/16	2016/17	Total
Total	166.1	187.4	196.2	204.7	213.7	968.1

Final Decision Amendment 13

The revised proposed access arrangement revisions must be amended to include the investment adjustment mechanism values as indicated in Table 99 [Table 12].

Western Power's revenue model must also be amended to include a separate regulatory category for wood pole management.

Amended Proposed Revisions

72. Western Power has amended section 7.3.7(f) of the amended proposed revisions to only include investment relating to distribution wood pole management. It has also amended the revenue model to separately identify a category for distribution wood pole management.

⁹ Real cost escalation has been removed for comparison purposes.

Further Final Decision

73. The Authority is satisfied that the amendments made to clause 7.3.7(f) of the amended proposed revisions, and the modification to the revenue model, meet the requirements of Final Decision Amendments 12 and 13.

Application of the Section 6.51A Test

74. Under section 6.51 of the Access Code, the forecast total costs for providing covered services for the third access arrangement period may include costs in relation to forecast new facilities investment that at the time of inclusion is reasonably expected to satisfy the test in section 6.51A when the forecast new facilities investment is forecast to be made.
75. In the Final Decision, after having regard to information provided by Western Power and advice from its technical consultant, the Authority considered that the entire amount of forecast new facilities investment that was not subject to a contribution, and that Western Power proposed to take into account in determining the forecast total costs, did not satisfy the new facilities investment test and, hence, did not satisfy the test of section 6.51A or the requirements of section 6.51. The Authority required the forecasts to be amended as set out in Table 13 below.

Table 13 Final Decision forecast capital expenditure (real \$ million at 30 June 2012)

	2012/13	2013/14	2014/15	2015/16	2016/17	Total
Transmission :						
Transmission Costs	269.6	355.0	219.4	238.3	315.9	1,398.2
Corporate Costs	28.1	26.9	16.9	17.2	15.6	104.7
Indirect Cost Adjustment	(5.9)	(6.9)	(5.5)	(6.3)	(6.9)	(31.4)
Input Escalation	2.4	7.6	7.7	11.1	18.4	47.3
Total	294.2	382.6	238.5	260.3	343.0	1,518.8
Distribution:						
Distribution Costs	543.7	607.0	616.9	581.7	577.2	2,926.5
Corporate Costs	46.6	44.5	27.9	28.4	25.9	173.3
Indirect Cost Adjustment	(12.7)	(12.1)	(14.4)	(14.7)	(12.8)	(66.8)
Input Escalation	5.2	14.0	22.5	28.3	35.5	105.5
Total	582.8	653.3	652.9	623.7	625.8	3,138.5
Combined:						
Transmission and Distribution	813.3	962.0	836.3	820.0	893.1	4,324.7
Corporate Costs	74.7	71.4	44.8	45.6	41.5	278.0
Indirect Cost Adjustment	(18.6)	(19.0)	(19.9)	(21.0)	(19.7)	(98.2)
Input Escalation	7.6	21.6	30.2	39.5	53.9	152.8
Total	877.0	1,036.0	891.4	884.1	968.8	4,657.3

Final Decision Amendment 14

The proposed access arrangement revisions must be amended to incorporate a forecast of capital expenditure as set out in Table 119 [Table 13] above.

Amended Proposed Revisions

76. Western Power has amended the forecast capital expenditure included in the revenue model to be consistent with the amounts determined by the Authority in the Final Decision.

Further Final Decision

77. The Authority has verified the level of forecast capital expenditure included in Western Power's amended revenue model and is satisfied that the amendments implement Final Decision Amendment 13.
78. The Authority notes that all new facilities investment to occur in the third access arrangement period will still have to be assessed to determine whether it satisfies the new facilities investment test, either at the time of revisions to the access arrangement for the fourth access arrangement period or at the time of any application by Western Power under sections 6.71 and 6.72 of the Access Code.

Return on Regulated Capital Base

Final Decision

79. Section 6.64 of the Access Code requires that an access arrangement set out the weighted average cost of capital (**WACC**) for a covered network.
80. Section 6.66 of the Access Code requires that a WACC calculation:
 - must represent an effective means of achieving the Code objective and the objectives in section 6.4; and
 - must be based on an accepted financial model such as the Capital Asset Pricing Model (**CAPM**).
81. Section 6.4 of the Access Code requires that the price control in an access arrangement must (among other things) provide the service provider with an opportunity to earn revenue sufficient to cover its forward-looking and efficient costs of providing covered services, including a return on investment commensurate with the commercial risks involved.
82. In the Final Decision, the Authority did not approve Western Power's proposed real, post-tax rate of return of 6.39 per cent and required that a value of 3.6 per cent be applied in the determination of target revenue.

Final Decision Amendment 15

In relation to Rate of Return, Table 63 of the Amended Access Arrangement Information must be amended to reflect the relevant values of CAPM and WACC parameters in Table 126 and Table 127 [Table 14 and Table 15] of this Final Decision.

Table 14 Final Decision Parameter Values for Determination of a Rate of Return

Parameter	Final Decision (Per cent)
Nominal Risk Free Rate (R_f)	2.52
Real Risk Free Rate (R_f^r)	0.41
Inflation Rate π_e	2.10
Debt Proportion (D)	60
Equity Proportion (E)	40
Cost of Debt: <i>Debt Risk Premium (DRP)</i>	2.708
Cost of Debt: <i>Debt Issuing Cost (DIC)</i>	0.125
Cost of Debt: <i>Risk Margin (RM)</i>	2.833
Australian Market Risk Premium (MRP)	6.00
Equity Beta (β_e)	65
Corporate Tax Rate (T_c)	30
Franking Credit (γ)	25
Nominal Cost of Debt (R_d^n)	5.35
Real Cost of Debt (R_d^r)	3.19
Nominal Pre Tax Cost of Equity ($R_e^{n,pre-tax}$)	8.28
Real Pre Tax Cost of Equity ($R_e^{r,pre-tax}$)	6.05
Nominal After Tax Cost of Equity ($R_e^{n,post-tax}$)	6.42
Real After Tax Cost of Equity ($R_e^{r,post-tax}$)	4.23

Table 15 Final Decision

WACC	Final Decision (Per cent)
Real Pre Tax WACC ($WACC_r^{\text{pre-tax}}$)	4.33
Nominal After Tax WACC ($WACC_n^{\text{post-tax}}$)	5.78
Real After Tax WACC ($WACC_r^{\text{post-tax}}$)	3.60

Amended Proposed Revisions

83. Western Power has amended the WACC used in the revenue model to be consistent with the WACC determined by the Authority in the Final Decision.

Further Final Decision

84. The Authority has verified the WACC used in Western Power's amended revenue model and is satisfied that the amendments implement Final Decision Amendment 15.

Treatment of Capital Contributions

Final Decision

85. The Authority considers that Western Power has not made a case for the inclusion of capital contributions in the tax building block calculations.
86. It is the Authority's view that:
- the tax costs associated with capital contributions may not necessarily be associated with efficient costs – as is the case where a contribution is required for an augmentation that does not meet the NFIT;
 - to allow tax costs that are not associated with efficient costs to be charged to all customers would be inconsistent with the objectives of the Code;
 - Western Power does have a tax liability associated with a contribution, but given the objective of economic efficiency and the associated principal of 'user pays', this should be recovered from the contributor – to do otherwise would lead to a subsidy from the existing customer base to the contributing entity;
 - Western Power and the contributor are best placed to work out the commercial terms of the tax implications of any contribution, taking into account their business interests and tax positions; and
 - the analysis provides support for the Authority taking a different position to that of other regulators.
87. Accordingly, the Authority required that Western Power remove capital contributions from the tax module of the PTRM for the purposes of determining the Target Revenue.

Final Decision Amendment 16

No amounts in relation to tax on capital contributions may be included in Target Revenue.

Amended Proposed Revision

88. Western Power has amended the calculation of target revenue to exclude tax in relation to capital contributions. Western Power has also amended the Contributions Policy to include the forecast tax liability as part of the calculation of a contribution. Clause 5.5 of the Contributions Policy sets out how the forecast tax liability will be calculated.

For the purposes of determining the costs representing Western Power's tax liability arising due to receipt of an amount calculated under paragraphs (a) to (f) of clause 5.2, Western Power must estimate the net tax liability, with respect to the contribution, it will incur over the life of the assets to which the contribution relates. The calculation of the grossed up tax expense takes into account the circularity arising from the payment of tax costs by the customer, the dividend imputation franking credit passed through to Western Power's shareholder and the statutory tax depreciation benefit which offsets the tax costs incurred by Western Power.

Further Final Decision

89. The Authority has verified the amendments to Western Power's revenue model to exclude tax on capital contributions. The Authority accepts the amendment to the Contributions Policy as being a consequential amendment in relation to Final Decision Amendment 16.

Return on Working Capital

Final Decision

90. "Working capital" refers to a stock of funds that must be maintained by a service provider to pay costs as they fall due. In circumstances where it is the norm for the costs of providing services to be incurred before the revenues from provision of services are received, a stock of working capital may need to be derived from a capital investment in the business. The cost of this stock of working capital (the required return on the capital investment) is a cost to the service provider of operating its business and providing services.
91. The working capital provided for should only reflect the essential items for the conduct of the service provider's business.
92. In the Final Decision the Authority found the following:
- The forecast receivables balance has been calculated using the unsmoothed gross cost of service. However, the annual profile of gross cost of service is smoothed over the five years before setting the amount of target revenue which can be billed each year. The forecast receivables balance should be calculated from the smoothed revenue requirement and must be consistent with the target revenue approved by the Authority in the Final Decision.
 - The Authority has been unable to reconcile Western Power's forecast new facilities investment and non-capital costs with the forecasts included elsewhere in Western Power's amended access arrangement information. In any case, these forecasts must be amended to be consistent with the forecasts approved by the Authority in this Final Decision.
 - Western Power has adopted the same creditor working days assumptions as used in its proposed revisions to the access arrangement (i.e. 10 days for labour, 30 days for materials and nil for other costs) but has revised the weightings used to calculate the overall average creditor days. Western Power states the weightings for transmission are 56 per cent for labour, 35 per cent for materials and 9 per cent for indirect costs. Western Power's weightings for distribution are 56 per cent for labour, 32 per cent for material and 11 per cent for indirect costs. Based on information provided by Western Power in relation to price escalation, the Authority considers these weightings include an element for contract labour. For the purposes of working capital, only wages directly paid by Western Power in its payroll should be included. Western Power's 2011 Annual Report shows that employee-related costs comprise 29 per cent, and materials comprise 66 per cent, of total expenses excluding depreciation and borrowing costs.¹⁰ The Authority has based its

¹⁰ Western Power Annual Report 2011 p. 77.

assessment of creditor days on these proportions. For indirect costs (which includes items such as rates and insurance), the Authority has assumed a 30 day creditor period. This results in average creditor days of 24.2.

- Western Power has not included any new evidence to support its assessment of the level of inventory required. Western Power asserts that the Authority's technical consultant considers Western Power's methodology forecasts an efficient value of inventory. However, the Authority notes that its technical consultant stated it was unable to comment on the efficiency of the proposed asset turnover ratio used by Western Power.¹¹ Consequently, the Authority maintained its position taken in the Draft Decision and used the average level of inventory value to works program size for other Australian service providers to estimate an efficient level of inventory for Western Power. Based on the information provided in Western Power's Appendix D in the access arrangement information, the Authority calculated this to be four per cent.
- Western Power has based the return on working capital on its assessment of WACC. The Authority has determined a different WACC in its Final Decision and required the return on working capital be amended to be consistent with the Final Decision.

93. In the Final Decision the Authority recalculated the return on working capital, after adjusting for the matters noted above.

Final Decision Amendment 17

The amounts included in target revenue for working capital must be amended to the values in Table 137 and Table 138 [Table 16 and Table 17].

Table 16 Final Decision Cost of Working Capital – Transmission Network (real \$ million at 30 June 2012)

	2012/13	2013/14	2014/15	2015/16	2016/17
Gross Cost of Service (excluding working capita)	323.5	323.3	332.8	341.9	357.2
Expenses					
Forecast capital expenditure	295.6	385.6	240.1	262.8	347.5
Forecast operating costs	103.7	102.7	103.1	105.2	107.7
Total expenses	399.3	488.4	343.2	368.0	455.3
Working capital requirement					
Receivables (45 days)	50.3	42.8	38.8	35.4	32.3
Creditors (24.2 days)	-26.5	-32.4	-22.8	-24.3	-30.2
Inventory (4% of capital expenditure)	11.8	15.4	9.6	10.5	13.9
Working capital requirement	35.6	25.8	25.7	21.6	15.9
Return on working capital at WACC = 3.6%	0.5	1.3	0.9	0.9	0.8

¹¹ Geoff Brown and Associates, Technical Review of Western Power's Proposed Access Arrangement for 2012-17, 27 March 2012, p. 65.

