



FINAL DECISION
Essential Energy distribution
determination
2015–16 to 2018–19

Attachment 18 – Connection
policy

April 2015

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Director, Corporate Communications
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GPO Box 4141, Canberra ACT 2601

or publishing.unit@acc.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

AER reference: 54419

Note

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.

The final 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 methodology

Attachment 19 - Analysis of Financial Viability

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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

Shortened form	Extended form
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

18 Connection policy

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

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
 - 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 and
- must specify: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

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

¹ NER, cl 6.12.1(21).

² NER, cl. 6.7A.1(b)(1).

³ AER, *Connection charge guideline for electricity retail customers, Under chapter 5A of the National Electricity Rules Version 1.0*, June 2012.

⁴ NER, cl. 6.7A.1(b)(2).

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.

- 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.

18.1 Final decision

We approve Essential Energy's revised connection policy because it meets the requirements of the NER.

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

Essential Energy acknowledged our draft decision that approved its originally proposed connection policy. It proposed minor changes to the original connection policy.⁶

18.3 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.

18.4 Reasons for final decision

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:

⁶ Essential Energy, Revised Regulatory Proposal, p.105;
Essential Energy, Revised Regulatory Proposal, Attachment 6.1: connection policy – connection charges.

- 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.