



**Western Power**

# **REASONS FOR MODIFYING THE MODEL CAPITAL CONTRIBUTIONS POLICY**

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## **1 INTRODUCTION**

The capital contributions policy covers the circumstances under which an augmentation is required to the network, and there is a need to determine whether a contribution is required and the amount of any such contribution.

Western Power's capital contributions policy is consistent with sections 2.9 and 5.12 to 5.17 of the Code and whilst it is broadly consistent with the model capital contributions policy, a number of changes have been made relative to the model for practical purposes.

The main features underpinning the changes are as follows:

- A simple, well-established policy and method of determining any contribution for applicants with annual consumption below 50 MWh is separately described.
- Distinction is made between the determination of applicable contributions for transmission connected generators within and outside the Urban shared network to facilitate investment.

## **2 DEFINITIONS**

The definitions in the policy are consistent with the model, with other proposed policies and contracts and the Code.

The following items have been further defined for clarity:

- Contribution rate of return means the rate of return most recently approved by the Authority for use in the price control for the network. The use of this published rate removes any potential objection that might have arisen under the discretionary approach in the model policy.
- The model policy had separate sections for contributions for capital works (augmentations) and for alternative options. These sections were largely repetitive, and so are combined into a set of single definitions – contributions (for any capital or alternative option contribution), forecast costs (for all of the costs related to augmentations or alternative options) and works (for any works required to provide the covered services, for which the applicant must make a contribution). This also caters for a combination of augmentation and an alternative option to provide services, which is the most likely scenario.

## **3 APPLICATION**

The application provided in the model policy is expanded to include the following:

- When an applicant has applied for an increase in contracted capacity of an existing covered service;
- When a provision in a user's access contract calls upon the policy;
- When a person who has applied to the Western Australian Planning Commission for approval to subdivide a property and who does not intend to become a user or an applicant.

The last point deals in particular with developers to whom the provisions in the model policy would not otherwise apply.

## **4 CIRCUMSTANCES WHERE A CONTRIBUTION MUST BE MADE**

The proposed policy makes it clear that where a contribution is required, Western Power will not be required to undertake the works until the applicant signs an IWA with Western Power and, where the costs exceed \$50,000, appropriate guarantees for the associated revenue are provided under a signed access contract.

This meets the intent set out in A4.8 of the model policy and 2.9 of the Code, but expands on these provisions to ensure Western Power can recover the costs of works, and to cater for periodic payments.

## 5 CONTRIBUTION

Clause 10 of the policy deals with applicants who are or who act on behalf of consumers consuming less than 50 MWh per year.

For those meeting this criterion, clause 10 deals sets out explicitly the method of calculating the amount of the contribution and the method of payment in relation to each of the following:

- Commercial consumers;
- Residential consumers (in particular those qualifying for a pole to pillar connection;)
- Primary producers;
- Unmetered supplies;
- Public street lighting.

A further Miscellaneous category under section 10 requires that the amount of contribution is the full forecast cost of the works for any covered service not explicitly covered elsewhere in clause 10.

Clauses 5 through 9 are concerned with applicants who are or who act on behalf of consumers consuming 50 MWh per year or more and generators.

For those meeting these criteria, a contribution is required where works are necessary to provide covered services and which do not meet the new facilities investment test, consistent with section 2.9 of the Code.

In these circumstances, the amount of the contribution is calculated from the appropriate portion of the forecast costs less any costs likely to be recovered from incremental revenues over a reasonable time, at the Contributions rate of return. The reasonable time is based either the expected commercial life of the works up to a maximum of 15 years or a lesser period, depending on the purpose for which the applicant requires the covered services. A footnote explains by way of example that this could be, for example, 5 years if that is the planned operating life of an application involving a commercial plant with a 5-year life.

The full amount of the forecast works will apply where the applicant seeks a connection to a higher specification than that laid down in the technical rules or, where the augmentation works are fully contestable and the applicant has chosen to contract with Western Power for the works. Otherwise, the apportionment may be the full amount or, where Western Power determines that some part of the costs meets the new facilities investment test, a lesser amount.

The policy describes the following specific circumstances where the apportionment may be less than 100% as follows:

- The amount may be equivalent to the minimum practical works where Western Power chooses to undertake works in excess of the minimum practical works (note that minimum practical works refers to works sufficient to provide only those covered services solely to that applicant).
- The apportionment may be based on the applicant's portion of the installed capacity where Western Power reasonably expects to receive tariff income within 5 years from future applicants using the same works and undertakes the works to meet this anticipated requirement.
- Where 2 or more applicants are seeking similar covered services at the same time and these could be serviced from the same works, then the apportionment may be negotiated between Western Power and

the applicants based on anticipated relative use. This will require the agreement of all parties due to confidentiality concerns.

- If works to provide covered services provide specific savings to Western Power in meeting its compliance obligations then the cost to be allocated may be the forecast cost less the amount saved. This might be, for example, where the works allow Western Power to defer planned expenditure to improve network reliability.

Other than the circumstances described, there is a general clause enabling Western Power to derive an amount using any other means consistent with the Code objective.

This approach provides Western Power with the flexibility to best meet the Code objective and the specific Code requirement to strike a balance between the interests of various users.

## **6 MANNER OF CONTRIBUTION**

The provisions for financial payments and any rebates are consistent with the model policy.

Western Power proposes to only allow payments in kind in the case of subdivisions, and so these provisions are set out under clause 11 and are consistent with the provision in kind clauses in the model contract. Given Western Power's continuing liability for the safety and security of the network, Western Power chooses not to take on the technical compliance risk of allowing other parties to construct part of the covered network.

## **7 REDUCED DEMAND PAYMENT**

The calculation of the contribution necessarily involves assessment of the likely future revenues over a specified period. If a user was to subsequently reduce its contracted capacity, there is a risk of stranded costs to Western Power. As a simple and effective way to mitigate this risk for the benefit of all users, the reduced demand payment specifies that a payment may be required if this occurs within the cost recovery period used in calculating the contribution and there is no likelihood of these costs being recovered from another user paying access charges for the same contracted point within the same timeframe. The capital contributions policy is referred to by the standard access contract in respect of reduced demand payments.

## **8 TRANSMISSION-CONNECTED GENERATORS**

In order to meet the Code objective, the policy has been developed to provide simple and clear locational signals to prospective transmission connected generators and to recognise the potential benefits flowing to users of the shared network in some circumstances.

This has been addressed by the following.

- Where the connection is to the urban shared network (defined as being within 50 km of the Perth GPO), then the forecast costs are those of any dedicated connection assets only, and hence Western Power deems any shared network augmentation to meet the new facilities investment test.
- Where the connection is outside the Urban shared network, then the forecast costs are those for all required works except any augmentation of the Urban shared network.
- If reactive power is required to provide support to a generator, then those costs are included, as this can be identified specifically as being caused by that generation.

In all other respects, the policy is consistent with the model policy.