Table 17 Final Decision Cost of Working Capital – Distribution Network (real \$ million at 30 June 2012)

	2012/13	2013/14	2014/15	2015/16	2016/17
Gross Cost of Service (excluding working capita)	935.8	898.9	1,021.9	1,030.3	1,064.5
Expenses					
Forecast capital expenditure	586.8	657.9	656.9	626.3	627.1
Forecast operating costs	347.8	350.9	347.0	342.6	351.6
Total expenses	934.6	1,008.9	1,003.9	968.9	978.6
Working capital requirement					
Receivables (45 days)	110.9	118.2	123.9	131.9	141.1
Creditors (24.2 days)	-61.9	-66.9	-66.6	-64.1	-64.9
Inventory (4% of capital expenditure)	23.5	26.3	26.3	25.1	25.1
Working capital requirement	72.4	77.7	83.7	92.9	101.3
Return on working capital at WACC =3.6%	2.1	2.6	2.8	3.0	3.3

Amended Proposed Revisions

94. Western Power has amended the calculation of working capital to adopt the Authority's methodology and assumptions. The adjustments to target revenue discussed in paragraphs 26 to 32 also impact the calculation of working capital and have been incorporated in the amended revenue model.

Further Final Decision

95. The Authority has verified the methodology and assumptions used in the amended revenue model and it is satisfied that the requirements of Final Decision Amendment 17 have been satisfied.

Tax liabilities

Final Decision

96. Tax liabilities were recognised in the current access arrangement as an efficient cost of providing covered services, and hence an allowance was made in the revenue cap to cover these. This revenue allowance was estimated implicitly through the use of the real 'pre-tax' weighted average cost of capital (**WACC**).
97. For the Draft Decision and the Final Decision, the Authority chose to estimate tax liabilities directly, independent of the WACC. The resulting 'post-tax' revenue model incorporated a tax module which estimated tax liabilities based on estimated nominal cash flows. A tax 'building block' was then included in the annual revenue requirement estimate – for each year of the third access arrangement period – to provide remuneration for Western Power for its estimated tax liabilities.
98. The tax liabilities were estimated by applying the statutory corporate tax rate to Western Power's estimated annual nominal Earnings Before Tax. This value of the tax liabilities was then adjusted to take account of the value of imputation credits. In turn, the imputation credit adjusted value provided the estimate of the revenue requirement – in nominal terms – for the tax building block.¹²
99. The Earnings Before Tax were based on:
- the estimated nominal annual revenues – these were derived by inflating the real values of the smoothed annual revenue requirement;
 - less the nominal (inflated) value of estimated operating costs;
 - less the estimated nominal interest costs;
 - less the estimated tax depreciation;
 - less the estimated nominal value of the Tariff Equalisation Contribution.
100. Western Power has largely adopted the Authority's approach to estimating the tax liabilities in its amended proposed revisions. However, there is one material change, which relates to the estimate of the tax depreciation. This change is discussed further in what follows.

Tax depreciation

101. The Authority in the Final Decision rejected Western Power's proposed 'historic cost' nominal TAB, derived from its financial asset register, because it included capital contributions. In this context, the Final Decision stated:¹³

In principle, the Authority would not object to Western Power utilising its proposed TAB, provided that capital contributions were appropriately removed in line with the requirement set out in the Draft Decision.

¹² A final step was to deflate the nominal estimate of the tax building block revenue into real terms, for input to the real revenue model.

¹³ Economic Regulation Authority 2012, *Final Decision on Proposed Revisions to the Access Arrangement for the Western Power Network* www.erawa.com.au, p. 265 and p. 269.

...The Authority further considers that any approach to remove capital contributions from Western Power's proposed TAB is likely to be complex. This potentially could lead to greater inaccuracies in any estimate of tax liabilities, as compared to the RAB based TAB approach. For these reasons, the Authority requires that Western Power adopt the RAB based TAB.¹⁴

102. In reaching its Final Decision, the Authority noted that it had sought to obtain a revised TAB from Western Power which excluded capital contributions. This request, the Authority's considerations on the matter and its subsequent decision to adopt the tax asset base that was derived from the Regulatory Asset Base (the so-called **RAB based TAB**) were summarised in the Final Decision as follows:¹⁵

1169. The Authority subsequently asked Western Power to provide, as a minimum:¹⁶

- the underpinning Ernst & Young spreadsheet calculations of the taxable asset base opening values (excluding capital contributions, in each of the transmission and distribution businesses), by ERA asset sub-category;
- any resulting change in the assumed average effective lives of assets, for each ERA asset sub-category, that may arise due to the removal of the capital contributions (or alternatively, a statement that this change is not significant or cannot be estimated); and
- any resulting change in the average remaining asset lives at 1 July 2009 and 1 July 2012, for each ERA asset sub-category (or alternatively, a statement that this change is not significant or cannot be estimated).

1170. In response, Western Power provided the Ernst & Young spreadsheets used to estimate the value of capital contributions. In its response, Western Power noted that Ernst & Young had estimated the value of contributions as at 30 June 2012, and the corresponding TAB excluding capital contributions, but that:¹⁷

We have not estimated the tax asset base as at 30 June 2009.

We can make no comment on the effective life or average remaining life on the removal of the contribution amounts from the tax asset base.

1171. The Authority has assessed the information provided by Western Power, and considers that it is not reasonable to adopt its proposed TAB for developing the tax liabilities in the PTRM, as capital contributions are included. Based on the information provided by Western Power, it does not appear feasible to remove capital contributions from the proposed TAB, without significant uncertainty with regard to future depreciation rates, which would call into question the utility of such an approach.

103. The Authority's estimates of tax depreciation for the Final Decision were instead derived from a tax asset base that was derived from the RAB based TAB.¹⁸

¹⁴ The 'RAB based TAB' is the TAB estimate derived from the Regulatory Asset Base (**RAB**) (see below).

¹⁵ Economic Regulation Authority 2012, *Final Decision on Proposed Revisions to the Access Arrangement for the Western Power Network* www.erawa.com.au, p. 267.

¹⁶ Economic Regulation Authority 2012, Final Decision Question 14 (FD14).

¹⁷ Western Power 2012, Response to question FD14, August.

¹⁸ Economic Regulation Authority 2012, *Final Decision on Proposed Revisions to the Access Arrangement for the Western Power Network*, www.erawa.com.au, 5 September, p. 269.

Required Amendment 18

The Authority requires that Western Power adopt a tax asset base derived from the regulatory accounts for the purposes of determining its forecast tax liabilities and its maximum annual revenue requirement.

104. The opening value of RAB based TAB for the third access arrangement was the real 'current cost' value of the RAB (in 30 June 2012 dollars). This was depreciated in nominal terms for the purposes of determining tax depreciation within the tax module of the revenue model, utilising the RAB effective asset lives.

Amended proposed revisions

105. Western Power in its amended proposed revisions:
- accepted the need to remove capital contributions from the TAB for the purposes of revenue modelling; and
 - proposed a TAB that is adjusted to remove capital contributions.
106. With regard to the second point, Western Power has provided to the Authority a set of spreadsheets which set out the workings to remove capital contributions from its proposed TAB.
107. Western Power has retained its proposed TAB, albeit now with capital contributions excluded, because it considers that the Authority's RAB based TAB estimates are inaccurate. Western Power considers, among other things, that the RAB based TAB estimates of depreciation are too large, as they are based on the indexed 'current cost' value of RAB, rather than the 'historic cost' values in the proposed TAB. For this reason, Western Power considers its proposed TAB estimates are more reflective of its actual tax position.
108. First, with regard to the Authority's RAB based TAB estimates, Western Power has noted that these estimates – as summarised in Table 136 of the Final Decision – were incorrect.¹⁹ This is because they included pre-2006 capital contributions. To be consistent with the RAB, Western Power notes that pre-2006 capital contributions should also be excluded from the RAB based TAB, in addition to post 30 June 2009 capital contributions.²⁰
109. The Authority has accepted this point and adjusted its estimates of the RAB based TAB accordingly (column A in Table 18).
110. Western Power's TAB at 30 June 2012 is significantly lower than that derived from the amended RAB based TAB (see column B of Table 18). Western Power has proposed tax depreciation based on column B in Table 18. The resulting rates of tax depreciation average around \$68 million per annum less than that derived from the amended RAB based TAB (which are set out in column A of Table 18).

¹⁹ Economic Regulation Authority 2012, *Final Decision on Proposed Revisions to the Access Arrangement for the Western Power Network*, www.erawa.com.au, p. 267.

²⁰ Western Power has noted that this exclusion of pre-2006 capital contributions from the RAB was set out clearly in the first access arrangement information (see Western Power 2005, *Access Arrangement Information*, www.erawa.com.au, 24 August, p. 40).

Table 18 Estimates of the opening TAB at 1 July 2012

	ERA RAB based TAB estimate (excludes pre-2006 cap. cons and those from 30 June 2009) (\$m 2011/12) (A)	Western Power estimated financial asset register TAB (excludes pre-2006 cap. cons and those from 30 June 2009) (\$m 2011/12) (B)
Transmission (numbers in brackets include CWIP and land)	\$2,082 (\$2,555)	\$1,571 (\$2,043)
Distribution (numbers in brackets include CWIP and land)	\$3,431 (\$3,856)	\$2,702 (\$3,128)
Total (numbers in brackets include CWIP and land)	\$5,498 (\$6,410)	\$4,273 (\$5,171)

Note: CWIP is 'cost of works in progress'.

Source: Authority analysis; Western Power 2012, *Amended proposed access arrangement information for the Western Power Network*, www.erawa.com.au; 29 October, p. 41; other spreadsheet material provided by Western Power; Economic Regulation Authority 2012, *Final Decision on Proposed Revisions to the Access Arrangement for the Western Power Network*, www.erawa.com.au, p. 267.

Further Final Decision

111. In assessing whether Western Power's proposed TAB, which excludes capital contributions, meets the requirements of the Access Code, the Authority has considered whether it provides for estimates of Western Power's tax liabilities that are consistent with Western Power's forward-looking and efficient tax liabilities.
112. To this end, the Authority focused on a number of issues, specifically whether:
- the effective lives of the assets remaining in the TAB are adjusted in line with the removal of capital contributions;
 - the opening value of the asset base and the rates of depreciation applied are consistent with Western Power's actual tax depreciation from its financial accounts;
 - whether 2011/12 revenue correction factor and Investment Adjustment Mechanism revenues should be included for calculating tax liabilities in the third access arrangement period;
 - it is reasonable for Western Power to adopt straight line depreciation for the TAB, when it likely to be more efficient to depreciate assets using the diminishing value method;
 - Western Power's proposed nominal 'historic cost' approach to depreciating existing assets in its TAB – in following on from the real 'current cost'

depreciation that was implicit in the real pre-tax approach applied in the second access arrangement period – would result in those assets being under-depreciated for tax purposes over their life.²¹

113. Each of these issues is considered further in what follows.

Impact on effective lives of removing capital contributions from Western Power's TAB

114. Western Power's estimates of the capital contributions that were included in its proposed TAB (that is, of the capital contributions that are included in its tax fixed asset registers) are at a 'broad asset categories' level.²² There is no information as to what specific assets are associated with these capital contributions, and hence no means to 'map' these into the TAB sub-categories for the purposes of deducting the value of these assets from the TAB sub-category opening values, or the value of the associated depreciation from the TAB sub-category depreciation estimates.
115. Western Power thus needed to use other information to allow this mapping. To this end, it used the information on the distribution of capital contributions contained within the *RAB sub-categories*, as well as estimates of the effective tax lives for these RAB sub-categories. This mapping was used to establish the tax consistent written down (depreciated) values of the capital contributions as at 2012, as well as the corresponding values of depreciation for the third access arrangement period 2012/13 through to 2016/17, with capital contributions excluded.
116. Western Power considers that the method it used to deduct capital contributions is reasonable.²³ To explore this aspect, the Authority developed a simplified model of the Western Power approach for removing capital contributions. This heuristic demonstrated that the Western Power proposed method for removing capital contributions is reasonably accurate. Importantly, it demonstrated that the method adopted will adjust the remaining lives of assets in each TAB sub-category for the removal of the capital contributions.
117. This adjustment was a key concern of the Authority, as it is possible that contributed assets are those that have long lives and are relatively new, such that the implied remaining lives of the assets in each TAB sub-category would need to adjust substantially once the contributed assets were removed. For example, if the 'Wooden pole lines' sub-category remaining life did not account for the removal of longer lived assets (such as Underground cables), then there was potential for continued tax depreciation of this sub-category long after the remaining assets should have been completely depreciated.
118. In conclusion, the Authority is satisfied that the method proposed by Western Power to remove capital contributions from the TAB is robust.

²¹ Where an asset is under-depreciated for tax purposes over its life, the estimates of Western Power's earnings before tax and by corollary the estimated tax liabilities would be higher, requiring users pay more revenue than should be the case over the life of assets.

