

Appendix D: Connection Policy

Introduction and summary of changes

Our Connection Policy sets out the connection services offered by Ergon Energy and how we determine the charges that are payable for those services.

Ergon Energy has revised our Connection Policy to reflect the AER's Preliminary Determination. We have also adopted the adjustment factors applied by the AER to the unit rates.

Customer benefits

The Connection Policy is core to how we will play our part in powering the economy by making it easier to connect to the network.

Appendix D: Proposed Connection Policy

1 Background

Clause 6.8.2(c)(5A) of the NER requires Ergon Energy to include our proposed Connection Policy as part of our Regulatory Proposal. The proposed Connection Policy covers the charges that retail customers or real estate developers are required to pay for connection services provided under Chapter 5A of the NER and the basis for determining those charges.

This will be the first time that Ergon Energy has submitted a Connection Policy to the AER for approval as transitional arrangements currently provide that Ergon Energy's existing (QCA-approved) Capital Contributions Policy is considered to be our Connection Policy. Those transitional arrangements cease at the commencement of the regulatory control period 2015-20 (i.e. 1 July 2015).

2 Proposed Connection Policy

Ergon Energy's proposed Connection Policy, which has been developed in accordance with the AER's Connection Charge Guidelines¹⁷⁵ and the connection charge principles in clause 5A.E.1 of the NER, sets out when a connection charge may be payable by retail customers or real estate developers and the aspects of the connection service for which a charge may be applied. For example, this may cover extension work from a customer's premises to the existing network or any necessary upgrade to the network's capacity as a result of a customer's connection. A copy of Ergon Energy's proposed Connection Policy is provided in supporting document *09.01.01 – (Revised) Ergon Energy Connection Policy*.

2.1 Summary of connection services and charges

Connection services encompass the services required to physically connect premises to the Ergon Energy distribution network. They generally include the design, construction and energisation of connection assets. In some circumstances, the new connection or connection alteration may require an augmentation of the distribution network to ensure that there is sufficient capacity to service the connection. The new connection or connection alteration may also require a network extension.

Ergon Energy proposes to provide connection applicants with either a:

- Basic Connection Offer, under the terms of our relevant Model Standing Offers
- Negotiated Connection Offer, where the terms and conditions will be negotiated with the connection applicant.

The type of connection offer made by Ergon Energy will depend on the nature of the connection and whether there is supply available. Ergon Energy has defined all connection services as either basic connection services or negotiated connection services. At this stage, we do not intend to define any connection services as standard connection services.

¹⁷⁵ AER (2013), *Connection charge guidelines: under Chapter 5A of the National Electricity Rules, Final Decision*, 20 June 2013. Available at <http://www.aer.gov.au/sites/default/files/AER%20-%20connection%20charge%20guideline%20-%2020%20June%202012.pdf>.

The connection charges that a connection applicant may be required to pay are the sum of:

- fees and charges for connection services classified as Alternative Control Services
- capital contributions for network extensions and other augmentations or connection assets required to enable the connection to the distribution network
- charges payable to account for any reimbursement schemes.

The following table summarises the types of connection services and offers provided by Ergon Energy.

Table 59: Connection offers

Connection Group	Type of connection offer	Description
Small Customers	Basic (including Basic – Micro EG)	Offered where supply is available, no or minimal augmentation is required and maximum capacity is no greater than 80 amps per phase. Typically, these customers include residences and small businesses, temporary connections, and unmetered supply. Basic connections are exempt from paying capital contributions for network augmentations (other than network extensions).
	Negotiated	Offered if augmentation is required for a connection to a small customer, capacity exceeds 80 amps per phase, or if the connection applicant requests a negotiated connection offer. Connection applicants may be required to pay capital contributions for network extensions and other network augmentation.
Real estate developers	Negotiated	Offered for developers of subdivisions, commercial/industrial premises and multi-tenancy residential premises.
Major customer connections	Negotiated	Offered to customers with loads exceeding 1.5MVA or where power usage is typically above 4GWh per annum at a single site or embedded generation that is above 10kW on 1 phase or above 30kW on three phases. Major customer connections are not required to pay capital contributions for network augmentation.
Public Lighting	Negotiated	Connection charges for public lighting are incorporated into the daily rate for public lighting (see Chapter 5). Connection applicants may be required to pay capital contributions for network extensions and other network augmentation.

