

Services and pricing policy, Appendix D

Prudent Discount Policy

For the covered Pilbara network

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1. ABBREVIATIONS AND DEFINED TERMS

The following abbreviations are used in this document and have the meaning provided in the table below.

Table 1: Document Abbreviations

| Abbreviation | Meaning |
|--------------|----------------------------------|
| kV | kilo Volts, which is 1,000 Volts |
| kW | kilo Watts, which is 1,000 Watts |
| NSP | Network Service Provider |

The following defined terms are used in this document and have the meaning provided in the table below.

Table 2: Document Defined Terms

| Defined term | Meaning |
|--------------------------------|---|
| Act | the Electricity Industry Act 2004 (WA). |
| bidirectional point | has the same meaning given to it in the Code. {As at 25 June 2021, the Code defines <i>bidirectional point</i> as a point on a <i>light regulation network</i> which is, or is to be, identified as such (explicitly or by inference) in a <i>contract for services</i> at which, subject to the <i>contract for services</i> , electricity is expected to be, on a regular basis, both transferred into the <i>light regulation network</i> and transferred out of the <i>light regulation network</i> .} |
| bidirectional service | a <i>covered service</i> provided at a <i>connection point</i> on a <i>light regulation network</i> that is a <i>bidirectional point</i> . |
| capital-related costs | has the same meaning given to it in the Code. {As at 25 June 2021, the Code defines <i>capital-related costs</i> in relation to <i>covered services</i> provided by an <i>NSP</i> by means of a <i>light regulation network</i> for a period of time, as— (a) a return on the capital base of the <i>light regulation network</i> ; and depreciation of the capital base of the <i>light regulation network</i> .} |
| Code | <i>Pilbara Networks Access Code 2021 (WA)</i> . |
| contract for services | has the same meaning given to it in the Code. {As at 25 June 2021, the Code defines <i>contract for services</i> as an agreement between an <i>NSP</i> and another person for the person to have access to services, and includes an access contract.} |
| covered Pilbara network | has the same meaning given to it in section 3 of the Act and for the purposes of this policy includes both a <i>network</i> and a right of the <i>NSP</i> to use a <i>network</i> (to the extent of that right of use). {As at 07 April 2020, the Act defines <i>covered Pilbara network</i> as a <i>covered network</i> that is located wholly or partly in the <i>Pilbara region</i> .} |

| Defined term | Meaning |
|-------------------------------------|--|
| covered service | has the same meaning given to it in the <i>Code</i> . {As at 25 June 2021, the <i>Code</i> defines <i>covered service</i> as a <i>service</i> provided by means of a <i>light regulation network</i> , but does not include an excluded service.} |
| distributed generating works | has the same meaning given to it in the <i>Code</i> . {As at 25 June 2021, the <i>Code</i> defines <i>distributed generating works</i> as generating works with an <i>entry point</i> to a <i>light regulation network</i> at a nominal voltage of less than 66 kV and no <i>entry point</i> to a <i>light regulation network</i> at a nominal voltage of 66 kV or higher.} |
| distribution system | has the meaning given to it in the <i>Code</i> . {As at 25 June 2021, the <i>Code</i> defines <i>distribution system</i> as any apparatus, equipment, plant or buildings used, or to be used, for, or in connection with the transportation of electricity at nominal voltages of less than 66 kV.} |
| entry point | has the same meaning given to it in the <i>Code</i> . {As at 25 June 2021, the <i>Code</i> defines <i>entry point</i> as a point on a <i>light regulation network</i> which is, or is to be, identified as such (explicitly or by inference) in a <i>contract for services</i> at which, subject to the <i>contract for services</i> , electricity is more likely to be transferred into the <i>light regulation network</i> than transferred out of the <i>light regulation network</i> .} |
| entry service | a <i>covered service</i> provided at a <i>connection point</i> on a <i>light regulation network</i> that is an <i>entry point</i> . |
| equivalent tariff | has the same meaning given to it in section 67 of the <i>Code</i> . {As at 25 June 2021, section 67 of the <i>Code</i> defines <i>equivalent tariff</i> as— (a) for a <i>reference service</i> – the <i>reference tariff</i> ; and (b) for a non-reference service – the <i>tariff</i> that is reasonably likely would have been set as the <i>reference tariff</i> had the non-reference service been a <i>reference service</i> .} |
| exit service | a <i>covered service</i> provided at a <i>connection point</i> on a <i>light regulation network</i> that is an <i>exit point</i> . |
| interconnection service | a <i>covered service</i> provided at a <i>connection point</i> on a <i>light regulation network</i> that is an <i>interconnection point</i> . {As at 25 June 2021, the <i>Code</i> defines <i>interconnection point</i> as a point on a <i>network</i> at which an interconnector connects to the <i>network</i> .} |
| light regulation network | has the same meaning given to it in the <i>Code</i> . {As at 25 June 2021, the <i>Code</i> defines <i>light regulation network</i> as a <i>covered Pilbara network</i> which is regulated by Part 8A of the <i>Act</i> .} |