²² Ernst & Young 2012, *Tax asset base for regulated revenue purposes*, Report prepared in response to ERA question FD 8, 23 July, p. 7.

²³ Western Power, *Amended proposed access arrangement information for the Western Power Network*, www.erawa.com.au, 29 Oct, p. 41.

Does the proposed TAB result in rates of depreciation that are consistent with Western Power's actual tax position

119. The Authority had some concerns as to the acceptability of Western Power's proposed TAB.
120. First, Western Power provided the Authority with a comparison of the TAB based tax depreciation estimates and the actual tax depreciation from annual reports. This analysis suggests that the TAB based depreciation is less than the actual tax depreciation, even where capital contributions are included, by an amount of between approximately \$17 million and \$61 million (see Table 19).²⁴ This gap grows over the period 2008 to 2011.
121. Western Power suggests that this is because:²⁵
- The actual tax depreciation includes non-reference assets.
 - The actual tax depreciation for the period prior to 30 June 2012 includes diminishing value depreciation, whereas the tax depreciation submitted for the purpose of the revenue model for this period is based on straight line depreciation.

Table 19 Comparison of depreciation: Western Power's actual tax returns and estimates from its proposed TAB (\$ million)

	2008	2009	2010	2011
Decline in value depreciating assets included in Western Power's actual tax returns	167.7	186.5	218.4	255.7
Western Power tax depreciation submitted (including capital contributions)	146.2	169.2	170.3	194.4
Western Power tax depreciation submitted (excluding capital contributions)	122.6	145.6	144.3	163.6

Source: Western Power 2012, email communication, 20 November.

122. With regard to the first point, the exclusion of non-reference assets is likely to have only a very small impact. Unregulated assets were responsible for just 0.2 per cent of total depreciation in Western Power's 2012 Profit and Loss account.²⁶
123. With regard to the second point, it is reasonable to consider that diminishing value depreciation would imply larger tax depreciation, as compared to straight line depreciation. Western Power's Amended Access Arrangement Information

²⁴ Western Power 2012, email communication, 26 October and 9 November.

²⁵ Ibid.

²⁶ Western Power 2012, *Amended proposed access arrangement information for the Western Power Network*, www.erawa.com.au, Appendix C, p. 3. (The figure of 0.2 per cent reflects depreciation of \$340,000 of unregulated assets out of total depreciation of \$205 million.)

provides some estimates of these differences, albeit in total over the third access arrangement period (Table 20). The difference between straight line and diminishing value depreciation (where this may be applied) is around \$200 million over the five years, or around \$40 million per year.

Table 20 Comparison of straight line and diminishing value depreciation applied to the TAB

	Straight line depreciation		Diminishing value depreciation	
	Opening tax asset base \$ millions as at 30 June 2012	Total depreciation over AA3 \$ millions nominal	Opening tax asset base \$ millions as at 30 June 2012	Total depreciation over AA3 \$ millions nominal
Transmission	\$2,043.3	\$-431.5	\$1,980.9	\$-484.5
Distribution	\$3,127.7	\$-663.3	\$2,929.9	\$-812.8
Total	\$5,171.0	\$-1,094.8	\$4,910.8	\$-1,297.3

Source: Western Power 2012, *Amended proposed access arrangement information for the Western Power Network*, www.erawa.com.au, 29 Oct, p. 41.

124. Subtracting this \$40 million from the roughly \$60 million ‘gap’ still leaves a potential discrepancy of around \$20 million, or around 10 per cent of total tax depreciation.²⁷ At an effective tax rate around 25 per cent, this would imply a tax liability difference of around \$5 million per annum.²⁸ On balance, the Authority considers that while this unexplained discrepancy is not ideal, the resulting error is reasonably small within the context of the overall revenue cap. The Authority also accepts that whatever approach is taken is likely to provide an estimate, rather than an exact figure.
125. More generally, the Authority has had concerns that a simple global check of the effective lives of the assets remaining in the TAB also raised some questions. This simple check may be observed with reference to Table 21, where the ‘implied’ remaining TAB asset lives are reported and compared to the corresponding Commissioner of Taxation’s effective lives (which are in the last column of Table 21).
126. The ‘implied’ remaining lives of the tax assets are derived by dividing the estimated 2012 opening value of the TAB (excluding capital contributions) by the corresponding estimated annual rates of tax depreciation for the period 2012/13 to 2016/17.
127. These implied remaining lives seem high compared to the Commissioner of Taxation’s effective tax life. This suggests that either the estimated opening asset values are too high, or the rates of tax depreciation too low.
128. For example, the Commissioner’s tax life for the major distribution assets (Wooden pole lines and Underground cables) is between 45 and 50 years (from the last column in Table 21). However, the implied remaining lives of these Western Power TAB assets are in the range of 43 to 50 years (from the second to sixth columns of Table 21). Similar comparisons may be observed with regard to distribution

²⁷ That is, an outstanding gap of \$20 million in depreciation unexplained out of total tax depreciation of around \$200 million.

²⁸ The estimated effective tax rate is the statutory tax rate of 30 per cent, adjusted for the impact of imputation credits.

transformers, distribution meters and services, transmission towers, transmission poles, transmission transformers etc.

129. The corresponding RAB remaining lives are 14.5 years for Wooden pole lines and 36.9 years for Underground cables.

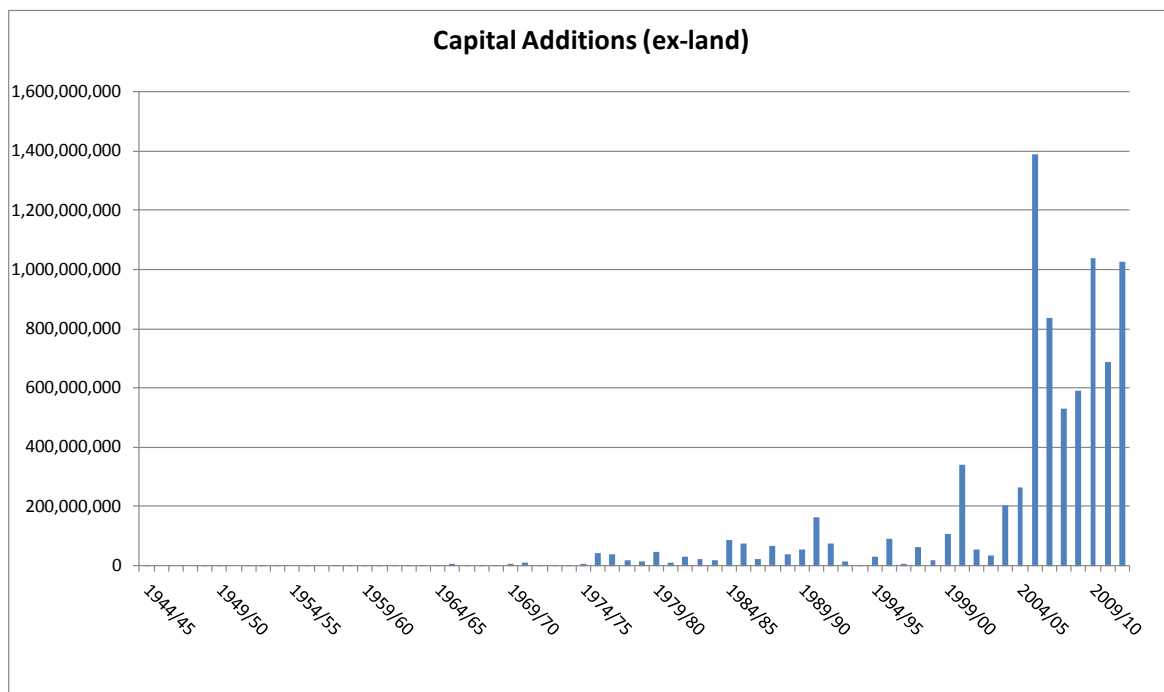
Table 21 Implied effective lives in Western Power's proposed TAB (excluding capital contributions) and the Commissioner of Taxation effective lives

	Implied remaining life					Comm. of Taxation lives (years)
	2012/ 13	2013/ 14	2014/ 15	2015/ 16	2016/ 17	
	(years)	(years)	(years)	(years)	(years)	
Transmission ICB (years)						
Transmission cables	36	35	34	33	32	47.5
Transmission steel towers	207	46	45	44	43	47.5
Transmission wood poles	220	46	45	44	43	47.5
Transmission transform.	49	41	40	39	38	40
Transmission reactors	140	38	38	37	35	40
Transmission capacitors	141	38	38	37	35	40
Transmission circuit breakers	153	38	38	37	35	40
SCADA and Comm.s	12	9	9	8	8	12.5
IT	14	4	3	2	1	4
Oth. Non-Network Assets	9	13	14	13	13	12.5
Distribution ICB (years)						
Wooden Pole Lines	47	45	45	44	43	45
Underground Cables	248	50	50	49	49	50
Transformers	203	40	40	39	38	40
Switchgear	153	30	30	29	28	30
Street lighting	17	12	11	10	9	15
Meters and Services	452	25	25	24	23	25
IT	17	4	3	2	1	4
SCADA & Comm.s	8	6	7	7	7	10
Other Dist. Non-Network	6	10	13	13	12	10

Source: Western Power 2012, Material presented in response to the Final Decision; Australian Taxation Office 2011, *Taxation Ruling TR2011/2*, www.ato.gov.au.

130. However, in response to a question on this by the Authority, Western Power has noted that:²⁹

The reason for the high effective remaining life is due to the timing of the capital additions to the tax asset register. The majority of capital additions to the tax asset register have been in recent years, as illustrated in the following chart:



We have further investigated the reason for the large capital additions in 2005/06. In Western Power's fixed asset register, approximately \$1.1 billion of the distribution capital additions are dated 1 April 2006 - the date Electricity Networks Corporation (Western Power) was formed. During data migration due to disaggregation, a numbers of assets have been migrated using 1 April 2006 as the original acquisition date (even though these assets were acquired prior to 1 April 2006). The actual acquisition date of these assets is not recorded in the fixed asset register.

For the proposes of establishing a tax asset base, Ernst & Young have applied the acquisition date, as recorded in the fixed asset register, to determine the opening value of the tax asset base and the associated depreciation over AA3. Ernst & Young have not attempted to determine the actual acquisition date for the assets migrated using 1 April 2006 as the acquisition date. The likely effect of this is to overstate the opening value of the tax asset base and to overstate the depreciation over AA3. The result is that Ernst & Young's tax asset base assessment is likely to be conservative.

131. The Authority considers that Western Power's explanation is reasonable.
132. The Authority found that there were also significant further issues with regard to the numbers for 2012/13 – here implied lives are a factor higher again. Again, Western Power has provided a reasonable explanation:

The reason for implied lives being higher in 2012/13 is due to the treatment of depreciation on the CWIP estimate for March - June 2012. Depreciation on the CWIP estimate for March - June 2012 commences in 2013/14 on the basis that these asset

²⁹ Western Power 2012, email communication, 7 November 2012.

will be installed and ready for use on 30 June 2013. However the asset values associated with this CWIP is included in the opening value of the tax asset base. Therefore the implied lives in 2012/13 are inflated due to the CWIP asset value being included in the opening value of the tax asset base but not included in the depreciation figures until 2013/14.

133. Overall, the Authority accepts Western Power's proposed TAB as reasonable. However, the Authority will continue to monitor Western Power's actual tax outcomes as compared to those forecast for this decision. Should the discrepancy continue to grow, then this acceptability would need to be reconsidered at the next review.

Tax revenue inclusions

134. Western Power in its amended revisions included the 2012/13 revenue correction factor in the tax revenue used to calculate its tax liabilities for the third access arrangement. The Authority notes that the revenue adjustment relating to the Investment Adjustment Mechanism (**IAM**) revenue was included in the tax liability accepted by the Authority in the Final Decision.
135. On further reflection, the Authority considers that it is incorrect to include these revenues in the third access arrangement period tax building block:
- The revenue correction factor relates to second access arrangement period revenue. That revenue entitlement was calculated inclusive of an amount to cover tax liabilities. Hence, the correction factor revenue already includes an allowance for the associated tax liabilities. To include that revenue for tax purposes in the third access arrangement would lead to a double count of tax liabilities associated with the correction factor revenue.
 - The IAM revenue includes a component for the return on capital based on the second access arrangement period weighted average cost of capital, and is calculated inclusive of tax liabilities. On this basis, similar to the k factor, to include IAM revenue for tax purposes in the third access arrangement would lead to a double count of the related tax liabilities.
136. The net impact of this error is an over-estimate by Western Power of its revenue entitlement for the third access arrangement period of around plus \$8 million. This net amount comprises the sum of plus \$19 million from the revenue correction factor and minus \$11 million from the IAM (as the IAM is a net negative adjustment).
137. The Authority became aware of this issue at the very end of the decision process. Given the late timing, and the size of the error, the Authority has elected to accept Western Power's proposal, so as to avoid delay in the release of its decision.
138. However, the Authority will ensure in the future that correction factor and IAM revenues are excluded from tax revenue estimates used for determining tax liabilities.

