

# Capital Contributions Policy

## **ELECTRICITY NETWORKS CORPORATION ("WESTERN POWER")**

ABN 18 540 492 861

{Outline: This capital contribution policy is included in Western Power's access arrangement in accordance with section 5.1 of the Code.}

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## 1. Introduction

### 1.1 Definitions

In this *capital contributions policy*, unless the contrary intention is apparent:

**“access contract”** means an agreement between Western Power and another person for that person to have access to *covered services*.

**“access arrangement”** means the current *access arrangement* approved in respect of the *network* under the *Code*.

**“Act”** means the *Electricity Industry Act 2004*.

**“alternative option contribution”** means a contribution made, or to be made, by an *applicant* in respect of an *alternative option*.

**“alternative option test”**, in respect of the *network*, means the test set out in section 6.41 of the *Code*.

**“applicant”** means a person (who may be a *user*, a *customer* or a *developer*) who has lodged, or intends to lodge, a *connection application*.

**“applications and queuing policy”** means the *applications and queuing policy* in the *access arrangement*.

**“Code”** means the *Electricity Networks Access Code 2004*.

**“Code of Conduct”** means the *Code of Conduct for the Supply of Electricity to Small Use Customers 2004*, made under section 79 of the *Act*.

**“connection application”** means an application lodged with Western Power under the *applications and queuing policy* that has the potential to require a modification to the *network*, including an application to:

- (a) *connect facilities and equipment* at a new *connection point*; or
- (b) *increase consumption or generation* at an existing *connection point*; or
- (c) *materially modify facilities and equipment connected* at an existing *connection point*; or
- (d) *augment the network* for any other reason,

{Note: this might be, for example, to service a subdivision.}

and includes any additional information provided by the *applicant* in regard to the application.

**“connection point”** means an *exit point* or an *entry point* identified or to be identified as such in an *access contract*.

**“consumption”**, for a *connection point*, means the amount of electricity *consumed* at the *connection point*, and is measured in Watt-hours.

**“contracted capacity”** means the maximum rate at which a *user* is permitted to transfer electricity at a *connection point* under the *user’s access contract*.

**“contribution”** means a *capital contribution* or an *alternative option contribution*, or both as applicable.

**“contributions rate of return”** means the rate of return most recently approved by the *Authority* for use in *price control* for the *network*.

**“customer”** has the meaning given to it in the Act.

**“developer”** means a person who has applied to the Western Australian Planning Commission for approval to subdivide a property.

**“entry point”** has the meaning given to it in the *applications and queuing policy*.

**“exit point”** has the meaning given to it in the *applications and queuing policy*.

**“forecast costs”** means the *forecast new facilities investment* or the *alternative option costs*, or both, as applicable, to be incurred by Western Power with regards to *works*.

**“generation”**, for a *connection point*, means the amount of electricity *generated* at the *connection point*, and is measured in Watt-hours.

**“greenfield development”** means a new installation of *network assets* without the requirement of significant integration with the existing *network*.

**“Metering Code”** means the code made under Section 39(1) of the Act in respect of a matter referred to in Section 39(2)(a) of the Act, and includes any service level agreement, metering data agency agreement, communications rules, metrology procedure, mandatory link criteria and registration process developed under that code.

**“minimum practical works”** with regard to *covered services* sought by an *applicant*, means the minimum *works* Western Power must undertake, acting efficiently in accordance with *good electricity industry practice*, to provide only those *covered services* required by that *applicant*.

**“modified test”** means the *modified test* (as defined in the Code) approved in respect of the *access arrangement*.

**“network”** means those parts of the SWIS that are owned, operated or owned and operated by Western Power in respect of which access is given or sought under Western Power’s *access arrangement*.

**“new revenue”** means the *anticipated incremental revenue* or *additional revenue* or both, as applicable, with respect to *works*.

**“non-capital costs”** means the *non-capital costs* (as defined in the Code), but excluding *alternative option costs*, to be incurred by Western Power with regards to *works*.

**“pole to pillar connection”** means the provision of an underground 415 V or 240 V supply to a *residential customer* in an area otherwise serviced by an overhead network.

**“primary producer”** means a person assessed as a primary producer under the *Income Tax Assessment Act 1997* or equivalent enactment, and includes a person who carries out or is engaged in the business of farming or grazing on land that is

- (a) zoned for rural purposes under a town planning scheme; and
- (b) used solely or principally for agricultural or grazing purposes or for a combination of those purposes.

