

SERVICES AND PRICING POLICY

Alinta Energy

Effective to 30 June 2024

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PURPOSE

This is Alinta Duke Energy WA Power Pty Ltd's ("ADEWAP") Services and Pricing Policy prepared in accordance with the Pilbara Network Access Code ("PNAC"), the Pilbara Network Rules ("PNR") and the Harmonised Technical Rules ("HTR"). Section 36(1) of the PNAC establishes the need for this document as follows:

36(1) An NSP for a light regulation network must in accordance with this Code prepare, publish and maintain the following instruments in respect of the light regulation network:
(…)
(b) the services and pricing policy under section 40;

Section 40(1) of the PNAC sets out further requirements:

40(1) The NSP of a light regulation network must ensure that its services and pricing policy sets out:
- *a) the pricing period; and*
- *b) subject to section 40(6), each reference service to be offered on the light regulation network, and reference terms and conditions for each such service in accordance with section 40(2); and*
- *c) the target revenue for the pricing period together with reasonable details of how it was calculated, consistent with the requirements of Chapter 5; and*
- *d) the methodology for adjustment of the target revenue during a pricing period in accordance with section 48 (if applicable); and*
- *e) its tariff-setting methodology; and*
- *f) its price list; and*
- *g) the circumstances under which the price list will be reviewed for each year of the pricing period;*
- *h) a prudent discount policy as required by section 67(4).*

APPLIES TO

Customers who have applied for or intend to apply for a reference service from ADEWAP in accordance with the ADEWAP User Access Guide ("UAG").

OTHER RELEVANT POLICIES

The Services and Pricing Policy should be read in conjunction with the following:

1. ADEWAP UAG; and
2. ADEWAP System Description.

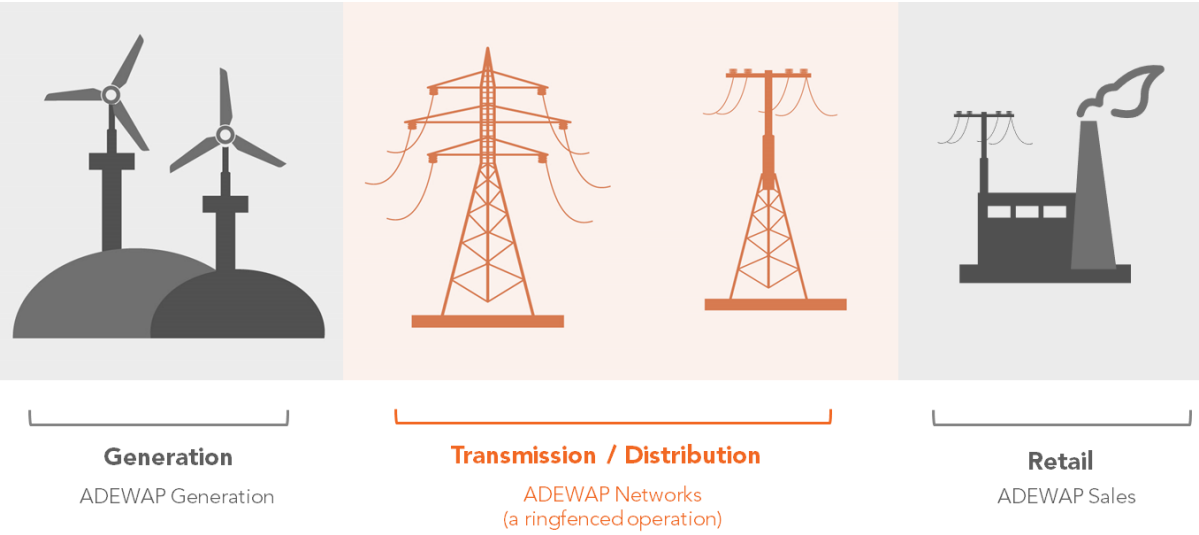
PRICING PERIOD

The ADEWAP initial pricing period will be for 3 financial years from 1 July 2021 to 30 June 2024.

INTRODUCTION

Network tariffs are the prices customers pay for using our network. We ensure that our tariffs are consistent with the fairness and efficiency principles set out within the PNAC. This means that the tariffs charged by ADEWAP recover only the efficient cost of providing services, and signal to customers the efficient cost of using the ADEWAP network.

FIGURE 1: ADEWAP'S ROLE IN THE ELECTRICITY SUPPLY CHAIN



This policy sets out how ADEWAP has calculated its target revenue, developed its reference service and set the price of the reference service for Users of the ADEWAP Network[1] as defined in the ADWEAP System Description.