Straight line depreciation

139. A further issue relates to the use of straight line depreciation by Western Power in the proposed TAB for the pre 30 June 2012 assets. This is in contrast to Western Power's treatment of the post 30 June 2012 assets, where it has applied diminishing value depreciation.

140. A key objective of the Authority in moving to a post tax revenue model is to align Western Power's tax liabilities more closely with its efficient actual liabilities going forward. The Authority therefore gave consideration to requiring Western Power to apply diminishing value depreciation to the pre 30 June 2012 assets, at rates permitted under tax law.³⁰
141. If diminishing value depreciation was adopted for the pre 30 June 2012 assets, then there could be higher annual rates of tax depreciation over the third access arrangement period. In turn, this could lead to lower profits, lower tax, and a lower revenue requirement, all other things being equal.
142. However, the case against adopting straight line depreciation is not clear cut. Actual outcomes will depend on the balance of remaining lives for those assets subject to diminishing value depreciation, and the actual rates of diminishing value depreciation for which particular assets are eligible.³¹
143. Given the potential additional complexity that such a requirement would introduce, and the likelihood that there may not be a significant difference – as compared to the proposed uniform straight line approach – the Authority has concluded that it is reasonable to accept Western Power's proposed straight line depreciation method for pre 30 June 2012 assets. The Authority also notes that straight line depreciation is an option under tax law.
144. The Authority also accepts Western Power's proposal that any new assets that are brought to book post 30 June 2013 should be depreciated through use of diminishing value tax depreciation, consistent with the *actual* tax treatment. This will ensure that tax liabilities estimates for revenue purposes and actual tax payments will tend to converge over time.

Moving from pre-tax real to post-tax nominal

145. Aside from the issue of removing capital contributions, consideration also needs to be given to the impact of moving from a real pre-tax approach to the post-tax approach.
- With the real pre-tax approach, the opening value of the TAB is (implicitly) the indexed 'current cost' of the RAB. This will differ from the corresponding value that would apply under a full nominal 'historic cost' depreciation of the TAB.
 - This (real) approach leads to higher tax depreciation in present value terms as compared to the nominal 'historic cost' depreciation that applies under actual taxation. This difference is a key reason for adopting nominal cost depreciation for tax purposes.
 - However, when switching from the real pre-tax depreciation approach to a nominal 'historic cost' post tax approach, it could be considered to be more 'correct' to adopt a 'current cost' value for the existing assets within the written down TAB, so as to be consistent going forward with the real tax depreciation shield provided up to the reset point.

³⁰ There has been considerable variation in the diminishing value depreciation rates. The most recent change was in May 2006 when the 200% rate was adopted.

³¹ It is possible, for example, that depreciation rates under diminishing value approach may be less than under the straight line approach, if an asset is a significant way through its effective life.

- Without this approach, there would be a portion of capital in the TAB that was not returned, and associated tax depreciation that was not expensed.
 - Over the life of an asset that spanned both regimes, this would lead to an under-estimate of the tax depreciation shield, an over-estimate of earnings before tax and the tax payable, and an over-estimate of required revenue for that asset.
146. Set against this view is the likelihood that moving to a ‘current cost’ TAB would imply some ‘claw back’ of previous over-remuneration with regard to tax liabilities, as it would imply that tax depreciation is ‘trued up’ to ensure that the whole of life depreciation is equal to the value of the asset in present value terms. As there was over-remuneration with the real pre-tax approach, compared to *actual* historic tax outcomes, it follows that there must be under-remuneration with the ‘current cost’ TAB approach, compared to the *actual* tax outcomes going forward.
147. It is notable that the Australian Energy Regulator (**AER**) specifically discounted any ‘claw back’ of this type in its transition from pre-tax to post-tax.³²
- The AER does not intend to make adjustment upon transition to a post-tax approach for any additional allowance that may have been received as a result of previous regulatory decisions.
148. Thus the AER accepts the actual written ‘historic cost’ TAB of the service provider, rather than any real pre-tax equivalent opening value for the TAB.
149. It is an important principle that decisions avoid retrospective ‘claw back’ of returns associated with past policy regimes, so as to provide certainty for investment. On this basis, the Authority accepts the Western Power TAB, and the use of the written down ‘historic cost’ of the TAB for depreciation purposes.
150. In conclusion, the Authority:
- accepts Western Power’s proposed TAB for assets installed prior to 30 June 2012, which excludes capital contributions and is based on straight line depreciation, for the purposes of determining tax depreciation of those assets over the third access arrangement period;
 - accepts Western Power tax depreciation estimates relating to its new post 30 June 2012 assets, which are based on diminishing value depreciation.
151. The Authority notes that should Western Power’s actual approach to tax depreciation of its capital assets change, then so too should its approach in the future to depreciating assets for the tax building block of the revenue model. This approach should ensure that Western Power’s tax liabilities continue to converge with its actual tax liabilities.
152. For the reasons outlined above, the Authority is satisfied that the requirements of Final Decision Amendment 18 have been met. The Authority has published a revised target revenue model as Appendix A to this decision.

³² Australian Energy Regulator 2007, *Preliminary positions: Matters relevant to distribution determinations for ACT and NSW DNSPs for 2009-2014*, www.aer.gov.au, Appendix A, p. 53.

Adjustments to Target Revenue

Final Decision

153. Section 6.4 of the Access Code provides for the target revenue for an access arrangement period to include certain amounts “carried over” from the previous access arrangement period, including:
- an amount in respect of costs incurred as a result of a force majeure event under sections 6.6 to 6.8 of the Access Code;
 - an amount in respect of costs incurred as a result of changes to the Technical Rules, for which no allowance was made in the access arrangement, under sections 6.9 to 6.12 of the Access Code;
 - an amount under an investment adjustment mechanism under sections 6.13 to 6.18 of the Access Code;
 - an amount under a gain sharing mechanism under sections 6.19 to 6.28 of the Access Code; and
 - an amount under a service standards adjustment mechanism under sections 6.29 to 6.37 of the Access Code.
154. In the Final Decision, the Authority required several amendments to the adjustments to target revenue necessary for the Authority to approve the proposed access arrangement revisions. The Authority’s required amendments and Western Power’s response to these amendments are addressed below.

Correction Factor

155. The maximum reference service revenue formula included in the current access arrangement includes a correction factor that takes account of any difference between forecast maximum reference service revenue and the actual revenue earned in that year. Clauses 5.37 and 5.48 of the current access arrangement state that the correction factor will also apply in the first year of the next access arrangement period to adjust for any difference between the forecast and actual revenue in relation to the financial year commencing on 1 July 2011.
156. Western Power set the annual tariffs for 2011/12 in April 2011. As this occurred prior to the end of the 2010/11 financial year, the maximum reference service revenue was based on forecasts of revenue for both 2010/11 and 2011/12.
157. The Final Decision noted that as the 2011/12 financial year had ended, Western Power should base the 2012/13 Price List on the actual revenue for 2011/12.

Final Decision Amendment 19

The correction factor for under-recovery or over-recovery of revenue in the 2012/13 Price List must be based on the actual revenue for 2011/12.

158. Western Power’s proposed correction factor also included an adjustment to provide for corrections to the real value of the TEC. In the Final Decision the Authority determined that this was not required and should be removed.

Final Decision Amendment 20

Western Power's amendments for corrections to the real value of the TEC must be removed from the distribution revenue correction factor set out in section 5.7.7 of the revised proposed revisions to the access arrangement.

Amended Proposed Revisions

159. Western Power has amended the correction factor in its amended proposed revisions to remove the factor relating to the TEC and has based the 2012/13 Price List correction factor on the actual under recovery of revenue from 2011/12. As the under recovery is a significant amount, \$76 million, the target revenue for the third access arrangement period has been smoothed over the five years taking account of the impact of the correction factor on prices in the 2012/13 financial year.

Further Final Decision

160. The revised revenue profile, including the correction factor, compared with the Final Decision is set out in the table below.

Table 22 Target revenue profile (real \$ million at 30 June 2012)

	2012/13	2013/14	2014/15	2015/16	2016/17
Western Power amended proposal:					
Amended AA3 smoothed target revenue	1,223.8	1,381.5	1,383.3	1,405.0	1,427.6
2012/13 Correction factor	75.6				
Total revenue	1,299.4				
Final Decision	1,306.9	1,305.9	1,320.7	1,360.7	1,406.4

161. The Authority is satisfied that the amendments made to the correction factor as described above satisfy the requirements of Final Decision Amendments 19 and 20. Taking account of the size of the correction factor, the Authority considers the revised revenue profile is required to reduce the impact of the correction factor on the 2012/13 price list.

Service Standards Adjustment Mechanism

162. The current access arrangement Service Standards Adjustment Mechanism (**SSAM**) provided incentives for Western Power to maintain and improve service standard performance over time. The SSAM provides financial rewards for performance improvements relative to Service Standard Benchmarks (**SSB**), and financial penalties for under-performance relative to the SSBs. The resulting net incentive reward or penalty is carried forward to contribute to the total revenue for Western Power in the first year of the third access arrangement period.
163. In the Final Decision the Authority required Western Power to amend the reward in relation to the SSAM to reflect the Final Decision WACC.

Final Decision Amendment 21

The reward in relation to the service standard adjustment mechanism must be amended to use the Authority's approved post tax WACC of 3.6 per cent.

164. As Western Power submitted its Service Standard Performance Report for 2011/12 to the Authority on 15 August 2012, the Final Decision required that target revenue be updated to reflect actual service standard performance for 2011/12.

Final Decision Amendment 22

The service standard adjustment mechanism in target revenue must be updated to reflect actual service standard performance for 2011/12.

Amended Proposed Revisions

165. Western Power has amended the SSAM adjustment in target revenue to use a WACC of 3.6 per cent and the actual service standard performance for 2011/12.

Further Final Decision

166. The Authority is satisfied that the SSAM calculation in Western Power's amended revenue model meets the requirements of Final Decision Amendments 21 and 22.

Service Standard Benchmarks

Introduction

167. A service standard is defined in section 1.3 of the Access Code as either or both of the technical standard, and reliability, of delivered electricity. SSBs are the benchmarks for service standards for a reference service in an access arrangement. A service provider is required to provide reference services at a standard at least equivalent to these benchmarks.
168. Section 6.30 of the Access Code requires that an access arrangement include a SSAM. The SSAM is defined under section 6.29 as a mechanism in an access arrangement detailing how the service provider's performance during the access arrangement period – against the SSBs – is to be treated by the Authority at the next access arrangement review.

Final Decision

169. The following table provides a summary of the Authority's required changes set out in the Final Decision relating to service standard benchmarks and the service standard adjustment mechanism, and Western Power's response. Western Power accepted all the required changes. The only issue relates to the System Minutes Interrupted, where Western Power has not reinstated the definition of the measure as it was in the second access arrangement. This is considered further below.

Table 23 Summary of Western Power's responses on service standards

Required amendment number	Western Power's response
23: The minimum standard Circuit Availability SSB should be set at 97.7 per cent.	Accepted
24. Reinstate service standard benchmarks for SMI, LoSEF and AOD	Accepted SMI definitions have changed from that set out in second access arrangement - see detailed discussion below
25. SAIDI and SAIFI to only include distribution network events	Accepted
26. SAIDI and SAIFI to be based on the most recent three years of data	Accepted
27. Call centre performance to reflect updated data	Accepted
36. Circuit Availability SST to be 98.1	Accepted
37. SMI (radial networks) to be retained as an SST and set as per Table 184	Accepted
38. LoSEF and AOD retained as SSTs and set as per Table 184	Accepted
39. Increase transmission revenue at risk to 1%, adopt weightings for transmission measures as per Table 191, revise the reward and penalty rates	Accepted
40. SAIDI and SAIFI remove transmission network events, with SSTs revised as per Table 185	Accepted
41. Adjust Call Centre Performance incentive rate to reflect the changes in total distribution revenue	Accepted

Source: Western Power

Transmission measures

Circuit Availability

170. The Circuit Availability definition is reworded but unchanged from the second access arrangement. It is worth noting that planned outages are included in the measure (albeit capped at 14 hours per event).
171. The Service Standard Benchmark (SSB) is set at 97.7 per cent in accordance with the Final Decision.

172. The Service Standard Target (SST) is set at 98.1 per cent in accordance with the Final Decision.
173. Asymmetric penalties are applied consistent with the Probability of Exceedence (PoE) 2.5, 50 and 97.5 values. When combined with the required weightings, these are consistent with achieving one per cent of transmission revenue at risk and one per cent of transmission revenue for reward.