**“reasonable time”** means the time determined in accordance with clause 6.2.

**“residential customer”** has the meaning given to it in the *Code of Conduct*.

**“retailer”** has the meaning given to it in the *Act*.

**“scheme”**, means an extension of the *network* beyond the normal range of the *network* under section 61 of the *Energy Operators (Powers) Act 1979*.

**“technical rules”** means the *technical rules* (as defined in the Code) applying from time to time to the *network* under Chapter 12 of the Code, as modified in accordance with the Code.

**“unmetered connection”**, with respect to a *connection point*, has the same meaning as the term “type 7 connection point” when that term is used in the *Metering Code*.

**“user”** has the meaning given to it in the Code.

**“works”** means all works that Western Power is required to undertake to provide the *covered services* sought by an *applicant* to the *applicant*, including works associated with:

- (a) *augmentation of connection assets*; and
- (b) *augmentation of shared assets*; and

- (c) *alternative options*; and
- (d) other non-capital works.

### 1.2 Where *new facilities investment* meets *modified test*

Where Western Power is required to make a new *facilities investment* in response to an *access application*:

- (a) for a new streetlight; or
- (b) for an *unmetered connection*; or
- (c) for a *pole to pillar connection*; or
- (d) by, or on behalf of, a *primary producer* or *residential customer* seeking to connect to a *scheme*; or
- (e) by, or on behalf of, a *developer* in relation to the *distribution system*,

then the *new facilities investment* meets the *modified test* under section 6.53 of the *Code*.

### 1.3 Interpretation

- (a) Unless the contrary intention is apparent:
  - (i) a rule of interpretation in the *Code*; and
  - (ii) the Interpretation Act 1984,apply to the interpretation of this *capital contributions policy*.

- (b) Unless:
  - (i) the *contrary* intention is apparent: or
  - (ii) the term has been redefined in clause 1.1,a term with a defined meaning in the *Code* has the same meaning in this *capital contributions policy*.

## 2. Application of this capital contributions policy

This *capital contributions policy* applies if it is necessary for Western Power to perform *works to provide covered services*.

### 3. Lowest sustainable cost

A *contribution* with respect to *covered services* sought by an *applicant* must not exceed the amount that would be required by a prudent *service provider* acting efficiently, in accordance with *good electricity industry practice* seeking to achieve the lowest sustainable cost of providing the *covered services*.

### 4. Applicant must make contribution

#### 4.1 *Applicant must make contribution*

If the application of this *capital contributions policy* in relation to the *works* produces a *contribution* amount that is greater than zero, Western Power is not required to undertake *works* in respect of an *application* for a *covered service* until the *applicant* enters into a contract with Western Power under which the *applicant* agrees to provide the *contribution* to Western Power in accordance with this *capital contributions policy*:

#### 4.2 *Applicant must provide security for new revenue*

- (a) Where the *forecast costs* are greater than \$50,000, Western Power may require the *applicant* to procure before the commencement of the *works*, and maintain for a period of 12 months after the commencement of the associated *exit service* or *entry service*, an unconditional, irrevocable bank guarantee, or equivalent financial instrument, in terms acceptable to Western Power (acting as a *reasonable and prudent person*), guaranteeing the portion of *new revenue* that is expected to come from providing an *exit service* or *entry service* using the *works*, and that was used to calculate the *contribution*.
- (b) Where an *applicant* has provided security under clause 4.2(a), then after 12 months, Western Power may:
  - (i) redetermine the *contribution* under this *capital contributions policy*, and recover from, or rebate, to the *applicant* any difference from the amount of the original *contribution*; or
  - (ii) require the *applicant* to maintain the bank guarantee or equivalent financial instrument for a further 12 months before redetermining the *contribution* in accordance with clause 4.2(b)(i).

### 5. Amount of Contribution

- (a) Where the *modified test* does not apply in respect of the *forecast costs* of any *works*, the *contribution* for that part of the *forecast costs* which does not meet the *new facilities investment test* or the *alternative option test*, as applicable, in part or in whole, is calculated under clause 6 and clause 8.

- (b) Where the *modified test* applies in respect of the *forecast costs* of any *works*, the *contribution* is calculated under clause 7 and clause 8.