[1] The PNAC defines the Alinta Port Hedland Network as the network comprising -

(a) the network as at the code commencement date used for connecting Alinta's Port Hedland and Boodarie power stations with each other, and with Horizon Power's Wedgefield and Murdoch substations; and

(b) any augmentation of the network which forms part of the network under section 4(1) [of the PNAC].

For the purposes of this document, references to ADEWAP Network have the same meaning as Alinta Port Hedland Network defined in the PNAC.

ADEWAP REFERENCE SERVICE

References services are the services an electricity network business offers to users that wish to connect to the electricity network. As required by the PNAC, reference services are distinguishable from non-reference services because they:

- are a standardised service provided under the terms set out within a standard network access contract;
- have an associated reference service tariff; and
- have an associated service standard benchmark(s).

Reference services are only available to Users that hold a standard network access contract. The standard network access contract to access ADEWAP's reference service is the ADEWAP Electricity Transfer Access Contract (ETAC). A copy of this ETAC can be found in Schedule 2 of the ADEWAP UAG.

ADEWAP has one (1) reference service for this pricing period. This reflects the limited nature of the ADEWAP network, which is described in the ADEWAP System Description document. Some key attributes of this reference service are outlined below, however the ADEWAP ETAC provides comprehensive details of the terms and conditions for which ADEWAP's reference service is offered.

TABLE 1: KEY ATTRIBUTES OF ADEWAP REFERENCE SERVICE

Reference service name	Reference Service TR1 – Transmission Service
Reference service description	A service combined with a connection service and a compliant meter at any point on the ADEWAP network.

Eligibility criteria	Eligibility requirements for Users to use this service:
	• Configured meter – the meter is configured to measure the transfer of electricity in or out of the ADEWAP Network;
	• Compliance of User's facilities and equipment – a User's facilities and equipment comply with the ADEWAP Planning Standards, the HTR, the WA Electrical Requirements, Electricity Industry Act 2004 and any applicable regulations made under it, and all other applicable Australian standards for HV equipment including but not limited to:
	  • Guidelines for the Safe management of high voltage electrical installations;
	  • AS/NZS 3000:2018 Wiring Rules;
	  • AS 2067:2016 Power installations exceeding 1kV AC;
	  • AS/NZS 3007:2013 Electrical Installations – Surface mines and associated processing plant; and
	  • WA Distribution Connections Manual,
	and
	• the following do not apply within the User's network access agreement with ADEWAP:
	  a) the tariff charged for the User's network access service is different to the applicable reference tariff; and
	  b) the service standard applicable to the electricity delivered to the User is different to the applicable service standard benchmark.

Applicable Reference Tariff:	"TR1" as published in the price list in this Services and Pricing Policy.

Reference service name	Reference Service TR1 – Transmission Service
Applicable standard access contract	Electricity Transfer Access Contract

The ADEWAP reference service requires a User to nominate a contracted capacity amount that reflects their expected annual peak demand. Any demand above the contracted capacity amount will result in an excess network usage charge (ENUC) and/or load curtailment. These measures are designed to:

- encourage customers to take the necessary actions to manage their consumption of power to their contracted capacity right; and
- allow ADEWAP to achieve the safe and secure operation of its network, within its thermal network capacity limitations and the requirements of the HTR.

Reference Service Benchmarks

ADEWAP's service standard benchmark applies to its provision of the reference service. If the service standard benchmark is not met in a Reference Service Year, then compensation will be payable in accordance with the terms of the ADEWAP ETAC.

Capacity available for reservation

Unit of Measure	kVA
Definition	kVA available in the ADEWAP network based on n-1 contingency criteria.[2] kVA available is calculated as: *n-1 network capability – contracted network capacity*
Exclusions	n/a
Service standard benchmark	0 kVA (this reflect the fact that the ADEWAP Network is fully contracted)

Network Availability

Unit of Measure	Proportion of minutes per year (or part thereof)
Definition	Transmission network access is an arrangement of transmission elements on the transmission system comprising overhead lines, underground cables, power transformers, switchyards and related equipment that is owned and operated by ADEWAP for the purposes of electricity transmission to the User's connection point. The reference tariff paid by a User will be reduced where the actual hours that transmission network access is Available to a User in a Reference Service Year has not met the ETAC's availability threshold, which is calculated subject to the ETAC's availability adjustment amount calculation.
Exclusions	Permitted Unavailability as defined below
Service standard benchmark	0.98 (this is the threshold set by the Reference Service Actual Availability)

[2] Refer to the ADEWAP Planning Standards and System Description for further information.