| Defined term | Meaning |
|---------------------------------------|--|
| network | has the same meaning given to ‘ <i>network infrastructure facilities</i> ’ in the <i>Act</i> . {As at 07 April 2020, the <i>Act</i> defines ‘ <i>network infrastructure facilities</i> ’ as— <ul style="list-style-type: none"> (a) electricity infrastructure used, or to be used, for the purpose of transporting electricity from generators of electricity to other electricity infrastructure or to end <i>users</i> of electricity; and (b) includes stand-alone power systems, or storage works, used, or to be used, as an adjunct to electricity infrastructure.} |
| network service provider (NSP) | has the same meaning given to ‘ <i>Pilbara network service provider</i> ’ in the <i>Act</i> . {As at 07 April 2020, the <i>Act</i> defines ‘ <i>Pilbara network service provider</i> ’ as a person who— <ul style="list-style-type: none"> (a) owns, controls or operates a <i>Pilbara network</i> or any part of a <i>Pilbara network</i>; or (b) proposes to own, control or operate a <i>Pilbara network</i> or any part of a <i>Pilbara network</i>.} |
| new facilities investment | has the same meaning given to it in the <i>Code</i> . {As at 25 June 2021, the <i>Code</i> defines <i>new facilities investment</i> for a new facility as the capital costs incurred in developing, constructing and acquiring the new facility.} |
| non-capital costs | has the same meaning given to it in the <i>Code</i> . {As at 25 June 2021, the <i>Code</i> defines <i>non-capital costs</i> in relation to <i>covered services</i> provided by a <i>NSP</i> by means of a <i>light regulation network</i> for a period of time, as all costs incurred in providing the <i>covered services</i> for the period of time which are not <i>new facilities investment</i> or <i>capital-related costs</i> , including those operating, maintenance and administrative costs which are not <i>new facilities investment</i> or <i>capital-related costs</i> .} |
| non-reference tariff | the <i>tariff</i> that applies to a <i>covered service</i> that is a <i>non-reference service</i> . |
| Pilbara region | has the same meaning given to it in the <i>Act</i> . {As at 07 April 2020, the <i>Act</i> defines <i>Pilbara region</i> as the <i>Pilbara region</i> defined in the <i>Regional Development Commissions Act 1993</i> Schedule 1.} |
| price list | has the same meaning given to it in the <i>Code</i> . {As at 25 June 2021, the <i>Code</i> defines <i>price list</i> as the schedule of <i>tariffs</i> for a <i>light regulation network</i> .} |
| pricing period | has the same meaning given to it in the <i>Code</i> . {As at 25 June 2021, the <i>Code</i> defines <i>pricing period</i> as the defined future period, which must not be more than 5 years, for which a <i>services and pricing policy</i> is applicable.} |
| reference service | has the same meaning given to it in the <i>Code</i> . {As at 25 June 2021, the <i>Code</i> defines <i>reference service</i> as a <i>covered service</i> designated by a <i>services and pricing policy</i> to be a <i>reference service</i> , and which is provided on the corresponding <i>reference terms and conditions</i> .} |

