

Your ref:

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Attention: Mr Pullella

**SUBMISSION - MATTERS RELATING TO WESTERN POWER'S REVISED
PROPOSED ACCESS ARRANGEMENT FOR THE SOUTH WEST
INTERCONNECTED NETWORK - HEADWORKS CHARGES**

Thank you for the opportunity to comment on the matters outlined in your request for submissions. The Department of Industry and Resources (DoIR) is of the view that as a State owned utility, Western Power has an obligation to facilitate economic development through robust strategic planning, and investment in infrastructure where the business case, strategic considerations and funding permit. In addition, equitable treatment of existing customers should be a key consideration in any access arrangement. DoIR's response to the specific issues raised is detailed below.

REDUCTIONS IN CONTRACTED TRANSMISSION CAPACITY

DoIR accepts and supports the need to unilaterally reduce a network user's contracted capacity where anti-competitive behaviour is displayed by a network user. However, the Department has some reservations about the approach proposed by Western Power to reduce contracted capacity¹.

Under normal circumstances, a user would have contracted with Western Power the holding of unused electricity capacity in anticipation of likely future requirements. A business user would be unlikely to incur the costs of holding unused electricity capacity unless there was an identifiable business imperative. To unilaterally withdraw unused capacity may result in a diminution of the user's future business expansion opportunities. It should be contingent upon Western Power to undertake an appropriate level of risk based pre-investment to cope with market growth, otherwise competition may occur through capacity trading between customers.

¹ It is noted that the approach suggested by Western Power is refuted in the Parsons Brinckerhoff Report.

If Western Power is to be granted powers to retrieve unused contracted capacity, it should be exercised only after adequate consultation with affected users, including reimbursement of costs where appropriate. It should generally be undertaken as a short term response to resolve immediate supply concerns, followed within a reasonable interval, by a corresponding network upgrade to address future contracted requirements.

TREATMENT OF CAPITAL CONTRIBUTIONS

It is the Department's view that the proposed treatment of capital contributions by Western Power may limit the opportunities to expand the South West Interconnected Network. The Department supports a more flexible approach towards the treatment of capital contributions. For example, capital contributions should be treated separately from tariff based target revenues, spread over an extended period as proposed by the ERA, or as per the headworks proposal of the Office of Energy. This, in turn, is more likely to contribute to the achievement of the State's strategic economic development outcomes.

HEADWORKS CHARGES (Office of Energy Proposal)

DoIR supports, in principle, the headworks charges proposal of the Office of Energy. It is considered that current practice may be creating impediments to the State's economic competitiveness and development, whereas greater electricity network coverage and capacity, resulting from this proposal, would have the potential to increase economic activity. However, Western Power must ensure that it does not duplicate costs to customers affected by headworks charges through the tariff structure, and should ensure that when capital costs have been recovered, that users do not continue to be penalised.

In the Department's consideration, a commercial risk based approach to decision making should be undertaken by Western Power, in anticipation that pre-investment is likely to attract further take-up of network capacity. Where regional, social or economic development opportunities justify it; Government may choose to provide separate funding to reduce headworks charges to identified users on a strategic basis. However, a transparent and rigorous analysis should be expected of Western Power to assist Government to assess the merits and relative priority of such an approach.

I welcome the opportunity for officers from this Department to discuss further with your agency the access arrangements for the South West Interconnected Network. Please contact Mr Ben Peden on 9222 0919 if you have further queries in this regard.

Lyne Thomas
ASSISTANT DIRECTOR GENERAL
STATE DEVELOPMENT STRATEGIES
8 February 2007