

FINAL DECISION

Essential Energy distribution determination

2015−16 to 2018−19

Attachment 18 – Connection policy

April 2015

© Commonwealth of Australia 2015

This work is copyright. In addition to any use permitted under the Copyright Act 1968, all material contained within this work is provided under a Creative Commons Attributions 3.0 Australia licence, with the exception of:

* the Commonwealth Coat of Arms
* the ACCC and AER logos
* any illustration, diagram, photograph or graphic over which the Australian Competition and Consumer Commission does not hold copyright, but which may be part of or contained within this publication. The details of the relevant licence conditions are available on the Creative Commons website, as is the full legal code for the CC BY 3.0 AU licence.

Requests and inquiries concerning reproduction and rights should be addressed to the:

Director, Corporate Communications  
Australian Competition and Consumer Commission   
GPO Box 4141, Canberra ACT 2601

or publishing.unit@accc.gov.au.

Inquiries about this publication should be addressed to:

Australian Energy Regulator  
GPO Box 520  
Melbourne Vic 3001

Tel: (03) 9290 1444  
Fax: (03) 9290 1457

Email: [AERInquiry@aer.gov.au](mailto:AERInquiry@aer.gov.au)

AER reference: 54419

1. Note
2. This attachment forms part of the AER's final decision on Essential Energy’s revenue proposal 2015–19. It should be read with 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 methodology

Attachment 19 - Analysis of Financial Viability

1. Contents

[Note 18-2](#_Toc416267826)

[Contents 18-3](#_Toc416267827)

[Shortened forms 18-4](#_Toc416267828)

[18 Connection policy 18-6](#_Toc416267829)

[18.1 Final decision 18-7](#_Toc416267830)

[18.2 Essential Energy's revised proposal and further request for changes 18-7](#_Toc416267831)

[18.3 AER’s assessment approach 18-7](#_Toc416267832)

[18.4 Reasons for final decision 18-7](#_Toc416267833)

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 Essential Energy for the 2014-19 regulatory control period. This may be the connection policy prepared by a distributor, some variant of it, or a policy substituted by the AER.[[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 approve Essential Energy’s revised connection policy because it meets the requirements of the NER.

## Essential Energy's revised proposal and further request for changes

1. Essential Energy acknowledged our draft decision that approved its originally proposed connection policy. It proposed minor changes to the original connection policy.[[6]](#footnote-6)

## AER’s assessment approach

Consistent with our approach in assessing Essential Energy's connection policy in the draft 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. We reviewed Essential Energy's revised connection policy and found that, apart from editorial changes, the revised connection policy contains the same context and conditions as the original approved version. We are satisfied Essential Energy's revised connection policy:

* is consistent with the connection charge principles in chapter 5A of the NER and our connection charge guidelines for electricity retail customers published under chapter 5A.
* contains all the necessary information required by clause 6.7A.1(b)(2) of the NER.

and that:

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

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, pg 11. [↑](#footnote-ref-5)
6. Essential Energy, Revised Regulatory Proposal, p.105;

   Essential Energy, Revised Regulatory Proposal, Attachment 6.1: connection policy – connection charges. [↑](#footnote-ref-6)