| Defined term | Meaning |
|------------------------------------|---|
| reference tariff | has the same meaning given to it in the <i>Code</i> . {As at 25 June 2021, the <i>Code</i> defines <i>reference tariff</i> as the <i>tariff</i> specified in a <i>price list</i> for a <i>reference service</i> .} |
| services and pricing policy | has the same meaning given to it in the <i>Code</i> . {As at 25 June 2021, the <i>Code</i> defines <i>services and pricing policy</i> as the policy of an <i>NSP</i> which contains the details referred to in section 40.} |
| target revenue | has the same meaning given to it in the <i>Code</i> . {As at 25 June 2021, the <i>Code</i> defines <i>target revenue</i> , for a <i>light regulation network</i> for a <i>pricing period</i> , as determined in accordance with sections 47 to 60.} |
| tariff | has the same meaning given to it in the <i>Code</i> . {As at 25 June 2021, the <i>Code</i> defines <i>tariff</i> for a <i>covered service</i> , as the criteria that determine the charge that is payable by a <i>user</i> to the <i>NSP</i> .} |
| tariff setting methodology | has the same meaning given to it in section 62 of the <i>Code</i> . {As at 25 June 2021, section 62 of the <i>Code</i> defines <i>tariff setting methodology</i> as— <ul style="list-style-type: none"> (a) the structure of <i>tariffs</i> for all or part of the relevant <i>pricing period</i>, which determines how <i>target revenue</i> is allocated across and within <i>covered services</i>; and (b) includes all methodologies, processes, assumptions, inputs and criteria used in developing that structure and applying it to determine <i>tariffs</i>.} |
| transmission system | has the same meaning given to it in the <i>Act</i> . {As at 07 April 2020, the <i>Act</i> defines <i>transmission system</i> as any apparatus, equipment, plant or buildings used, or to be used, for, or in connection with, the transportation of electricity at nominal voltages of 66 kV or higher.} |
| user | has the same meaning given to it in the <i>Code</i> . {As at 25 June 2021, the <i>Code</i> defines <i>user</i> as a person, who is a party to a <i>contract for services</i> with an <i>NSP</i> , and in connection with a deemed associate arrangement, includes the <i>NSP's</i> other business.} |

2. POLICY STATEMENT

This prudent discount policy provides the community served by Horizon Power in the *Pilbara region* with information on when a *user* will be entitled to a discount on a *reference tariff* or a *non-reference tariff*, and the approach to calculating that discount.

3. WHO THIS POLICY APPLIES TO

This policy applies where a *user* seeks to implement initiatives to promote the economically efficient investment and operation of Horizon Power's *covered Pilbara network*, and the

user's tariff is discounted to share with that *user* any reductions in Horizon Power's costs that arise from that initiative.

4. PURPOSE OF THE PRUDENT DISCOUNT POLICY

Section 36(1) of the *Pilbara Networks Access Code 2021* (the *Code*) requires Horizon Power to publish a *services and pricing policy* for each *pricing period*. Section 40(1) of the *Code* requires that the *services and pricing policy* set out a range of information including the:

- *tariff setting methodology*
- *price list*
- prudent discount policy as required by section 67(4).

Section 67(4) of the *Code* requires the *tariff setting methodology* to include a prudent discount policy detailing how section 67(2) and 67(3) of the *Code* will be implemented.

Section 67(2) of the *Code* states that:

If a user seeks to implement initiatives to promote the economically efficient investment in and operation of a light regulation network, the NSP must reflect in the user's tariff, by way of a discount, a share of any reductions in either or both of the NSP's capital-related costs or non-capital costs which arise in relation to the initiative

If the *NSP* so chooses, the prudent discount policy must set out a detailed mechanism for determining when a *user* will be entitled to receive such a discount and for calculating the discount to which the *user* will be entitled.

This policy sets out that detailed mechanism in section 6.

Section 67(3) of the *Code* states that:

If a user seeks to connect distributed generating works to a light regulation network, an NSP must reflect in the user's tariff, by way of a discount, a share of any reductions in either or both of the NSP's capital-related costs or non-capital costs which arise as result of the entry point or bidirectional point for the distributed generating works being located in a particular part of the light regulation network by:

- (a) entering into an agreement with a user to apply a discount to the equivalent tariff to be paid by the user for a covered service; and*
- (b) then, recovering the amount of the discount from other users of covered services through reference tariffs.*

The prudent discount policy must set out a detailed mechanism for determining when a *user* will be entitled to receive such a discount and for calculating the discount to which the *user* will be entitled.