System Minutes Interrupted

174. Western Power has changed the definition for System Minutes Interrupted compared to second access arrangement. The definition of the measure, as set out in second access arrangement, did not have planned outages or momentary interruptions as exclusions:³³

Performance Indicator:	System Minutes Interrupted (for both Meshed and Radial Transmission Network)
Unit of measure:	Minutes
Source of data:	SCADA and System Operation Databases
Definition/Formula:	$\sum \frac{\text{MW Minutes of Unserved Energy}}{\text{System Peak MW}}$ <p>(for both Meshed and Radial Transmission Network separately)</p> <p>Definition: System Minutes Interrupted (Meshed)- The summation of MW Minutes of unserved energy at substations which are connected to the meshed transmission network divided by the system peak MW. System Minutes Interrupted (Radial)- The summation of MW Minutes of unserved energy at substations which are connected to the radial transmission network divided by the system peak MW.</p>
Exclusions:	<ul style="list-style-type: none"> • Unregulated transmission assets. • Outages shown to be caused by a fault or other event on a '3rd party system' e.g. intertrip signal, generator outage, customer installation. • Force majeure events.
Inclusions:	<ul style="list-style-type: none"> • All unserved energy due to outages on any primary transmission equipment including all overhead lines, underground cables, power transformers, static var compensators, capacitor banks, etc. including primary zone substation equipment. • All unserved energy due to outages for forced and emergency events, including extreme events, but not including the events defined as exclusions.

175. In comparison, Western Power is proposing now to add in two new exclusions, namely planned interruptions and momentary interruptions of less than one minute:

³³ Western Power 2009, *Amended Proposed Revision to the Access Arrangement (Approved)*, www.erawa.com.au, 24 December. p. 8.

Table 12: Application of system minutes interrupted

	System minutes interrupted Meshed Radial
Unit of Measure	Minutes per year.
Definition	<p>Over a 12 month period,</p> <ul style="list-style-type: none"> System minutes interrupted Meshed is the summation of MW (in minutes) of Unserved energy at substations which are connected to the Meshed transmission network divided by the System Peak MW and System minutes interrupted Radial is the summation of MW (in minutes) of Unserved energy at substations which are connected to the Radial transmission network divided by the System Peak MW <p>that is, for both Meshed and Radial transmission network separately:</p> $\frac{\sum \text{MW (in minutes) of Unserved Energy}}{\text{System Peak MW}}$ <p>where:</p> <ul style="list-style-type: none"> “Unserved energy” relates to outages on transmission circuits
	<p>(including all overhead lines, underground cables, power transformers, reactive compensation circuits and transmission zone substation equipment) for unplanned events including extreme events, but not including the events defined as exclusions.</p> <ul style="list-style-type: none"> “System Peak MW” is the maximum peak demand recorded on the South Western Interconnected System for the previous financial year.
Exclusions	<p>One or more of:</p> <ul style="list-style-type: none"> Planned interruptions Momentary interruptions (less than one minute) Unregulated transmission assets Interruptions affecting the <i>transmission system</i> shown to be caused by a fault or other event on a third party system (for instance, without limitation interruptions caused by an intertrip signal, generator unavailability or a consumer installation). <i>Force majeure</i> events affecting the <i>transmission system</i>.

176. Western Power notes that the System Minutes Interrupted measure was interpreted in the second access arrangement as excluding planned interruptions and momentary interruptions, such that the data – on which the service standard benchmarks (**SSBs**) and Service Standard Targets (**SSTs**) are set – is consistent with the revised definition.
177. Western Power suggests that this arose because the System Minutes Interrupted measure, the Loss of Supply Event Frequency measures and the Average Outage Duration are closely related. Both the second and third of these measures exclude planned interruptions and momentary interruptions, so there is logic, given the inter-relationship, that the data has excluded planned interruptions and momentary interruptions in the first measure.
178. There are still incentives for Western Power to reduce the length of planned interruptions given these are included in the Circuit Availability measure.
179. There is less incentive to exclude momentary interruptions of less than one minute. However, Western Power notes that generally this is a standard exclusion. For example, these momentary interruptions are excluded events in the distribution System Average Interruption Duration Index (SAIDI) and System Average Interruption Frequency Index (SAIFI) measures, as well as in the transmission measures Loss of Supply Event Frequency and Average Outage Duration measures. This standard exclusion is intended to ensure that auto-reclose events

are not penalised. Auto-reclose events occur where a line is tripped but automatically restores energy supply. For transmission, such short reclose interruptions would only occur on the smaller radial lines where auto reclosers are fitted. Western Power notes that for the majority of the transmission system, reclosers would not be fitted and an outage would need to be reset manually. A manual reset of a larger transmission line generally would take significantly longer than one minute.

180. On this basis, the Authority accepts the amendments to this measure.
181. The SSBs are set at 12.5 per cent (Meshed) and 5.0 per cent (Radial) which is in accord with the Final Decision.
182. The SST is set at 1.9 per cent (for Radial networks only) which is in accord with the Final Decision.
183. Asymmetric penalties are applied consistent with the PoE 2.5, 50 and 97.5 values. When combined with the required weightings, these are consistent with achieving one per cent of transmission revenue at risk and one per cent of transmission revenue for reward.

Loss of Supply Event Frequency

184. The Loss of Supply Event Frequency definition is reworded but unchanged from the second access arrangement.
185. The SSBs are set at 33 (>0.1 system minutes interrupted) and 4 (greater than 1 minutes interrupted) which is in accord with the Final Decision.³⁴
186. The SSTs are set at 24 (>0.1 system minutes interrupted) and 2 (greater than 1 minutes interrupted) which is in accord with the Final Decision.
187. Asymmetric penalties are applied consistent with the PoE 2.5, 50 and 97.5 values. When combined with the required weightings, these are consistent with achieving one per cent of transmission revenue at risk and one per cent of transmission revenue for reward.

Average Outage Duration

188. The Average Outage Duration definition is reworded but unchanged from the second access arrangement.
189. The SSBs are set at 886 minutes which is in accord with the Final Decision.
190. The SSTs are set at 698 minutes which is in accord with the Final Decision.

³⁴ The exclusion of momentary interruptions of less than one minute does not preclude Loss of Supply Event Frequency events of between 0.1 and one minute. This is because the measure of such events is defined as being the MW minutes of unserved energy, divided by the System Peak MW (which is around 4,000 MW). Thus 440 MW minutes of unserved energy (resulting say from loss of 55 MW for 8 minutes) would result in $(440/4,000=)$ 0.11 system minutes interrupted, which would be counted as one Loss of Supply event of greater than 0.1 system minutes.

191. Asymmetric penalties are applied consistent with the PoE 2.5, 50 and 97.5 values. When combined with the required weightings, these are consistent with achieving one per cent of transmission revenue at risk and one per cent of transmission revenue for reward.

Distribution measures

System Average Interruption Duration Index (SAIDI)

192. The Average Outage Duration definition is reworded but unchanged from the second access arrangement.
193. The SSBs are set in accord with the Final Decision.
194. The SSTs are set in accord with the Final Decision.
195. Symmetric penalties and rewards are applied. These are consistent with the Value of Customer Reliability estimated for Western Australia utilising the Oakley Greenwood method, which was a requirement of the Final Decision.

System Average Interruption Frequency Index (SAIFI)

196. The Average Outage Duration definition is reworded but unchanged from the second access arrangement (see Table 24).
197. The SSBs are set in accord with the Final Decision.
198. The SSTs are set in accord with the Final Decision.
199. Symmetric penalties and rewards are applied. These are consistent with the Value of Customer Reliability estimated for Western Australia utilising the Oakley Greenwood method, which was a requirement of the Final Decision.

Call Centre Performance

200. The Call Centre Performance definition is redefined, but is consistent with that accepted in the Final Decision.
201. The SSBs are set in accord with the Final Decision, at 77.5 per cent.
202. The SSTs are set in accord with the Final Decision, at 87.6 per cent.
203. Asymmetric penalties are applied consistent with the PoE 2.5, 50 and 97.5 values. These are consistent with achieving 0.04 per cent of average annual distribution revenue at risk and 0.04 per cent for reward. This is identical to the Australian Energy Regulator's Service Target Performance Incentive Scheme 'telephone answering' measure incentive rate.

Table 24 SAIDI and SAIFI SSBs and SSTs for the third access arrangement period (based on 3 years of historic data)

	SSB	SST	Distribution of best fit
SAIDI (minutes)			
CBD	39.9	20.3	Percentile
Urban	183.0	136.6	Percentile
Rural short	227.8	207.8	Weibull
Rural long	724.8	582.2	Largest extreme value
SAIFI (events)			
CBD	0.26	0.14	Logistic
Urban	2.12	1.36	2 parameter exponential
Rural short	2.61	2.27	Lognormal
Rural long	4.51	4.06	Lognormal

Note: **SSB** = Service Standard Benchmark; **SST** = Service Standard Adjustment Mechanism Service Standard Target; **THIRD ACCESS ARRANGEMENT** = third access arrangement

Source: Authority analysis, based on historic data supplied by Western Power

Streetlighting measures

204. The Streetlighting definition is consistent with that accepted in the Draft Decision (major regional towns have been included in the Metropolitan category).
205. The Streetlighting SSBs, of 5 days for Metropolitan areas and 9 days for Regional areas, have not changed from the second access arrangement period and were accepted by the Authority.
206. Streetlighting is not part of the Service Standards Adjustment Mechanism, so is not subject to an SST.

Pricing methods, price list and price list information

Introduction

207. Section 5.1(e) of the Access Code requires an access arrangement to include pricing methods in accordance with the requirements of Chapter 7 of the Access Code and a price list in accordance with the requirements of Chapter 8 of the Access Code.
208. Section 7.1 of the Access Code defines “pricing methods” to mean the structure of reference tariffs included in an access arrangement, which determines how target revenue is allocated across and within reference services.
209. In the Final Decision, the Authority required several amendments to the pricing methods, price list and price list information that are necessary for the Authority to approve the proposed access arrangement revisions. The Authority’s required amendments and Western Power’s response to these amendments are addressed below.

Target Revenue Cap

Final Decision

210. As the Authority did not accept Western Power’s revised proposed target revenue in its Final Decision, the Authority required the Price List and Price List Information for 2012/13 to be amended to be consistent with the transmission network revenue cap and distribution revenue cap approved by the Authority in the Final Decision.

Final Decision Amendment 28

The proposed revised Price List and Price List Information for 2012/13 must be amended to be consistent with the transmission network revenue cap and distribution network revenue cap approved by the Authority in this Final Decision.

211. In the Final Decision the Authority also required amendments to the access arrangement to ensure it complied with the intention of sections 5.6.1 and 5.7.1 of the Access Code that reasonable endeavours should be made to ensure forecast revenue for year t , based on the proposed price list for year t , did not exceed the maximum revenue cap.
212. Consequently, the Authority requires the following amendment.

Final Decision Amendment 29

Clauses 5.6.1 and 5.7.1 of the proposed revised access arrangement must be amended as follows:

5.6.1 The *transmission system* revenue cap for *revenue cap services* ~~determines~~ is used to determine the maximum transmission revenue cap service revenue (MTR_t) for Western Power’s *transmission system* for each financial year t . ~~Subject to the annual side constraints on reference tariff movements set out in section 3.11 of this Access Arrangement,~~ Western Power will use its reasonable endeavours to ensure that the forecast ~~actual~~ transmission revenue cap service revenue in financial year t does not exceed the maximum transmission reference service revenue in financial year t .

5.7.1 The *distribution system revenue cap for revenue cap services* ~~determines is used to determine~~ the maximum distribution *revenue cap service revenue* (MDR_t) for Western Power's *distribution system* for each financial year t. ~~Subject to the annual side constraints on reference tariff movements set out in section 3.11 of this Access Arrangement,~~ Western Power will use its reasonable endeavours to ensure that the forecast actual distribution revenue cap service revenue in financial year t does not exceed the maximum distribution reference service revenue in financial year t.

Amended Proposed Revisions

213. The 2012/13 price list has been amended to be consistent with the revised target revenue.
214. In the amended proposed access arrangement information, Western Power notes that clause 6.5.3 of the amended proposed revisions requires it to set reference tariffs in the price list so that forecast revenue for year t is equal to maximum target revenue.

Further Final Decision

215. The Authority has verified that the 2012/13 price list is consistent with the target revenue approved by this decision and therefore complies with the requirements of Final Decision Amendment 28.
216. The Authority considers that clause 6.5.3 as included in the amended proposed revisions ensures that prices are set within the maximum revenue cap and that the requirements of Final Decision Amendment 29 have been satisfied.

Side Constraints

Final Decision

217. The side constraints Western Power proposed for the third access arrangement period provide for a reference tariff to be increased so that the proportional increase in nominal revenue from the reference tariff from the previous year is less than or equal to the proportional increase resulting from:
- inflation escalation;
 - the year to year increase in target revenue that was determined in the financial model for the access arrangement;
 - adjustments to target revenue that result from carry-over and cost pass-through mechanisms under the price control; and
 - a further two per cent.
218. The formula allowed a proportional increase in revenue from the reference tariff sufficient to recover increases in costs, carryovers from the previous years and cost pass-through, plus a further two per cent. The additional two per cent allows for "rebalancing" of reference tariffs, i.e. for there to be a change in relative reference tariffs reflecting a shift in cost recovery between services.
219. In the Final Decision the Authority took the view that a factor of 2 per cent is appropriate to provide sufficient scope for rebalancing to reflect changes in costs whilst ensuring customers are protected from price shocks. As the purpose of the

rebalancing factor is to reflect changes in the distribution of costs between reference services to ensure tariffs are cost reflective, the Authority required Western Power to provide details in the Price List Information setting out any such rebalancing and the reasons for it.