2.2 Capital contributions

A capital contribution for connection services may be required of customers in certain circumstances and are calculated on a case by case basis (pre-calculated capital contributions will not apply) in accordance with the formula set out in the AER’s Connection Charges Guideline.

When calculating the cost of capital contributions, Ergon Energy will apply unit rates for the average cost of network augmentation. The methodology underpinning the calculation of the unit rates is further described in supporting document *09.02.01 – (Revised) Unit Rates for Capital Contributions*.

Where incremental revenue on a connection asset is calculated for a business customer, Ergon Energy will assume a connection period of 15 years in most circumstances. However, Ergon Energy may apply an alternate connection period where 15 years is not a considered reasonable estimate of the duration of the connection.

Specific requirements differ for each type of connection and customer and are described in greater detail in *09.01.01 – (Revised) Ergon Energy Connection Policy*.

2.3 Exemptions

Capital contributions for network augmentation (other than a network extension) are not applicable where the:

- connection is made under the terms and conditions of a Basic Connection Offer
- maximum demand at the connection point is less than 10kVA on SWER lines or 80 amperes on 3 phase low voltage supply (the augmentation charge threshold)
- connection is defined as a major customer connection.

Ergon Energy notes the AER's Connection Charge Guidelines suggest a 25kVA threshold on SWER lines. However, Ergon Energy has applied a 10kVA threshold for the reasons outlined below.

Ergon Energy notes that cost is currently one of the most significant customer concerns regarding their electricity supply. With customer density on the SWER network so low, and the network forming such a large part of Ergon Energy's lines asset base, appropriately managing the cost implications of operating the SWER network are crucial to customer prices.

The minimum size distribution transformer we supply on the SWER network is 10kVA. A large expense for SWER connections is the cost for line construction which, due the sparse population density of many of the SWER areas, can be quite high due to the distance. If the network augmentation charge threshold were to be set at 25kVA, it could mean, for example, that Ergon Energy would have to build a 10km line extension for a 10kVA transformer to supply a bore pump which may be rated at 2kW, with no capital contribution from the customer. This is despite the incremental costs of the connection far exceeding the incremental revenue expected to be received from the new connection over the applicable pre-defined period.

Another issue for Ergon Energy if the network augmentation charge threshold were to be set at 25kVA, is that the threshold would constitute 12.5% of the rated capacity of a 200kVA SWER isolation transformer. While we do have isolation transformer stations with higher capacity, these are not constructed without in-depth engineering assessments and extensive other works such as voltage regulators and extra re-closers to safely access the larger capacity within our voltage limits. By reducing the network augmentation charge threshold to 10kVA, Ergon Energy will be better able to avoid the potential for high costs that would be necessary to address load creep.

2.4 Reimbursement schemes

Ergon Energy will apply a reimbursement scheme to certain network extensions, where a customer connects to a network extension originally paid for by another customer. Real estate developers may be entitled to access the scheme unless an alternative arrangement is agreed with Ergon Energy.

The contribution towards the reimbursement scheme will be determined based on the expected usage of the network extension by the subsequent customer and the remaining life of the network extension assets.

The principles and methodology underpinning the calculation of reimbursement scheme amounts is described in greater detail in *09.01.01 – (Revised) Ergon Energy Connection Policy*, Section 2.8.

2.5 Security fees

Where a network augmentation or connection asset augmentation is valued at more than \$10,000, security fees may be charged where Ergon Energy identifies a risk that the estimated incremental revenue from particular connection services will not be recovered. The amount of that security fee equates to an amount which is the lesser of the incremental revenue at risk of non-recovery or the incremental cost incurred by Ergon Energy. Security fees will be rebated annually.

Further details are contained in *09.01.01 – (Revised) Ergon Energy Connection Policy*, Section 7.1.

2.6 Prepayments

Ergon Energy may request upfront payment, subject to the limitations described in the Connection Charge Guidelines. Further details are contained in *09.01.01 – (Revised) Ergon Energy Connection Policy*, Section 7.2.

3 Supporting documentation

The following documents referenced in this appendix accompany our Regulatory Proposal:

Name	Ref	File name
(Revised) Ergon Energy Connection Policy	09.01.01	(Revised) Ergon Energy Connection Policy
(Revised) Unit Rates for Capital Contributions	09.02.01	(Revised) Unit Rates for Capital Contributions