

FINAL DECISION

Ergon Energy 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 Ergon Energy'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

| 1. Shortened form | 1. Extended form |
| --- | --- |
| 1. AEMC | 1. Australian Energy Market Commission |
| 1. AEMO | 1. Australian Energy Market Operator |
| 1. AER | 1. Australian Energy Regulator |
| 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. 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 and 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. We are required to make a decision on the connection policy that is to apply to Ergon Energy 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 adopt the preliminary decision on connection policy as the final decision for Ergon Energy because we have not received any submission that led to a different decision.

## Ergon Energy's revised proposal

Ergon Energy accepted our preliminary decision on the connection policy.[[6]](#footnote-6)

## AER’s assessment approach

Consistent with our approach in assessing Ergon Energy'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. In the preliminary decision, we modified the upstream shared asset augmentation charge rates originally proposed by Ergon Energy. We also modified some terms and conditions to improve the clarity of the originally proposed connection policy.
2. Ergon Energy has accepted our preliminary decision on the connection policy. Therefore, we adopt the preliminary decision on connection policy as the final decision for Ergon Energy.

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. Ergon Energy, Revised regulatory proposal, July 2015, p. 157. [↑](#footnote-ref-6)