Final Decision Amendment 30

The Price List Information must set out details of rebalancing between reference services and the reasons for it with supporting information.

Amended Proposed Revisions

220. Western Power has provided information in section 8.2 of the proposed price list information for 2012/13 to explain significant changes due to rebalancing.

Further Final Decision

221. The Authority notes Western Power's explanation in relation to rebalancing that the previous side constraint which resulted in uniform increases to all network tariffs would have resulted in tariffs moving away from the amounts determined by the pricing model due to changes in customer groups and cost allocations. The Authority notes that the side constraints were fixed in this way in order to reduce price shock to individual customer groups given the significant price increases arising during AA2. The Authority accepts that this would have resulted in tariffs becoming less cost reflective and additional confidential costing information has been provided by Western Power to support this. The Authority notes that the proposed rebalancing is within the bounds of the side constraint. The Authority considers the requirements for Final Decision Amendment 30 have been satisfied for the 2012/13 price list but will continue to monitor any rebalancing in future years.

Proposed Price List for 2012/13

Final Decision

222. As Western Power's proposed revised price list for 2012/13 was not based on the target revenue cap approved by the Authority in the Final Decision and therefore needed to be updated, the Authority also required the following amendments:

Final Decision Amendment 31

The estimated incremental and stand-alone revenue included in the proposed revised Price List Information for 2012/13 must be amended to be consistent with the transmission network revenue cap and distribution network revenue cap approved by the Authority in this Final Decision. Western Power should include sufficient information to enable a comparison with the estimate of incremental and stand-alone costs in the current 2011/12 Price List Information, and to explain any material variations.

Final Decision Amendment 32

All proposed tariffs for 2012/13 must be set between incremental and stand-alone costs in order to comply with section 7.3 of the Access Code.

Amended Proposed Revisions

223. Western Power has updated the estimated incremental and stand-alone costs to reflect revised target revenue and included additional information in section 7.3.1 and 7.3.2 of the 2012/13 price list information to explain material variations from the 2011/12 price list information. Table 15 of the proposed 2012/13 price list information shows that all reference tariffs fall within incremental and stand-alone cost of service provision.

Further Final Decision

224. The Authority is satisfied that the amendments made to the proposed 2012/13 price list information implement Final Decision Amendments 31 and 32.

Adjustments to target revenue in the next access arrangement period

Introduction

225. Sections 6.6 to 6.32 of the Access Code provide for the target revenue for an access arrangement period to be adjusted to reflect certain events, or outcomes of the previous access arrangement period. In the circumstances of the access arrangement for the Western Power Network, these sections of the Access Code provide (to the extent permitted by the terms of the access arrangement) for the target revenue for the fourth access arrangement period (due to commence on 1 July 2017) to be adjusted to take into account the relevant events or outcomes in the third access arrangement period.
226. In the Final Decision the Authority required several amendments to the adjustments to target revenue in the next access arrangement period that are necessary for the Authority to approve the proposed access arrangement revisions. The Authority's required amendments and Western Power's responses to these amendments are addressed below.

Gain sharing mechanism and efficiency and innovation benchmarks

Final Decision

227. Sections 6.19 and 6.20 of the Access Code provide for an access arrangement to include a gain sharing mechanism.
228. The gain sharing mechanism provides an additional incentive to Western Power to achieve operating cost efficiencies during an access arrangement period as it ensures Western Power retains such benefits for five years from when the efficiency is achieved.
229. The Authority's Final Decision required a number of amendments to Western Power's proposed changes to the gain sharing mechanism. These are discussed below.

Ex-post Growth Adjustment

230. The gain sharing mechanism includes an ex-post growth adjustment. The Authority's Final Decision did not accept Western Power's proposed scaling factors. The Authority also required that the actual values reported for scaling factors be independently audited. Consequently the Final Decision included the following amendment.

Final Decision Amendment 33

Western Power must amend the gain sharing mechanism methodology and values to use the scaling factors, including economy of scale factors, and operating costs approved by the Authority in this Final Decision. The actual values used for scaling factors must be independently audited. The audit must be carried out by an independent auditor approved by the Authority, with Western Power managing and funding the audit. The scope of the audit will be determined by the Authority.

Amended Proposed Revisions

231. Western Power has amended sections 7.4.8 and 7.4.9 of the amended proposed revisions to reflect the scaling factors approved by the Authority and the audit requirement as set out in Final Decision Amendment 33.

Further Final Decision

232. The Authority is satisfied that the amendments made to sections 7.4.8 and 7.4.9 of the amended proposed revisions implement Final Decision Amendment 33.

Failure to meet service standard benchmarks

233. In the Final Decision the Authority considered it was not clear how, in the event that service standard benchmarks are not achieved, it will be determined whether and to what extent there is a relationship between cost savings and the underperformance on service standards.
234. In response to the Draft Decision, Western Power provided a high level overview of the general process Western Power would follow to determine the relationship between cost savings and underperformance:

If there is underperformance on a service standard in a year, Western Power will demonstrate to the Authority how and to what extent there is a relationship between cost savings and underperformance on that service standard, through consideration of:

- which service standard benchmark has not been met in that year
- an analysis of the causes for not meeting the service standard benchmark in that year
- the categories of operating expenditure that impact on the achievement of that service standard benchmark
- after normalising the operating expenditure in those categories for CPI, inflation and scale escalation factors, whether there has been an underspend in those operating expenditure categories
- any other issues that are relevant.

This information will be used to determine whether there has been underspending in an area that directly or in part impacts on the service standard benchmark against which Western Power has underperformed.

235. The Authority agreed that the circumstances leading to failures to achieve service standard benchmarks will vary and that the process proposed by Western Power is reasonable and likely to capture most aspects of any underperformance. The Final Decision required Western Power to include this process in the revised proposed revisions to the access arrangement.

Final Decision Amendment 34

Western Power must amend its revised proposed revisions to the access arrangement to include the process for how it will be determined and to what extent there is a relationship between costs savings and the underperformance on service standards as set out in Western Power's amended access arrangement information.

Amended Proposed Revisions

236. Western Power has amended section 7.4.4 of the amended proposed revisions to include the wording in paragraph 234 above.

Further Final Decision

237. The Authority is satisfied that the amendments made to section 7.4.4 of the amended proposed revisions implement Final Decision Amendment 34.

Efficiency and Innovation Benchmarks

238. As the Authority did not approve Western Power's proposed operating costs in its Final Decision, the Efficiency and Innovation Benchmarks, as set out in Table 27 of the revised proposed revisions to the access arrangement, were not consistent with the Authority's determination of efficient operating costs. Consequently the Final Decision required the following amendment.

Final Decision Amendment 35

Western Power must amend Table 27 of the access arrangement to be consistent with the Authority's determination of efficient operating costs as set out in this Final Decision.

Amended Proposed Revisions

239. Western Power has amended the Efficiency and Innovation Benchmarks included in the access arrangement to be consistent with the Final Decision.

Further Final Decision

240. The Authority is satisfied that the amendments made to the Efficiency and Innovation Benchmarks implement Final Decision Amendment 35.

Service Standard Adjustment Mechanism

241. The Final Decision Amendments in relation to the Service Standard Adjustment Mechanism (Final Decision Amendment 36 to 41) are considered in paragraphs 167 to 206 above.

The "D factor" scheme

242. The D-factor mechanism provides for the recovery in the next access arrangement period of expenditure that is incurred by Western Power as a result of deferring a capital expenditure project or in relation to demand-management initiatives.
243. Western Power proposed a change from the current D-factor scheme by including capital projects that are not certain enough to have been included in the expenditure forecasts for the third access arrangement period. The Authority considered this proposed amendment moved the D-factor scheme away from its original purpose, which was to address the limited incentives that a service provider may have to seek efficiency in capital costs where an increase in non-capital costs is necessary to achieve this efficiency. The Authority required Western Power to retain the existing provisions of the D-factor scheme, which applies only to deferrals

of capital expenditure that have been included in the forecast of costs taken into account in determination of target revenue for the access arrangement period.

244. In the Final Decision the Authority took the view that the D-factor scheme should not include capital expenditure as such expenditure can be rolled into the capital base, providing it meets the new facilities investment test. The Authority therefore required the D-factor scheme to be amended to exclude expenditure in relation to new facilities investment.
245. Clause 7.6.2 of the current D-factor scheme states that an amount will be added to target revenue so that Western Power is financially neutral as a result of any additional non capital costs incurred as a result of deferring new facilities investment. In the Final Decision the Authority took the view that, for the avoidance of doubt, the clause needs to make clear that only costs in excess of any amounts already included in target revenue in relation to the deferred new facilities investment will be allowed.
246. As required by Final Decision Amendment 4, the Authority determined that the D-factor scheme should be extended to include network control services. Taking account of this and the matters discussed above, the following amendments were required to the D-factor scheme:

7.6.2 In the next access arrangement period, the Authority will add to Western Power's target revenue an amount so that Western Power is financially neutral as a result of:

- a) any additional non-capital costs incurred by Western Power as a result of deferring a new facilities investment project during this access arrangement period, net of any amounts previously included in target revenue in relation to the deferred new facilities investment; and
- b) any additional non-capital costs ~~or new facilities investment~~ incurred by Western Power in relation to demand management initiatives or network control services.

7.6.3 In relation to 7.6.2a), the new facilities investment project that has been deferred must have been included in ~~either the D-factor Project List (provided to the Authority as confidential material) or the Transmission Network Development Plan~~. Western Power's forecast new facilities investment in its revised access arrangement information or supporting documentation, and in the Authority's allowed new facilities investment for this access arrangement period.

7.6.4 In relation to 7.6.2a) and 7.6.2b), an amount will only be added to target revenue for the next access arrangement period if there is an approved business case for the relevant expenditure, and this business case is made available to the Authority. The business case must demonstrate to the Authority's satisfaction that:

- a) the proposed non-capital costs satisfy the requirements of sections 6.40 and 6.41 of the Code, as relevant. ~~;~~ ~~and~~
- b) ~~the proposed new facilities investment satisfies the requirements of section 6.51A of the Code.~~

Final Decision Amendment 42

The D-factor scheme must be amended as set out in paragraph 2273 [246] above.

Amended Proposed Revisions

247. In the amended proposed access arrangement information, Western Power notes that it has accepted the required amendment but adopted slightly different wording to reflect the following:
- The Authority's proposed wording for 7.6.2(a) did not take into account the effect of the Investment Adjustment Mechanism (IAM). The IAM can result in the amount of costs in the target revenue being adjusted. Western Power has included additional wording to clarify that the impact of the IAM is to be taken into account in determining the amount previously included in target revenue.
 - The term "network control service" is not defined under the Access Code. For the avoidance of doubt, Western Power has defined the network control services consistent with the definition of network control services under the Wholesale Electricity Market Rules and the definition of alternative options under the Access Code.

Further Final Decision

248. The Authority is satisfied that Western Power's proposed amendments to clause 7.6 implement the requirements of Final Decision Amendment 42 and that the additional edits it proposes are reasonable to provide further clarification.

Deferral of Revenue

Final Decision

249. The adjustments to target revenue in the next period includes provision for a deferral of revenue from the second access arrangement period with the deferred amount (escalated for inflation and by the rate of return) to be included in target revenue in the fourth access arrangement period. In the Final Decision the Authority required the values to be revised to reflect a WACC of 3.6 per cent as determined by the Authority in the Final Decision.

Final Decision Amendment 43

The values in relation to the recovery of deferred revenue stated in section 7.7 of the revised proposed revisions to the access arrangement must be amended to:

\$47.7 million (\$ as at 30 June 2012) for transmission services; and

\$358.3 million (\$ as at 30 June 2012) for distribution services.

Amended Proposed Revisions

250. Western Power has revised the values of deferred revenue to be consistent with the WACC of 3.6 per cent determined by the Authority in the Final Decision.

Further Final Decision

251. The Authority is satisfied that the requirements of Final Decision Amendment 43 have been implemented.

Standard Access Contract

Introduction

252. The current access arrangement includes, at Appendix 4, a standard access contract (the “**electricity transfer access contract**” or **ETAC**) that applies to all reference services under the access arrangement. In the proposed access arrangement revisions, Western Power has maintained the single electricity transfer access contract for all reference services.
253. In the Final Decision, the Authority required several amendments to the proposed access arrangement revisions. The Authority’s required amendments and Western Power’s response to these amendments are addressed below.

