

Draft decision

Essential Energy distribution determination

2015–16 to 2018–19

Attachment 18: Connection policy

November 2014

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1. Note

This attachment forms part of the AER's draft decision on Essential Energy's 2015–19 distribution determination. It should be read with other parts of the draft decision.

The draft decision includes the following documents:

Overview

Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 3 – Rate of return

Attachment 4 – Value of imputation credits

Attachment 5 – Regulatory depreciation

Attachment 6 – Capital expenditure

Attachment 7 – Operating expenditure

Attachment 8 – Corporate income tax

Attachment 9 – Efficiency benefit sharing scheme

Attachment 10 – Capital expenditure sharing scheme

Attachment 11 – Service target performance incentive scheme

Attachment 12 – Demand management incentive scheme

Attachment 13 – Classification of services

Attachment 14 – Control mechanism

Attachment 15 – Pass through events

Attachment 16 – Alternative control services

Attachment 17 – Negotiated services framework and criteria

Attachment 18 – Connection policy

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1. Shortened forms

| 1. Shortened form | 1. Extended form |
| --- | --- |
| 1. AARR | 1. aggregate annual revenue requirement |
| 1. AEMC | 1. Australian Energy Market Commission |
| 1. AEMO | 1. Australian Energy Market Operator |
| 1. AER | 1. Australian Energy Regulator |
| 1. ASRR | 1. aggregate service revenue requirement |
| 1. augex | 1. augmentation expenditure |
| 1. capex | 1. capital expenditure |
| 1. CCP | 1. Consumer Challenge Panel |
| 1. CESS | 1. capital expenditure sharing scheme |
| 1. CPI | 1. consumer price index |
| 1. CPI-X | 1. consumer price index minus X |
| 1. DRP | 1. debt risk premium |
| 1. DMIA | 1. demand management innovation allowance |
| 1. DMIS | 1. demand management incentive scheme |
| 1. distributor | 1. distribution network service provider |
| 1. DUoS | 1. distribution use of system |
| 1. EBSS | 1. efficiency benefit sharing scheme |
| 1. ERP | 1. equity risk premium |
| 1. expenditure assessment guideline | 1. expenditure forecast assessment guideline for electricity distribution |
| 1. F&A | 1. framework and approach |
| 1. MRP | 1. market risk premium |
| 1. NEL | 1. national electricity law |
| 1. NEM | 1. national electricity market |
| 1. NEO | 1. national electricity objective |
| 1. NER | 1. national electricity rules |
| 1. NSP | 1. network service provider |
| 1. opex | 1. operating expenditure |
| 1. PPI | 1. partial performance indicators |
| 1. PTRM | 1. post-tax revenue model |
| 1. RAB | 1. regulatory asset base |
| 1. RBA | 1. Reserve Bank of Australia |
| 1. repex | 1. replacement expenditure |
| 1. RFM | 1. roll forward model |
| 1. RIN | 1. regulatory information notice |
| 1. RPP | 1. revenue pricing principles |
| 1. SAIDI | 1. system average interruption duration index |
| 1. SAIFI | 1. system average interruption frequency index |
| 1. SLCAPM | 1. Sharpe-Lintner capital asset pricing model |
| 1. STPIS | 1. service target performance incentive scheme |
| 1. WACC | 1. weighted average cost of capital |

# Connection policy

1. Part DA of Chapter 6 of the National Electricity Rules (NER) requires a distribution network service provider (DNSP) to prepare a connection policy for approval by the AER. The purpose of the connection policy is to set out the circumstances in which the DNSP may require a connection applicant to pay a connection charge and explains how such a charge is determined.
2. The proposed connection policy:[[1]](#footnote-1)

* must be consistent with:
* the connection charge principles set out in chapter 5A of the NER
* the connection charge guidelines published by us under chapter 5A.[[2]](#footnote-2)
* must specify:
* the categories of persons that may be required to pay a connection charge and the circumstances in which such a requirement may be imposed
* the aspects of a connection service for which a connection charge may be made
* the basis on which connection charges are determined
* the manner in which connection charges are to be paid (or equivalent consideration is to be given)
* a threshold (based on capacity or any other measure identified in the connection charge guidelines) below which a retail customer (not being non-registered embedded generator or a real estate developer) will not be liable for a connection charge for an augmentation other than an extension.

1. The purpose of our connection charge guidelines for electricity retail customers is to ensure that connection charges:

* are reasonable, taking into account the efficient costs of providing the connection services arising from the new connection or connection alteration
* provide, without undue administrative cost, a user-pays signal to reflect the efficient cost of providing the connection services
* limit cross-subsidisation of connection costs between different classes (or subclasses) of retail customer
* are competitively neutral, if the connection services are contestable.

1. We may approve the proposed connection policy if satisfied that the proposed policy adequately complies with the requirements of Part DA of chapter 6 of the NER.

## Draft decision

1. We approve Essential Energy’s connection policy because it meets the requirements of Part DA of Chapter 6 of the NER, and is consistent with the connection charge principles and our connection charge guidelines for electricity retail customers.

## Essential Energy's proposal

1. Essential Energy proposed the same connection policy for the forthcoming regulatory period as previously approved by us in the transitional distribution decision for Essential Energy for 2014–15.[[3]](#footnote-3)

## AER's assessment approach

1. We examined the proposed connection policy against the requirements of Part DA of chapter 6 as stated above––whether it:

* is consistent with the connection charge principles set out in chapter 5A of the NER, and our connection charge guidelines
* contains all the information for new customers as prescribed by the NER.

1. In addition, we also examined whether:

* other connection related charges included in the connection policy, such as metering installation charges, are consistent with the service classification of this draft determination
* the connection policy contains terms that are not fair and reasonable.

## Reasons for draft decision

1. We approve Essential Energy’s connection policy because we found that:

* it is consistent with the connection charge principles of chapter 5A of the NER and our connection charge guidelines for electricity retail customers published under chapter 5A.
* it contains all the necessary information to new customers as required by Part DA of chapter 6 of the NER.

We note that:

* all other connection related charges included in the connection policy, such as metering installation charges, are consistent with the service classification of this determination.
* it does not have terms and conditions that are unfair or unreasonable.

1. NER, cl. 6.7A.1(b). [↑](#footnote-ref-1)
2. AER, Connection charge guideline for electricity retail customers, Under chapter 5A of the National Electricity Rules Version 1.0, June 2012. [↑](#footnote-ref-2)
3. AER, Transitional distribution decision 2014–15: Ausgrid, Endeavour Energy, Essential Energy, ActewAGL, 16 April 2014, p. 55. [↑](#footnote-ref-3)