This policy sets out that detailed mechanism in section 7.

5. BACKGROUND

The costs associated with Horizon Power's *covered Pilbara network* are driven largely by the forecast peak demand on the *network*. For this reason, the costs are largely recovered from *users* based on their demand – either contract maximum demand, metered demand or estimated demand where the load is unmetered.

The only exception to this are the costs associated with metering – these are recovered through an annual fixed charge.

When there is adequate capacity in the *network* to meet *users'* demand (that is, the *network* is not constrained), no reductions in costs arise from a reduction in peak demand. However, when there is not adequate capacity in the *network* to meet *users'* demand (that is, the *network* is constrained), a reduction in demand that can be relied upon enables the deferral of any *new facilities investment* or *non-capital costs* that would otherwise be required to increase the capacity in the *network*. Where *new facilities investment* is proposed above a threshold, Horizon Power will seek offers from *users* to reduce demand to defer that proposed *new facilities investment* and discount their *tariffs* (refer section 6).

As indicated above, the costs associated with the *covered Pilbara network* are recovered from *users* based on their demand. When a *user* receiving an *exit service* or *bidirectional service* installs *distributed generating works*, which reduces their demand, their *network* charges will decrease in line with that reduction in demand. The contract maximum demand for that *user* may need to be decreased to reflect the reduction in demand, and *users* receiving an *exit service* will need to be transferred to a *bidirectional service*.

The *reference tariff* for *users* receiving an *entry service* is currently nil. If a *user* receiving an *entry service* installs a *distributed generating works*, there will be no change in the *reference tariff* payable.

If the *user* connects a *distributed generating works* to a point in the *network* that is becoming constrained, a discount will be payable as set out in section 7.

6. INITIATIVES TO DEFER PROPOSED NEW FACILITIES INVESTMENT

6.1 Seeking submissions for initiatives to defer proposed new facilities investment

When a potential *new facilities investment* is identified that exceeds a particular threshold, Horizon Power will issue a Non-Networks Options Report inviting submissions from *users* for initiatives that will enable the potential *new facilities investment* to be deferred.

The threshold above which a Non-Networks Options Report will be issued is:

- \$5 million for investments in the *distribution system*
- \$10 million for investments in the *transmission system*.

The Non-Networks Options Report will include:

- a description of the identified need
- the assumptions used in identifying the identified need
- the technical characteristics of the identified need that the initiative would be required to deliver, such as:
 - the size of load reduction or additional supply
 - location
 - contribution to power system security or reliability
 - contribution to fault levels
 - operating profile.

Submissions will be invited within three months from the date of release of the Non-Networks Options Report. Submissions will be required to include, as a minimum:

- a technical description, including:
 - the size of load reduction or additional supply
 - location
 - electrical layout schematics (if applicable)
 - *network* connection requirements (if applicable)
 - contribution to power system security or reliability
 - contribution to fault levels (if applicable)
 - operating profile
 - how each of these matters is consistent with Horizon Power's technical standards and statutory requirements
- a commercial description:
 - the *tariff* discount that is being sought to deliver the proposed initiative
 - implementation timeframe and key milestones
 - how the initiative addresses the risk that the demand reduction is not met as and when required.

6.2 Assessing submissions for initiatives to defer proposed new facilities investment

Horizon Power will review the submissions for initiatives to assess:

- The technical offer – whether the initiative provides the required load reduction (either individually or in combination with other initiatives) at the required location, and is consistent with Horizon Power’s technical standards and statutory requirements.
- The commercial offer – whether the net benefit of the proposed *new facilities investment* with the initiative (either individually or in combination with other initiatives) is greater than the net benefit of the proposed *new facilities investment* without the initiative. When making this assessment, Horizon Power will take into consideration the implementation timeframe and the residual risk that the demand reduction is not met as and when required.

Horizon Power may seek further information from the proponent to better understand the technical and / or commercial aspects of the submission.