Deletion of a Connection Point (clause 3.6)

Final Decision

254. Clause 3.6 of the proposed ETAC provides for the user to request deletion of a connection point from the contract. Clause 3.6 also sets out the circumstances in which Western Power is obliged to comply with the request.
255. In the Final Decision the Authority noted that there is a degree of overlap between the obligations under the Model Service Level Agreement (**MSLA**) for the supply abolishment service (which relates to removal of metering equipment and does not require prior notice) and the notice provisions in clause 3.6(b) dealing with permanent disconnection of generators. In the circumstances, to make the ETAC commercially workable, the Authority required that clause 3.6(c) be amended to clarify that, to the extent that the MSLA applies, the user need not comply with the notice requirement in respect of removal of equipment pursuant to the supply abolishment service in the MSLA.

Final Decision Amendment 44

Clause 3.6(b) and (c) of the ETAC must be amended to clarify that, to the extent the model service level agreement applies, Western Power must comply with any relevant disconnection timeframes in the model service level agreement.

Amended Proposed Revisions

256. Western Power has amended clause 3.6 stating that the requirements of clause 3.6 “[do] not limit and applies in addition to, the requirement the User and Western Power comply with their obligations (including timeframe service standards) specified in the model service level agreement under the Metering Code (to the extent that model service level agreement applies to the User and Western Power) in respect of any supply abolishment service required to give effect to a permanent Disconnection of facilities and equipment”.

Further Final Decision

257. The Authority is satisfied that the amendments made to clause 3.6 of the ETAC as set out above implement Final Decision Amendment 44.

Notification of “default supplier” reversions (clause 3.7)

258. If for some reason a connection point exists where there is no contract with a retailer, then that connection point would revert to the “default supplier” retailer under section 59 of the Act. In its Final Decision, the Authority required the following amendment to ensure the default supplier was notified as soon as possible if this situation were to arise.

Final Decision Amendment 45

Clause 3.7 of the ETAC must be amended to require Western Power to act “as soon as reasonably practicable” to advise a user of any connections points which have reverted to it as a “default supplier” retailer.

Amended Proposed Revisions

259. Western Power has added clause 3.7(l) as follows:

Western Power* must notify the User* as soon as reasonably practicable upon becoming aware that a Connection Point* has reverted to the User* as a default supplier retailer (being a retailer of the type contemplated in section 59 of the Act*).

Further Final Decision

260. The Authority is satisfied that the addition of clause 3.7(l) as set out above implements Final Decision Amendment 45.

Connection Contracts with Controllers (clause 6.1)

261. In the Final Decision the Authority took the view that Western Power’s obligations in respect to connection contracts with controllers should be clarified by inserting an obligation in clause 6.1 for Western Power to negotiate in good faith and use reasonable endeavours to negotiate a Connection Contract with the designated controller.

Final Decision Amendment 46

Clause 6.1 of the ETAC must be amended to include an obligation for Western Power to negotiate in good faith and use reasonable endeavours to negotiate a Connection Contract with the designated controller.

Amended Proposed Revisions

262. Western Power has added clause 6.1(f) as follows:

If the User* requests Western Power* to do so, Western Power* must use reasonable endeavours and act in good faith to enter into a Connection Contract* with a Controller* (validly nominated by the User* under clause 6.1(a)) in respect of the Connection Point*.

Further Final Decision

263. The Authority is satisfied that the addition of clause 6.1(f) as set out above implements Final Decision Amendment 46.

Updating of databases (clause 3.7)

Final Decision

264. In the Final Decision the Authority took the view that the requirements for timeliness in respect of updating the databases and providing information to users should be strengthened by amending each of the sub-clauses of clause 3.7 to require Western Power to act “as soon as reasonably practicable”.

Final Decision Amendment 47

Each of the sub-clauses in clause 3.7 of the electricity transfer must be amended to require Western Power to act “as soon as reasonably practicable”.

Amended Proposed Revisions

265. Western Power has added the words “as soon as reasonably possible” to clauses 3.7(a), 3.7(b), 3.7(c), and 3.7(d) of the ETAC. The remaining clauses either already included the requirement, referred to specified time limits or were not about timing issues.

Further Final Decision

266. The Authority is satisfied that the amendments made to clause 3.7 of the proposed ETAC implement Final Decision Amendment 47.

Security for Charges (clause 9)

Final Decision

267. In the Draft Decision the Authority noted concerns that proposed modifications in relation to security for charges should be managed so as to minimise administrative costs and considered it was reasonable that requests should only be generated by Western Power in circumstances where the security falls below a specific threshold. The Authority was also concerned that the operation of the existing clause 9 was unclear in a couple of other material respects. In particular:
- it was not clear from clause 9(a) or clause 9(c) which “two months’ services” the charges are referable to. A reference point is important where the charges are not fixed. Without a reference point, the applicable “two months” period in both clauses is ambiguous; and
 - clause 9 did not specify the circumstances in which Western Power can draw or call on the security and whether the security is refundable, or returnable (as the case may be), to the relevant user (or indemnifier) when the contract is at an end.
268. In response to the Draft Decision, Western Power proposed to address the issues raised by the Authority by adding paragraphs (f) to (h) below to clause 9:
- (f) Upon the expiry or termination of this Contract* and receipt by Western Power of all amounts due by the User* to it under this Contract* Western Power* will return to the User* any security provided under this clause 9 which is still held by Western Power*.

- (g) Western Power* may call upon a cash deposit or bank guarantee (or equivalent financial instrument) provided to it under this clause 9 if an amount due by the User* to Western Power* under this Contract* is not paid by the due date for payment of that amount or, where this Contract* does not specify a due date for payment, is not paid within 10 Business Days of Western Power* issuing a notice to the User* requiring payment of the amount.
- (h) In this clause 9, a reference to the Charges* for two months services means Western Power*'s reasonable estimate of the Charges* which will be incurred by the User* for the Services* provided under this Contract* in the next two calendar month period from the end of the next Accounting Period* (that is, from the end of the Accounting Period* which expires after the Accounting Period* in which the User* is notified of the current level of security it is required to provide)."

269. In the Final Decision the Authority took the view that Western Power's proposed additional clauses 9(f), (g) and (h) were reasonable and provided clarity to the operation of clause 9, reducing the risk of disputes about the parties' rights under this clause.

Final Decision Amendment 48

An amendment is required to the ETAC to reflect the amendments set out in paragraph 2461 [268] above.

Amended Proposed Revisions

270. The amended proposed revisions to the access arrangement incorporate the amendments outlined above in relation to clause 9.

Further Final Decision

271. The Authority is satisfied that the amendments made to clause 9 of the ETAC in the amended proposed revisions implement Final Decision Amendment 48.

Interest on Cash Security Deposits

272. In the Final Decision the Authority determined that it would be reasonable for Western Power to pay interest on cash security deposits and that this should be specified in the ETAC.

Final Decision Amendment 49

An amendment is required to the ETAC to include a clause requiring Western Power to pay interest on cash security deposits provided by users.

Amended Proposed Revisions

273. Western Power has added clause 9(i) to the ETAC as follows:

Where security is provided to Western Power* in the form of a cash deposit, then Western Power* shall deposit the amount in an interest bearing account maintained with a financial institution, selected consistently with Western Power's policies, or with the Western Australian Treasury Corporation or other government body. Any interest which accrues on the cash deposit shall form part of the security but where Western Power* is required, under this Contract*, to return the security then it will return to the User* the unutilised balance of the cash deposit and interest accrued

less any charges (including fees and charges associated with maintaining the interest bearing account) and Taxes* attributable to the maintenance of the interest bearing account. Nothing in this Contract* is to be taken as imposing any obligation on Western Power* to maximise or obtain any return on amounts deposited.

Further Final Decision

274. The Authority is satisfied that the proposed clause 9(i) adequately complies with the requirements of Final Decision Amendment 49.

Applications and queuing policy

Introduction

275. The Applications and Queuing Policy (AQP) sets out the process that an applicant (i.e. a person who seeks to obtain or modify a covered service) must undertake with Western Power to form, or to modify, an access contract. The AQP must comply with the requirements of sections 5.7 to 5.11 of the Access Code.
276. In the Final Decision the Authority required several amendments to the proposed contributions policy that are necessary for the Authority to approve the proposed access arrangement revisions. The Authority's required amendments and Western Power's responses to these amendments are addressed below.

Applicant Specific Solutions

Final Decision

277. In the Final Decision the Authority required Western Power to amend the AQP such that applicants are able to elect at the time of application, that they wish to be processed as an applicant-specific solution so that the AQP is consistent with an applicant's rights under 2.10 and 2.11 of the Access Code.

Final Decision Amendment 50

The AQP must be amended to enable applicants to elect, at the time of application, that they wish the application to be processed as an applicant-specific solution.

Amended Proposed Revisions

278. Western Power has introduced three new clauses to enable applicants to elect to be processed as an applicant specific solution:
- clause 16.5 provides that an applicant at the time of making an application may opt out of the competing applications group process and, if so, will be treated as an applicant specific solution;
 - clause 20.3A specifies that the applicant can pursue an applicant-specific solution at any time, and where it does it stays in consideration as part of a competing applications group unless it has specifically opted out; and
 - clause 24.1(b2) allows applicants to opt out of one or more competing applications groups at any time.

Further Final Decision

279. The Authority is satisfied that Western Power's proposed amendments ensure that applicants are able to be processed as an applicant specific solution at the time of application and therefore the requirements of Final Decision Amendment 50 are satisfied.

Sufficient detail on how the applications and queuing policy will operate

Final Decision

280. Section 5.7(b) of the Access Code requires that an applications and queuing policy must be sufficiently detailed to enable users and applicants to understand in advance how the applications and queuing policy will operate.
281. In the Final Decision the Authority did not consider Western Power's proposal provided sufficient detail and required the following amendment.

Final Decision Amendment 51

The mechanisms and processes relating to the competing applications group must be more clearly defined by setting out:

- how competing applications in a "competing applications group" will be processed;
- how timing of network augmentations will be coordinated with the applications;
- how the competing applications group concept will operate; and
- what happens when an offer to all members of a competing applications group is conditional on acceptance by all applicants.

Amended Proposed Revisions

282. Western Power has made a number of amendments to the AQP to address the Authority's required amendment:
- clause 24.1 of the AQP has been amended to provide more certainty on how competing applications groups will be formed;
 - clause 24.1(b1) has been added to provide that Western Power will advise applicants within 30 business days if their application has been included in a competing applications group or competing applications groups;
 - clause 3.15 has been added to clarify the interaction of the AQP and competing application group processes with network augmentation processes;
 - clause 24.6 has been redrafted to clarify the process for subsequent access offers; and
 - clauses 24.6A to 24.6C have been added to set out the competing applications group process in greater detail, explaining where offers are not met or exceeded.
283. In addition, a step-by-step guide has been attached at Appendix A to the AQP to provide further clarity on the information provided to applicants and how competing applications groups are managed. The two tables within Appendix A describe:
- information provided to applicants by Western Power at key stages of the process including enquiry, application and solution development, and

- how the competing applications groups process will be managed from the formation of competing applications groups to post-competing applications group processes including the interaction with application-specific solutions, developing solutions for the competing applications groups, processes for preliminary access offers and processes for access offers.

Further Final Decision

284. The Authority notes the substantial additional information included in the amended AQP by Western Power and considers that the requirements of Final Decision Amendment 51 have been complied with.

Time Limits for Applicant Specific Solutions

Final Decision

285. In the Final Decision the Authority considered that the timelines proposed by Western Power in relation to applicant-specific solutions appeared reasonable in themselves. However, the Authority was concerned about how these timelines related to the competing applications group process. As Final Decision Amendment 51 required the mechanisms and processes relating to Western Power's competing applications group to be more clearly defined it was not possible at the time of the Final Decision to conclude whether the timescales in relation to applicant-specific solutions were appropriate. Consequently the Authority required the following amendment.

Final Decision Amendment 52

Timelines for applicant-specific solutions must be stated in line with the timelines for competing application groups.

Amended Proposed Revisions

286. Western Power has inserted a table in Appendix B to the AQP, which sets out the timeframes for the competing application group process and the applicant-specific solution process.
287. Western Power notes in the amended proposed access arrangement information that the table indicates that the timeframes for the applicant-specific solution and the competing application group solution are roughly equivalent but the actual outcomes are highly dependent on the time taken for specific steps (e.g. negotiations to change preliminary access offers and objections to applicant-specific solutions).
288. Western Power states that, for additional clarity, clause 24.1(b1) has been added to provide that it will notify applicants within 30 business days if they have been included in a competing application group.

Further Final Decision

289. The Authority is satisfied that, given the uncertainties around factors outside Western Power's control which will affect the time scale within which specific steps such as negotiations to change preliminary access offers and objections to applicant-specific solutions, the proposed timelines for applicant specific solutions

are reasonable compared with those relating to the competing applications group process. The Authority considers the requirements of Final Decision Amendment 52 have been complied with.