## 6. Where modified test does not apply

### 6.1 Calculation of *contribution*

The *contribution* is calculated by:

- (a) determining the appropriate portion of the *forecast costs* of the *works* to allocate to the *applicant* under clause 6.3; and
- (b) deducting the amount likely to be recovered in the form of *new revenue* gained from providing *covered services* to the *applicant*, or, if the *applicant* is a *customer*, to the *customer's retailer*, as calculated over the *reasonable time*, at the *contributions rate of return*.

### 6.2 *Reasonable time*

For the purposes of this clause 6, the *reasonable time* is to be determined by Western Power, as a *reasonable and prudent person*, having regard to:

- (a) the anticipated commercial life of the *works*, up to a maximum of 15 years; and
- (b) the purpose for which the *applicant* requires the *covered services*.

{Note: For example, if the *applicant* is proposing to build a plant with an expected 5 year operating life, then the *reasonable time* might be 5 years.}

### 6.3 Amount of *forecast costs*

- (a) Western Power may, acting as a *reasonable and prudent person*, determine that the amount of the *forecast costs* to be allocated to the *applicant* for the purposes of clause 6.1(a) is:
  - (i) the full amount of the *forecast costs*; or
  - (ii) an amount determined under clauses 6.3(b) to 6.3(e).
- (b) If Western Power chooses to undertake *works* in excess of the *minimum practical works* to provide *covered services* sought by an *applicant*, then Western Power will determine that the amount of costs allocated to the *applicant* are the *forecast costs* of the *minimum practical works*.



- (c) If Western Power reasonably expects to receive *tariff* income from future *applicants*, because of *works* to provide *covered services* sought by an *applicant*, within a period of 5 years of the original *applicant's application*, then Western Power will apportion the *forecast costs* based on the relative use of the *works* by the *applicant* compared to the relative use of the *works* expected to be sought by those future *applicants*.
- (d) If Western Power has received more than one *application* requiring the same *works*, then Western Power may negotiate with the *applicants* under the *applications and queuing policy* to apportion the *forecast costs* of the *works* between the *applicants*, based on the relative use of the *works* sought by each *applicant*.
- (e) If *works* to provide *covered services* to an *applicant* provide specific savings to Western Power in performing its legal obligations, then Western Power will determine that the costs to be allocated to the *applicant* are the *forecast costs* less the amount saved.

## **7. Calculation of contribution where modified test applies**

### **7.1 Supply extension scheme applicants**

The *contribution* to be paid by an *applicant* who is, or acts on behalf of, a *primary producer* or *residential customer* seeking to establish a new *exit point* within a *scheme* is an amount calculated under section 61 of the *Energy Operators (Powers) Act 1979* plus any rebate due to previous *applicants* who have paid a *contribution* in respect of the *scheme*.

### **7.2 Residential customers qualifying for a pole to pillar connection**

The *contribution* to be paid by an *applicant* who is, or acts on behalf of, an individual *residential customer* qualifying for a *pole to pillar connection* is the amount published by Western Power on its website for a *pole to pillar connection*.

### **7.3 Public road street lighting**

The *contribution* to be paid by an *applicant* who seeks a modified or new streetlight is an amount equal to the full *forecast costs* of the required *works*, including the provision of the streetlight asset.

### **7.4 Subdivisions**

A *developer* who seeks to augment the *distribution system* to service a subdivision, and who does not qualify for a *pole to pillar connection*, may, at the *developer's* election:

- (a) if the subdivision is a *greenfield development*, procure the *augmentation* itself, in which case the developer shall vest the *network assets* comprised in that *augmentation* in Western Power upon commissioning of the *network assets*; or
- (b) request Western Power to build the *augmentation*, in which case the *contribution* to be paid is an amount equal to the full *forecast costs* of any *works* required to provide the *augmentation*, to be paid as an upfront payment, and
- (c) clauses 9 and 10 of this *capital contributions policy* do not apply.

## **8. General provisions**

### **8.1 Connection assets**

The *applicant* must pay the full *forecast costs* of any *works* to provide *connection assets*.

### **8.2 Non-capital costs**

The *applicant* must pay to Western Power the full amount of any *non-capital costs* that Western Power incurs in performing *works*, which in any case must not exceed such costs that would be incurred by a prudent *service provider* acting efficiently in accordance with *good electricity industry practice*.