The terms “Available” and “Permitted Unavailability” that are used to define this service standard benchmark have the meaning defined in Schedule 5 of the ETAC.

OTHER REFERENCE SERVICE CONDITIONS

DURATION

The reference service is available to contract for a term of 10 years and will be charged at the price set out within the ADEWAP price list applicable for each pricing period.

CURTAILMENT REGIME

Curtailment may occur when:

- the User exceeds their contracted capacity amount; and
- required to achieve the safe and secure operation of the ADEWAP Network (to maintain operations within thermal network capacity limitations and the requirements of the HTR).

Full details of all curtailment conditions are contained within the ETAC.

RISK AND LIABILITY REGIME

In relation to the provision of the reference service, the ADEWAP ETAC sets out the assignment of liability for direct losses, exclusions relating to indirect losses, the apportionment of liability for damage to the ADEWAP Network and the liability arising from a party’s fraudulent activities.

Full details of the assignment of risk and liability between the parties is set out within the ADEWAP ETAC.

PAYMENT TERMS

Payment terms will be 20 business days of the date of invoice.

PRUDENTIAL REQUIREMENTS

ADEWAP may require the customer to provide a bank guarantee to the estimated value of 3 months charges. The ETAC provides the details of this requirement.

NETWORK ACCESS PRICING

TARGET REVENUE

ADEWAP uses the economically efficient costs of its network operations to calculate the costs it charges to Users to access the ADEWAP Network. ADEWAP applies a building block aggregation of the individual component costs (capital return, depreciation, operating expenditure, common (indirect) costs), including the roll forward of its capital base (regulatory asset base), to determine its annual Target Revenue amount.

$$\text{Target Revenue} = (RoR \times capital\ base) + depreciation + non\text{-}capital\ costs$$

Where:

- RoR is the rate of return as determined by the ERA under s.57 of the PNAC[3];
- capital base is the value of the network assets that are used to provide covered services on the light regulation network prescribed / determined by PNAC s.53 or s.54;
- depreciation as described within this Services and Pricing Policy;
- non-capital costs consist of ADEWAP's operating costs, both direct and indirect.

ADEWAP Target Revenue for the pricing period is shown in Table 2.

TABLE 2: ADEWAP TARGET REVENUE

Year ($'000 nominal)	Units	FY22	FY23	FY24
Capital costs ("return on")	$'000 nominal	2,424	2,416	2,392
Depreciation ("return of")	$'000 nominal	1,178	1,216	1,249
Operating costs (Direct)	$'000 nominal	666	685	703
Common costs (Indirect)	$'000 nominal	151	149	153
Target revenue	$'000 nominal	4,419	4,465	4,496

The calculation employs conventional economic pricing methods as required by the terms of the PNAC and PNR to calculate the tariff (in $/kVa terms) for its TR1 reference service over the 3-year price path from FY2022 to FY2024. The TR1 Reference Service Tariff for the FY2022 to FY2024 price path period is provided Table 3.[4]

TABLE 3: ADEWAP TR1 REFERENCE SERVICE TARIFF

Year	FY22	FY23	FY24
$kVA, nominal, pa	58.92	59.54	59.95

INITIAL CAPITAL BASE

The initial capital base determined in accordance with PNAC s.53(1) for the commencement of the Pilbara Light Handed Access Regime has been calculated having regard to both the depreciated optimised replacement cost ("DORC") of the network assets, and the depreciated accounting cost

[3] A real, pre-tax WACC of 7.04% has been used in line with the ERA determined value for the WACC applicable to the ADEWAP Network.

[4] Tariff prices include a CPI inflation assumption of 2.5% pa. The tariff prices charged to Users will be adjusted to incorporate the actual recorded CPI values.

("DAC") of the network assets. Pursuant to these requirements, ADEWAP presents both DORC and DAC asset valuations in Table 4.

TABLE 4: CAPITAL BASE

NETWORK ASSET VALUE CALCULATION	$'000 as at Jan 2021
DORC	$34,700
DAC	$12,866
Initial Capital Base	$34,700

The ADEWAP Network DORC value has been calculated based on an independent valuation of the optimised replacement cost (ORC) undertaken by e3 Consulting. The independent ORC valuation was performed to value the network asset register. It was then depreciated to determine its DORC value of $34.7m for network pricing purposes. The use of the DORC valuation best reflects the costs paid to acquire the ADEWAP business when it was purchased by the current owners of Alinta Energy in 2017, as it reflects value of the ADEWAP Network based on its generation of revenue and inherent value in the marketplace. As such the use of the DORC valuation method is used rather than the DAC, because it presents an accurate reflection of the market value of the capital base.