Timeframe for Responding to Enquiries

Final Decision

290. The proposed revisions to the access arrangement include details of the process for responding to enquiries and the information to be provided which includes:
- a description of the information required for a complete application, and the results of any assessment that Western Power may have carried out to indicate the extent of any spare capacity available to provide covered services;
 - the existence of any competing applications; and
 - any constraints known to Western Power on the ability of the network to provide the capacity proposed as contracted capacity in the connection application by the applicant.
291. In the Final Decision the Authority considered that most of this information should already be available to Western Power as part of its network planning and on that basis it would be reasonable to expect a response to be prepared within 20 business days. The Authority considered this would facilitate a more efficient process as an applicant would be able to more quickly determine whether it wished to proceed with an application.
292. The Authority acknowledged it will not always be possible to obtain all the required information within 20 business days but considered it reasonable to require Western Power to provide a response within 20 business days with as much information as possible and an estimated time of when the balance of outstanding information will be provided, being not greater than 20 business days. The Authority therefore required the following amendment.

Final Decision Amendment 53

Clause 18.2A(b) must be amended to state that Western Power must provide a response letter to applicants within 20 business days or, if not all the information is available within that timeframe, provide the applicant with as much information as possible within 20 business days and an estimated time, being not greater than 20 business days, of when the balance of outstanding information will be provided.

Amended Proposed Revisions

293. Western Power has amended clause 18.2A(b) of the AQP in line with the required amendment.

Further Final Decision

294. The Authority is satisfied that the amendments made to clause 18.2A(b) of the AQP implement Final Decision Amendment 53.

Information provision by Western Power

Final Decision

295. Section 5.7(d) of the Access Code requires that an AQP must oblige the service provider, subject to any reasonable confidentiality requirements in respect of competing applications, to provide to an applicant all commercial and technical information reasonably requested by the applicant to enable the applicant to apply for, and engage in, effective negotiation with the service provider regarding, the terms for an access contract for a covered service including:
- information in respect of the availability of covered services on the covered network; and
 - if there is any required work:
 - operational and technical details of the required work; and
 - commercial information regarding the likely cost of the required work (5.7(d)).
296. In the Final Decision the Authority determined that Western Power’s proposed new clause 17A.3 of the AQP was too restricted, as it was confined to information only in Western Power’s possession, and should be expanded to include information within Western Power’s “custody or control”. The Authority also determined that, to ensure that clause 6.2 of the AQP does not inappropriately restrict the level of information that can be provided, the following changes were required:
- an obligation be included for Western Power to use reasonable endeavours to enter into an adequate confidentiality undertaking with respect to information that has not been provided by a third party;
 - a positive obligation to be imposed on Western Power to seek the consent of a disclosing party to disclosure of the confidential information; and
 - if the disclosing party will not consent, then an obligation be included for Western Power to use reasonable endeavours to provide the information in an aggregated or other form in which its confidential aspects cannot be identified.
297. In the Final Decision the Authority required the following amendments to the AQP:
- | | |
|-------|--|
| 17A.3 | On request by the party, Western Power will, except to the extent that it is prevented from doing so by clause 6.2 subject to clauses 17A.4 and 6.2, provide the party with all existing commercial and technical information that is in Western Power’s possession, <u>custody or control</u> that is reasonably needed <u>required or requested</u> by the party to help it decide whether to make an <i>application</i> . |
| 17A.4 | <u>Where commercial or technical information referred to in clause 17A.3 is confidential information:</u> <ul style="list-style-type: none">(a) <u>which has not been disclosed to Western Power by a third party, Western Power will use reasonable endeavours to enter into an adequate confidentiality undertaking with respect to the disclosure of the confidential information to the party deciding whether to make an application;</u> |

- (b) disclosed to Western Power by a *disclosing party* or an *applicant*. Western Power will use reasonable endeavours to obtain the consent of the relevant *disclosing party* or *applicant* to the disclosure of the *confidential information* to the applicant and, in the event that the relevant *disclosing party* or *applicant* does not consent to such disclosure, Western Power will use reasonable endeavours to provide the relevant *confidential information* to the party who has requested the information in an aggregated or other form in which its confidential aspects cannot be identified.

Final Decision Amendment 54

Sections 17A.3 and 17A.4 of the AQP must be amended as set out in paragraph 2591 [297] above.

Amended Proposed Revisions

298. Western Power has updated clause 17A.3 to reflect the Authority's required amendment.
299. In relation to clause 17A.4, Western Power has proposed different wording to provide that Western Power will request consent for disclosure of confidential information. However, if a confidentiality undertaking is required, while Western Power will facilitate discussion if required, it is more appropriate for applicants to negotiate confidentiality undertakings directly. Western Power will present information in an aggregated form if consent cannot be obtained.
300. Western Power has also amended "disclosing party" to be "disclosing person" as this is more consistent with the definition for "confidential information" which refers to "disclosing person".
301. Western Power's proposed amended clause 17A.4 is as follows.

17A.4 Provision of Confidential Information

- (a) Where commercial or technical information referred to in clause 17A.3 is *confidential information*:
- (i) which is confidential to Western Power and in Western Power's possession, custody or control, Western Power will use reasonable endeavours to enter into an adequate confidentiality undertaking with respect to the disclosure of the *confidential information* to the party deciding whether to make an *application*;
 - (ii) disclosed to Western Power by a *disclosing person* or an *applicant*, including a disclosure by a third party under clause 17A.4(a) above, Western Power will request the consent of the relevant *disclosing person* or *applicant* to the disclosure of the *confidential information* to the *applicant* and, in the event that the relevant *disclosing person* or *applicant* does not consent to such disclosure, Western Power will use reasonable endeavours to provide the relevant *confidential information* to the party who has requested the information in an aggregated or other form in which its confidential aspects cannot be identified.

- (b) Where the relevant *disclosing person* or *applicant (first person)*, under paragraph (a)(ii), notifies Western Power it will consent to the disclosure of the *confidential information* to the other *applicant (second person)* if the second person executes a confidentiality undertaking in favour of the first person then Western Power will seek to facilitate the process of conclusion of such undertaking but the first and second person must directly negotiate the terms of that undertaking between themselves.

Further Final Decision

302. The Authority considers that Western Power's proposal, that although it will facilitate any discussions required in relation to confidentiality undertakings between applicants and potential applicants, it is more appropriate for applicants to negotiate confidentiality undertakings directly between themselves, is reasonable and satisfies the intent of the required amendment. Consequently, the Authority is satisfied that the amendments made to clause 17A.3 and 17A.4 implement Final Decision Amendment 54.

Suppliers of last resort and default suppliers

303. Section 5.7(g) of the Access Code requires that an AQP must establish arrangements to enable a user who is:
- (i) a 'supplier of last resort' as defined in section 67 of the Act to comply with its obligations under Part 5 of the Act; and
 - (ii) a 'default supplier' under regulations made in respect of section 59 of the Act to comply with its obligations under section 59 of the Act and the regulations (5.7(g)).
304. Under the current AQP, provision is made for an application to bypass the queue when necessary to meet the requirements of section 5.7(g) of the Access Code as there is express provision in clause 24.5(b) and (c) of the AQP, which has the effect of permitting bypass of the AQP first-come, first-served principle to the extent necessary to allow a supplier of last resort and/or a default supplier to comply with their obligations.
305. Western Power's proposed revisions to the access arrangement did not include such a clause, and Western Power considered that clause 9.1 of its amended AQP provided adequate provision for a supplier of last resort.
306. However, the Authority noted clause 9.1 was not specifically drafted to deal with a supplier of last resort assuming its obligations, and contained provisions that the Authority considered would constrain the ability of a supplier of last resort or a default supplier to meet its obligations.
307. In the Final Decision the Authority determined that, to avoid any doubt about the intention or effect of clause 9.1, a specific clause in similar terms to clauses 24.5(b) and (c) should be reinstated in the AQP to comply with Draft Decision Amendment 76.

Final Decision Amendment 55

The applications and queuing policy must be amended to include a specific clause in similar terms to clauses 24.5(b) and (c) of the current access arrangement.

Amended Proposed Revisions

308. Western Power has inserted clause 24A.5 to the Applications and Queuing Policy as follows:

24A.5 Supplier of last resort and default supplier arrangements

Notwithstanding anything in clause 24A or in this applications and queuing policy, priority must be given to applications:

- (a) to the extent necessary to allow a supplier of last resort (as defined in section 67 of the Act) to comply with its obligations under Part 5 of the Act; or
- (b) to the extent necessary to allow a default supplier (as defined in section 59 of the Act) to comply with its obligations under section 59 of the Act.

Further Final Decision

309. The Authority is satisfied that the proposed amendment to clause 24A.5 ensures a supplier of last resort and/or default supplier is able to comply with its obligations and therefore is satisfied that Final Decision Amendment 55 has been complied with.

Contributions Policy

Introduction

310. The contributions policy sets out the principles and processes for determining when a contribution will be required from a user, including for a network augmentation and for determining the amount of contribution. A “contribution” is defined in section 1.3 of the Access Code as a capital contribution, a non-capital contribution, or a headworks charge.
311. In the Final Decision the Authority required several amendments to the proposed contributions policy that are necessary for the Authority to approve the proposed access arrangement revisions. The Authority’s required amendments and Western Power’s responses to these amendments, including proposed revisions other than required by the Authority, are addressed below.

Proposed Revisions other than required by the Authority

Amended Proposed Revisions

312. Western Power has made a number of minor amendments to the Contributions Policy in addition to the Authority’s required amendments. These are:
- In section 1 of the Contribution Policy, the definition “headworks base charge” has been renamed “distribution headworks base charge” in accordance with the changes to the mid-period amendment to the current access arrangement.
 - In the Contribution Policy the definitions of “mixed zone” and “rural zone” have been amended to reflect a change in the section number of the Price List Information to which the definition refers.

- In section 2.1 of the Distribution Headworks Methodology, the reference to clause 5.17(D) of the Access Code has been corrected to reflect the 4 per cent value

Further Final Decision

313. The Authority is satisfied that the amendments are required for completeness and accuracy and do not affect the substance of the document.

Distribution Low Voltage Connection Scheme

Final Decision

314. Western Power's proposed Distribution Low Voltage Connection Scheme was approved by the Authority as a mid-period variation to the current access arrangement on 3 September 2012.³⁵ Consequently the Final Decision required the proposed revisions to the access arrangement be amended to reflect the mid period variation.

Final Decision Amendment 56

The proposed revisions to the access arrangement must be amended to reflect the Authority's published *Final Decision on Proposed Variations to Western Power's Access Arrangement for 2009/10 to 2011/12: Contributions Policy* and any consequential amendments.

Amended Proposed Revisions

315. Western Power has amended the proposed Contributions Policy (Appendix C.1), Distribution Headworks Methodology (Appendix C.2) and Distribution Low Voltage Connection Headworks Scheme Methodology (Appendix C.3) to reflect the Authority's *Final Decision on Proposed Variations to Western Power's Access Arrangement for 2009/10 to 2011/12: Contributions Policy*.

Further Final Decision

316. The Authority is satisfied that the amendments made to Appendices C.1 to C.3 of the proposed access arrangement in relation to the DLVCHS implement Final Decision Amendment 56.

Calculation of Contributions Payable

317. The Final Decision included a minor drafting amendment in relation to the first line of clause 6.3 of the Contributions Policy to ensure consistency with the definitions included in the Contributions Policy.

³⁵ Economic Regulation Authority, *Final Decision on Proposed variations to Western Power's Access Arrangement for 2009/10 to 2011/12: Contributions Policy*, 3 September 2012.

Final Decision Amendment 57

Clause 6.3 of the contribution policy must be amended as follows:

~~A headworks contribution~~ The headworks base charge ...

Amended Proposed Revisions

318. Western Power has amended clause 6.3 of the Contributions Policy, attached at Appendix C.1 of the Amended Proposed Revisions to the Access Arrangement in line with the required amendment.

Further Final Decision

319. The Authority is satisfied that the amendment made to clause 6.3 of the Contributions Policy implements Final Decision Amendment 57.

Headworks Price List*Final Decision*

320. In the Final Decision the Authority required Western Power to provide more specific information in the Distribution Headworks methodology to enable the relevant price tables to be found easily on Western Power's website.

Final Decision Amendment 58

Western Power's proposed *Appendix D - Current prices and explanation of charges* needs to include sufficient detail to enable readers to locate the relevant price tables on Western Power's website.

Amended Proposed Revisions

321. Western Power has amended section 5.4 of the Distribution Headworks Methodology to include a footnote setting out the appropriate reference. Appendix C and D have been amended to refer to section 5.4.

Further Final Decision

322. The Authority is satisfied that the amendments made to the section 5.4 and Appendices C and D of the Distribution Headworks Methodology implement Final Decision Amendment 58.

APPENDICES

Appendix 1: Target Revenue Calculation (Revenue Model)