

FINAL DECISION

Energex distribution determination

2015−16 to 2019−20

Attachment 18 – Connection policy

October 2015

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1. Note
2. This attachment forms part of the AER's final decision on Energex's revenue proposal 2015–20. It should be read with all other parts of the final decision.
3. The final decision includes the following documents:
4. 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

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

# Connection Policy

1. We are required to make a decision on the connection policy that is to apply to Energex for the 2015–20 regulatory control period. This may be the connection policy prepared by a distributor, some variant of it, or a policy substituted by us.[[1]](#footnote-1)
2. A connection policy sets out the nature of connection services offered by a distributor, when connection charges may be payable by retail customers and how those charges are calculated. It also:

* must be consistent with:[[2]](#footnote-2)
* the connection charge principles set out in chapter 5A of the NER
* the connection policy requirements set out in part DA of chapter 6 of the NER
* our connection charge guidelines published under chapter 5A,[[3]](#footnote-3) and
* must specify:[[4]](#footnote-4)
* 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.

The AER's connection charge guidelines for electricity retail customers

1. A connection policy must be consistent with our connection charge guidelines for electricity retail customers. The purpose of our guideline is to ensure that connection charges:[[5]](#footnote-5)

* 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 costs of providing the connection services
* limit cross-subsidisation of connection costs between different classes (or subclasses) of retail customers
* are competitively neutral, if the connection services are contestable.

## Final decision

1. We have not approved Energex's proposed connection policy because we are concerned about how Energex proposes to define large customers in its revised connection policy. Because of that lack of clarity, there is insufficient information regarding what type of embedded generator will be treated as large customer connection. Specifically, we modified the proposed connection policy to:

* clarify that only embedded generators with installed capacity greater than or equal to 30 kW (or 30 kVA) are classified as large customer connections
* add clarification that “removal of network constraint charge for EG with installed capacity greater than or equal to 1 MW (or 1 MVA)” as alternative control services (as per the classification of this service)
* add other editorial changes to reflect the final service classifications.

## Energex's revised proposal

1. Energex acknowledged our preliminary decision that approved its originally proposed connection policy. It proposed changes to the original connection policy, which include:[[6]](#footnote-6)

* to align the definitions of small and large customer connection types to reflect how network tariffs are allocated in Energex’s current and future annual pricing proposals, which have been approved by us.
* to clarify that some unmetered supplies will need to pay capital contribution if the incremental revenue is less than the incremental cost, as per our connection charge guideline.

## AER’s assessment approach

Consistent with our approach in assessing Energex's connection policy in the preliminary decision, we examined the proposed changes to the connection policy against the requirements of clause 6.7A.1 of the NER 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 that must be specified under clause 6.7A.1(b)(2) of the NER.

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 final decision

1. While accepting our preliminary decision, Energex submitted minor amendments to its connection policy, with the following main changes, which sought to:

* align the definitions of small and large customer connection types to reflect how network tariffs are allocated in Energex’s current approved pricing proposal.
* clarify that some customers receiving unmetered supplies will need to pay a capital contribution if the incremental revenue is less than the incremental cost, as per our connection charge guideline.

Except for one element of the way large customers are defined in the revised connection policy, we accept Energex’s proposed changes, because:

* the changes will align the definitions used in the approved pricing proposal and the connection policy, hence, clarify how connection charges are determined.
* the changes do not have an impact on new customers’ capital contribution for getting connected––as the rules on capital contribution under our connection charge guideline are based on whether a customer’s demand level is above or below 100A, 3-phase, which remains unchanged.

1. We are concerned, however, about one element of how large customers are defined in the revised connection policy. In our view there is insufficient clarity regarding what type of embedded generator use will cause a customer to be treated as requiring a large customer connection.

## AER approved connection policy

We have modified Energex’s proposed connection policy to reflect the above final decision on this matter.[[7]](#footnote-7) This revised connection policy is appended to this attachment.

1. AER approved connection policy for Energex

Double click image below to access the document.



1. NER, cl. 6.12.1(21). [↑](#footnote-ref-1)
2. NER, cl. 6.7A.1(b)(1). [↑](#footnote-ref-2)
3. AER, Connection charge guideline for electricity retail customers, Under chapter 5A of the National Electricity Rules Version 1.0, June 2012. [↑](#footnote-ref-3)
4. NER, cl. 6.7A.1(b)(2). [↑](#footnote-ref-4)
5. NER, cl. 5A.E.3(b); AER, Connection charge guideline for electricity retail customers, Under chapter 5A of the National Electricity Rules Version 1.0, June 2012, page 11. [↑](#footnote-ref-5)
6. Energex, Revised Regulatory Proposal, July 2015, p.141; Energex, Revised Regulatory Proposal, Appendix 11.2: Energex’s Connection Policy. [↑](#footnote-ref-6)
7. NER, cl. 6.12.3(j) provides that we may amend the proposed connection policy to the extent necessary to enable it to be approved in accordance with the NER. [↑](#footnote-ref-7)