Capital additions to the ADEWAP's Networks regulatory asset base for the FY2022 to FY2024 period are shown in Table 5.

TABLE 5: CAPITAL ADDITIONS TO REGULATORY ASSET BASE

Year ($'000 nominal)	Units	FY22	FY23	FY24
Capital additions	$'000 nominal	204.0	18.0	284.1

DEPRECIATION

ADEWAP applies straight line depreciation to all categories of network assets, based on the following economic life assumptions in Table 6.

TABLE 6: ASSET CATEGORY ECONOMIC LIFE ASSUMPTIONS

Asset Category	Economic Life (Years)
Cables	55.00
Steel towers	60.00
Wood poles	45.00
Metering	40.00
Transformers	50.00
Reactors	50.00
Capacitors	40.00
Circuit breakers	50.00
SCADA & communications	11.00
IT	6.00
Other non-network assets	27.00

The economic lives used in Table are based on Western Power's AA4 asset category economic life assumptions, as published on the ERA website. Depreciation on the capital base is calculated using the existing weighted average lives for each of the assets that comprise the capital base value at 1 July 2021.

ADEWAP is not proposing any accelerated depreciation in this price period for its network assets.

NON-CAPITAL COSTS AND COST ALLOCATION PRINCIPLES

ADEWAP's non-capital costs consist of operating costs and a contribution toward common business overhead costs. All contributions and operating costs are calculated in accordance with the ADEWAP Ringfencing Rules as published on the ADEWAP website.

Non-capital costs included in Target Revenue for the pricing period are provided in Table 7.

TABLE 7: ADEWAP NETWORK NON-CAPITAL COSTS

Financial Year	Units	FY22	FY23	FY24
Operating costs (Direct)	$'000, nominal	666	685	703
Common costs (Indirect)	$'000, nominal	151	149	153

The ADEWAP Network accounting procedures assess and account for the true, fair and efficient allocation of costs relating to ADEWAP Network business operations.

This is achieved through the:

- strict application of financial management accounting practices to allocate direct (activity-based) business costs to ADEWAP; and
- controls adopted for apportionment of direct costs between ADEWAP's generation and network functions.

Financial management accounting is used for all entities across the Alinta Energy business (including Alinta Sales). This ensures that ADEWAP Network allocated amounts are accurate and separated from other amounts, including those which relate to its associate business Alinta Sales. These accounting practices for the ADEWAP Network are audited on an annual basis and take place with strict adherence to the requisite Australian Accounting Standards.

In relation to the generation and network functions of ADEWAP, apportionment of direct costs between generation and network functions is determined and expressed in percentage terms. Where there is no clear rationale for allocation, and as a general rule, a 12% allocation is assigned to the ADEWAP Network business (with the remaining 88% being allocated to ADEWAP Generation).

The allocation applied to ADEWAP operating expenditure categories shown in Table 8 is an example of this. Table 8 shows that there is a 12% allocation of personnel, travel and vehicle operating expenditure to the ADEWAP Network business. The allocation of 12% is applied as there is no clear basis of allocation for these categories.

The 12% proportion reflects the value of the ADEWAP Network Pricing Model's annual target revenue calculation, as a percentage of total annual ADEWAP power purchase agreement revenue. Therefore, where no clear rationale exists, the use of the 12% allocation provides a reasonable and fair method of allocation (based on the revenue contribution of the ADEWAP Network relative to total revenue for the entire ADEWAP business).

TABLE 8: ADEWAP NETWORK OPERATING EXPENDITURE ALLOCATION

Asset Category	Economic Life (Years)
Personnel costs	12%
Travel costs	12%
Vehicle costs	12%
Site costs	12%
Plant & equipment costs	12%
IT & communication costs	50%
Marketing costs	50%
Professional Fees	12%
Insurance & office costs	12%

The corporate charge allocation to ADEWAP from the Alinta Energy parent entity allocation of a percentage of corporate common costs (overheads) required to resource the operation of the ADEWAP Network business, with the 12% general allocation rule being applied to separate the network allocation from the total ADEWAP corporate cost charge.

IN-PERIOD TARGET REVENUE ADJUSTMENT METHODOLOGY

In period adjustments will only occur when there has been a non-forecast material change in costs. ADEWAP have set the following materiality thresholds:

- non-capital cost variance greater than $100,000 pa, or 2.2% of FY22 Target Revenue; and
- capital cost variance greater than $250,000 pa, or 7.2% of the opening RAB value.

