

PRELIMINARY DECISION

Energex determination 2015−16 to 2019−20

Attachment 18 − Connection policy

April 2015

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1. Note
2. This attachment forms part of the AER's preliminary decision on Energex's 2015–20 distribution determination. It should be read with all other parts of the preliminary decision.
3. The preliminary decision includes the following documents:
4. Overview
5. Attachment 1 – Annual revenue requirement
6. Attachment 2 – Regulatory asset base
7. Attachment 3 – Rate of return
8. Attachment 4 – Value of imputation credits
9. Attachment 5 – Regulatory depreciation
10. Attachment 6 – Capital expenditure
11. Attachment 7 – Operating expenditure
12. Attachment 8 – Corporate income tax
13. Attachment 9 – Efficiency benefit sharing scheme
14. Attachment 10 – Capital expenditure sharing scheme
15. Attachment 11 – Service target performance incentive scheme
16. Attachment 12 – Demand management incentive scheme
17. Attachment 13 – Classification of services
18. Attachment 14 – Control mechanism
19. Attachment 15 – Pass through events
20. Attachment 16 – Alternative control services
21. Attachment 17 – Negotiated services framework and criteria
22. 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 approve a connection policy prepared by a distributor under the National Electricity Rules (NER).[[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. A connection policy:[[2]](#footnote-2)
* must be consistent with:
* 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 detail:
* 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 to ensure that connection charges:
* are reasonable and take 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 price 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.

## Preliminary decision

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

## Energex's proposal

1. Energex's connection policy provides an outline of its connection services, when connection charges may be payable by its retail customers and how those charges are calculated.[[4]](#footnote-4)

## AER’s assessment approach

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.

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 preliminary determination
* the connection policy contains terms that are not fair and reasonable.

## Reasons for preliminary decision

1. We approve Energex’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 required by Part DA of chapter 6 of the NER.
* 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.
* The per unit upstream shared network asset augmentation charge rates[[5]](#footnote-5) of $164 and $157 per kVA for low voltage (LV) and high voltage (HV) customers respectively, are reasonable, because:
* these rates are significantly lower than the Productivity Commission's findings in 2013 that the long-run marginal cost[[6]](#footnote-6) of delivering an additional kW to an end user during peak periods was in the range of $150 to $220 per year for distribution infrastructure costs.[[7]](#footnote-7)
* they are significantly lower than similar rates for CitiPower in Victoria (at $655 and $470 for low voltage residential and business customers respectively; and $265 and $190 for high voltage residential and business customers respectively).[[8]](#footnote-8)
* they are comparable to the current charge rate of $154/kVA in South Australia.[[9]](#footnote-9)
1. NER, Part DA of chapter 6. [↑](#footnote-ref-1)
2. NER, cl. 6.7A.1(b). [↑](#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. Energex, Attachment 11: Energex connection policy, October 2014. [↑](#footnote-ref-4)
5. This charge only applies to new customers above certain threshold levels specified in the connection policy, for such larger customers' share of use of the upstream network. [↑](#footnote-ref-5)
6. It measures the annualised cost of supplying the required capacity over the life of the asset. [↑](#footnote-ref-6)
7. Productivity Commission 2013, the costs and benefits of demand management for households, Supplement to inquiry report on Electricity Network Regulatory Frameworks, 9 April 2013, p. 22. These rates are equivalent to about $1910-$2800 per kVA asset cost based on 5.85 per cent WACC and 50 years asset life. [↑](#footnote-ref-7)
8. AER, Guidance Paper: The AER’S Conclusion On The Benchmark Upstream Augmentation Charge Rates for CitiPower’s Network, 25 June 2010, p. 5. [↑](#footnote-ref-8)
9. Essential Services Commission of South Australia, Application of Chapter 3 of The Electricity Distribution Code Electricity Industry Guideline No. 13, adjusted to 2014 dollar value.
 [↑](#footnote-ref-9)