{Note: these costs might include, for example, adjusting protection settings, reprogramming computer equipment and so on.}

### **8.3 Works over and above standard works**

If an *applicant* seeks a *covered service* that is better or different in some respect than an equivalent *service* in the *technical rules* or an equivalent *reference service* in the *access arrangement*, then the *applicant* must pay to Western Power:

- (a) a *contribution* calculated under this *capital contributions policy* for the equivalent *service*; and
- (b) the difference between the *forecast costs* of the *works* required to provide the equivalent *service* and the *forecast costs* of the *works* required to provide the better or different *service*, to the extent that the better or different *service* does not otherwise meet those parts of the *new facilities investment test* dealing with *net benefit*, safety or reliability.

{Note: this could be, for example, a design philosophy delivering increased security of supply}

#### 8.4 Costs related to *technical rules* compliance

- (a) The *applicant* must pay a *contribution* calculated under this *capital contributions policy* in respect of any *works* required to upgrade the fault level ratings of *network assets*, or any other *works* required to ensure that Western Power complies with the *technical rules* with respect to the *network assets*.
- (b) The *applicant* must pay all of its own costs in relation to ensuring that its *facilities and equipment* comply with the *technical rules*.

#### 8.5 Temporary supplies

The *contribution* to be paid by an *applicant* who seeks a temporary supply is, if no applicable amount is published on Western Power's website, an amount equal to the full *forecast costs* of the required *works*.

#### 8.6 Relocation or underground of *network assets*

Subject to clause 7.2, the *contribution* to be paid by an *applicant* who seeks to have existing *network assets* relocated, including the undergrounding of overhead *network assets*, is an amount equal to the full *forecast costs* of the required *works*.

### 9. **Manner of *contribution***

#### 9.1 Options for payment

A *contribution* may be made:

- (a) by the *applicant* by way of a financial payment comprising either:
  - (i) periodic financial payments, subject to clause 9.2; or
  - (ii) an upfront financial payment;

or

- (b) by the Western Australian Government under any appropriate government policy.

#### 9.2 When *applicant* may choose periodic payment

The *applicant* may not elect under clause 9.1(a)(i) to make the *contribution* by way of a periodic financial payment unless the total amount of the *contribution* exceeds \$30,000

#### 9.3 Terms and amount of periodic payment

- (a) If the *applicant* elects to make a *contribution* by way of periodic financial payment under clause 9.2, then:

- (i) the maximum term over which the periodic payments may be made is 5 years; and
- (ii) interest will be payable on each periodic payment, at a reasonable commercial rate to be negotiated between Western Power and the *applicant*.

## 10. Rebates and recoupment

### 10.1 Parties may negotiate rebate

- (a) Subject to clause 10.1(c), where:

- (i) an *applicant* has paid a *contribution*, or is paying a *contribution* in the form of periodic payments, for *works* with respect to a *connection point* for which the full *forecast costs* of the *works* were allocated to the *applicant* under clause 6.3; and
- (ii) a subsequent *applicant* associated with a different *connection point* benefits from the *works* or a part of the *works* within 5 years of the date that the *contribution* was paid in respect of the original *connection point*,

then Western Power and the *applicant* may negotiate to require Western Power to provide a rebate.

- (b) Any negotiated rebate will be payable to the *customer* or the *user* associated with that *connection point* at the time of the *rebate* being payable.
- (c) A rebate under clause 10.1(a) will not be payable to a *developer*.
- (d) The amount of a rebate given to a *user* or *customer* under clause 10.1(a) is determined by apportioning the amortised *contribution* paid in respect of the original *connection point* between the *user* or *customer* associated with the original *connection point* and each subsequent *applicant* based on the relative *contracted capacity* of each party, where the *contribution* is amortised completely in a straight line over 5 years.
- (e) Where:
  - (i) an *applicant* paid an *contribution* in respect of an *exit point* within a *scheme*; and
  - (ii) a person who is, or acts on behalf of, a *primary producer* or a *residential customer*, associated with a different *exit point* within the *scheme*, subsequently benefits from the *works*,

then Western Power must provide a rebate to the *customer* associated with the original *exit point* calculated under section 61 of the *Energy Operators (Powers) Act 1979*.

- (f) Western Power is not under any obligation to pay any rebate for a *contribution* to any *user* or *customer* under any circumstance other than that expressly provided for under clauses 10.1(a) and 10.1(e).

#### 10.2 New *applicants* must pay rebate

Where Western Power must pay a rebate to a *user* or a *customer* in respect of a *connection point* under clause 10.1, each subsequent *applicant* that triggers such a rebate must pay to Western Power an upfront amount equivalent to the rebate.