In the event of an in-period revenue adjustment being undertaken, this Services and Pricing Policy will be re-issued, with the rationale and amended calculations for the pricing period clearly articulated.

The change in costs is limited to the following circumstances as set out in s.49(2) of the PNAC:

a) a *force majeure* event, where ADEWAP was unable to (or is unlikely to) recover some or all of the costs under insurance;
b) there are significant changes in loads on the network that were not forecast; or
c) there is a *regulatory change event* as defined in the PNAC.

For the avoidance of doubt, ADEWAP holds, and will continue to hold, insurance to the standard of a reasonable and prudent person.

TARIFF SETTING METHODOLOGY

A simple charging regime has been adopted using the ADEWAP Network's n-1 capacity, which reflects the fully contracted nature of the ADEWAP Network. The reference tariff (TR1) is calculated in nominal $/kVA per annum by dividing annual Target Revenue by the ADEWAP network's n-1 capacity of 75,000 kVA. This method has been employed for this price period as the ADEWAP Network's capacity is fully contracted.

The TR1 reference tariffs for the FY2022 to FY2024 period represents the annual fixed capacity reservation charge for ADEWAP Network access.

TABLE 9: ADEWAP NETWORK ACCESS CHARGE CALCULATION

Financial Year	Units	FY22	FY23	FY24
Target Revenue	$'000, nominal pa	4,418.7	4,465.3	4,496.3
ADEWAP Network Access Capacity	kVA	75,000	75,000	75,000
TR1 Reference Tariff	$/kVA, nominal, pa	58.92	59.54	59.95

ADEWAP PRUDENT DISCOUNT POLICY

If a User seeks to implement initiatives to promote the economically efficient investment in and operation of the ADEWAP network, then ADEWAP will reflect in the User's tariff, by way of a discount, a share of any reductions in either or both of ADEWAP's capital-related costs or non-capital costs which arise in relation to the initiative:

a) by entering into an agreement with a User to apply a discount to the TR1 reference tariff to be paid by the User for the reference service; and
b) then recovering the amount of the discount from other Users of covered services through the reference tariff.

A prudent discount reduction to the TR1 reference tariff will be quantified during the detailed modelling assessment undertaken by the process set out within the ADEWAP UAG. This modelling assessment will quantify any cost savings for ADEWAP that can be passed back to the User as a prudent discount on an NPV neutral basis.

CALCULATION OF DISCOUNT

In the same manner that the Access charge is calculated, so too will the discount amount described above. The cost reductions identified will be divided by the n-1 capacity in the network and the real $/kVA charge reduced by that amount.

PRICE LIST

The ADEWAP Network's Price List showing the TR1 reference tariff is provided in Table 10.

TABLE 10: ADEWAP NETWORK ACCESS CHARGE CALCULATION

Financial Year	Units	FY22	FY23	FY24
TR1 Reference Tariff	$/kVA, nominal, pa	58.92	59.54	59.95

The TR1 reference tariff charge is presented in nominal dollar terms and includes a CPI inflation assumption of 2.5% pa. The tariff charged to Users will be adjusted to incorporate actual recorded CPI values, where CPI is calculated annually relative to the base CPI value specified in a User's ETAC.

EXCESS NETWORK USAGE CHARGE

An additional charge applies to User's under the TR1 reference tariff where a User's peak half-hourly demand exceeds its contracted capacity amount during an accounting period, except where ADEWAP deems the excess export or import of power was required for power system reliability or security.

The excess network usage charge (ENUC) is calculated by applying a factor to the excess usage as follows:

$$ENUC = ENUM\ x\ (PDkw - CMDkw)\ x\ \frac{AC}{CMDkw}$$

where:

ENUM is the excess network usage multiplier factor, which is set at 2

PD is the peak half-hourly amount entered into or exited out of the ADEWAP network during the accounting period (expressed in kVA and kW)

CMD is the contracted capacity for the accounting period (expressed in kVA and kW)

AC is the sum of the TR1 reference tariff amount, and any other pass-through costs for the billing period for the contracted capacity.

SERVICE STANDARD BENCHMARK

Where ADEWAP does not meet the service standard benchmark for the reference service an Availability Adjustment Amount will be applied to the TR1 reference tariff. This is set out in Schedule 2 of the ETAC.

IN-PERIOD PRICE LIST REVIEWS

the price list will be reviewed in accordance with the approach set out within the In-Period Target Revenue Adjustment Methodology section of this Services and Pricing Policy.

PASS-THROUGH CHARGES

User specific charges as specified in the ETAC, including but not limited to annual meter testing costs and are not included in the Price List.