6.3 Discounting the user’s reference tariff for initiatives to defer proposed new facilities investment

If the *user’s* submission satisfies Horizon Power’s technical and commercial assessment, Horizon Power will enter into an agreement with the *user* to:

- provide the initiative to reduce demand within an agreed timeframe, with the appropriate risk management strategies in place to ensure that the demand reduction is met as and when required
- discount the *user’s tariff* for an agreed period of time, subject to the proposed demand reduction being realised.

7. DISCOUNTING REFERENCE TARIFFS FOR DISTRIBUTED GENERATING WORKS

When a *user* installs *distributed generating works*, the actions to be taken will depend on the *user’s* current *reference service*. The actions to be taken are summarised in Table 3.

Table 3: Actions to be taken when distributed generating works are installed

| Existing reference service | Actions to be taken |
|--|---|
| Exit services | |
| A1 – Metered demand (low voltage) | Transfer to a <i>bidirectional service</i> |
| A2 – Contract Maximum Demand (low voltage) | Transfer to a <i>bidirectional service</i> and assess whether Contract Maximum Demand should be reduced |
| A3 – Metered demand (high voltage) | Transfer to a <i>bidirectional service</i> |
| A4 – Contract Maximum Demand (high voltage) | Transfer to a <i>bidirectional service</i> and assess whether Contract Maximum Demand should be reduced |
| A5 – Sub-transmission | Not applicable |
| A6 – Transmission | Not applicable |
| A7 – Streetlighting | Not applicable |
| Entry services | |
| B1 – Distribution (high voltage) | No actions required |
| B2 – Facilitates a distributed generation or other non-network solutions | No actions required |
| Bidirectional services | |
| C1 – Metered demand (low voltage) | No actions required |
| C2 – Contract Maximum Demand (low voltage) | Assess whether Contract Maximum Demand should be reduced |
| C3 – Metered demand (high voltage) | No actions required |
| C4 – Contract Maximum Demand (high voltage) | Assess whether Contract Maximum Demand should be reduced |
| C5 – Facilitates a distributed generation or other non-network solutions | No actions required |
| Interconnection service | |
| D1 – Third party transmission network | Not applicable |

As required, Horizon Power will amend the *user's contract for services* to reflect the installation of the *distributed generating works*.

Horizon Power will maintain a register on its website of the locations in the *covered Pilbara network* where the installation of *distributed generating works* will enable *new facilities investment* to be deferred. The register will also include:

- the discount on the *reference tariff* that will be payable with respect to *distributed generating works* that is installed at each location – the discount will be based on the *capital-related costs* associated with the *new facilities investment* that is deferred, the period for which that *new facilities investment* is deferred, and a discount rate that is the same as Horizon Power's rate of return
- the period over which that discount will be paid – the period will commence when the *distributed generating works* are installed and conclude when the *network* constraint is alleviated
- the minimum size of *distributed generating works* that will be entitled to the discount – to ensure that the benefits associated with providing a discount exceed the costs associated with providing that discount, the minimum size of *distributed generating works* that will be entitled to a discount will generally be in the order of 30 kW, but will be assessed on a case by case basis.

As required, Horizon Power will amend the *user's contract for services* to include the discount on the *tariff* for a period of time.

8. ACCOUNTING FOR PRUDENT DISCOUNTS WHEN CALCULATING REFERENCE TARIFFS

The prudent *tariff* discounts will be treated as a non-capital cost to enable Horizon Power to recover that discount from other *users*.

If the prudent discount is payable in a *pricing period* prior to the *pricing period* in which the *new facilities investment* would have been incurred, the *target revenue* is increased in the years of that *pricing period* in which the prudent discounts are paid. In subsequent years, the prudent discount is taken into consideration when forecasting the *target revenue*.

If the prudent discount is payable in the same *pricing period* in which the *new facilities investment* had been forecast to be incurred, the *target revenue* is increased if the prudent discount is greater than the *capital-related costs* that would have been incurred in that *pricing period*, adjusted for the time value of money.

9. REFERENCES

The following material is required and should be read in conjunction with this document:

| | |
|---------------------------------------|--|
| LEGAL REFERENCES: | Electricity Industry Act 2004 Pilbara Networks Access Code 2021 |
| STANDARD & GUIDELINES: | Horizon Power Technical Rules |
| RELATED POLICIES AND OTHER DOCUMENTS: | |