



# Jemena Electricity Networks (Vic) Ltd

## 2021-26 Electricity Distribution Price Review Revised Proposal

Attachment 11-01

Response to the AER's draft decision - Connection policy



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## Glossary

draft decision	The draft decision on the determination that will apply to setting JEN's distribution prices for the next regulatory period
initial proposal	The initial regulatory proposal to the AER for the setting of regulated pricing for JEN for the next regulatory period
next regulatory period	The regulatory control period covering 1 July 2021 to 30 Jun 2026
revised proposal	JEN's response to the draft decision, of which this document forms part.

## Abbreviations

AER	Australian Energy Regulator
F&A	Framework and Approach <sup>1</sup>
NER	National Electricity Rules

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<sup>1</sup> AER, *Final framework and approach, Victorian distributors, Regulatory control period commencing 1 January 2021*, January 2019. Note, since the release of the F&A paper the date for commencement of the next regulatory period has been shifted to 1 July 2021.

## Overview

Under the National Electricity Rules (**NER**),<sup>2</sup> JEN is required to submit a connection policy in its regulatory proposal for the regulatory control period covering 1 July 2021 to 30 Jun 2026 (**next regulatory period**). Accordingly, JEN submitted a connection policy in the initial regulatory proposal, which is to apply from 1 July 2021 to all new or modified connections.

Under Part DA of Chapter 6 of the NER, the connection policy must set out the circumstances in which the distribution network service provider may require a retail customer or real estate developer to pay a connection charge, for the provision of a connection service under chapter 5A. The proposed policy must comply with the connection charge principles stipulated in clause 5A.E.1, and the AER's connection charge guideline.<sup>3</sup> The Australian Energy Regulator (**AER**) may approve the proposed connection policy if it is satisfied that the proposed policy adequately complies with the requirements of Part DA of chapter 6 of the NER.

## Customer impacts

### What this means for our customers:

Having a connection policy developed in accordance with the NER and the connection charges guideline gives certainty to our customers and potential customers, about the processes we employ to make offers to our customers for connecting to the JEN electricity network.

The policy also helps our customers:

- understand our common approach to developing a connection offer
- identify the connection process and website links our customers, and potential customers can enter to commence the process of obtaining a connection offer or to know how to make contact with JEN
- the circumstances in which they may be required to pay connection charges
- how connection charges are determined
- know what the marginal cost of reinforcement rates are and to understand that if the rates have undergone a review by the AER, they are set at efficient levels
- where to direct their dispute, if they are unsatisfied and helps them to resolve any issues.

## JEN's response in this revised proposal

A summary of our connection policy submitted in our initial proposal, the AER's draft decision and JEN's response in this revised proposal is outlined in Table OV-1.

<sup>2</sup> NER, Chapter 6, Part DA.

<sup>3</sup> AER, *Connection charge guidelines for electricity retail customers – Under chapter 5A of the National Electricity Rules*, Version 1.0, June 2012.

**Table OV–1: Summary of JEN’s connection policy submitted in our initial proposal, the AER’s draft decision and the revised proposal**

Initial proposal	Draft decision	Revised proposal
<p>JEN submitted a connection policy prepared in accordance with:</p> <ul style="list-style-type: none"> <li>Part DA of chapter 6 of the NER</li> <li>connection charge principles set out in Part E of Chapter 5A of the NER</li> <li>connection charge guidelines for electricity retail customers published by the AER</li> <li>AER’s final framework and approach (<b>F&amp;A</b>) for the Victorian distributors for the 2021-26 regulatory control period.</li> </ul>	<p>The AER did not approve JEN’s connection policy, noting that it did not contain all the necessary information and contains some conditions that are inconsistent with the AER’s connection charge guidelines.</p> <p>The AER amended JEN’s proposed connection policy and included the approved marked-up version in the draft decision.<sup>4</sup></p>	<p>Accept the AER’s amended connection policy as outlined in Appendix A of the AER’s draft decision.</p>
<p>We proposed upstream augmentation unit rates in the connection policy.</p>	<p>The AER approved our proposed rates noting that our marginal cost for shared network augmentation is reasonable.</p>	<p>Accept.</p>
<p>JEN proposed the addition of tax and margin to the charge for connection and connection related services that are classified as alternative control services in the F&amp;A</p> <p>We proposed the formula:</p> <p>Price = Labour + Materials + Contractor Services + Margin + Tax</p>	<p>The AER approved our proposed pricing formula with minor changes to the description of tax.</p>	<p>We no longer propose to add the tax to the charge for connection and connection related services that are classified as alternative control services in the F&amp;A.</p> <p>However, we propose to apply margin, consistent with our proposed approach to include an explicit margin component in the quoted service formula.<sup>5</sup></p>

## Supporting materials

Additional information supporting JEN’s position in this document are outlined in Table OV–2.

**Table OV–2: Additional documents supporting this revised proposal**

Document reference	Document details
<p>JEN – Att 11-02 Revised Connection Policy – Nov 2020 – 20201203 - Public</p>	<p>This is JEN’s revised connection policy. It includes the AER’s amendments to our connection policy.<sup>6</sup></p>

<sup>4</sup> AER, *Draft Decision, Jemena Distribution Determination 2021 to 2026, Attachment 18 Connection policy*, September 2020, p. 9.

<sup>5</sup> See Attachment 07-01.

<sup>6</sup> AER, *Draft Decision, Jemena Distribution Determination 2021 to 2026, Attachment 18 Connection policy*, September 2020, p. 9.

# 1. Connection policy

The connection policy submitted in JEN's initial proposal was prepared in accordance with Part DA of chapter 6 of the NER.<sup>7</sup> It was also prepared in accordance with the:

- connection charge principles set out in Part E of Chapter 5A of the NER, as applied in Victoria,
- connection charge guidelines for electricity retail customers published by the AER,<sup>8</sup> and
- AER's service classification set out in final F&A for the Victorian distributors for the 2021-26 regulatory control period.<sup>9</sup>

## 1.1 Initial proposal

In the F&A, the AER classified basic connection services as alternative control services, standard and negotiated connection services (other than a basic connection service) as standard control services. Further, the AER has classified other connection-related services as alternative control services.<sup>10</sup> Where the AER classifies a connection service as an alternative control service, the distribution network service provider is required to charge for the connection service in accordance with the relevant form of control approved by the AER.<sup>11</sup>

We offer two categories of connection services, which cover a range of different connection types, these include:

- basic connection services
- negotiated connection services.<sup>12</sup>

For alternative control services, JEN charges on either a:

- fixed fee basis – this occurs when the scope of the connection service is predictable and generally uniform, and the AER has approved a fee for the service in the final determination.
- quoted basis – this occurs where the scope of the works varies significantly across each connection request; this causes the prices to only be determined once the scope of the work is known. Prices are calculated using the price control mechanism formula to calculate quoted alternative control services in the final determination.

In the final F&A, the price control mechanism formula to calculate quoted alternative control services is:

Price = Labour + Materials + Contractor services

Where:

- Labour costs consist of all labour costs directly incurred in the provision of the service including labour on-costs, fleet on-costs and overheads. The AER approved labour rates are escalated annually for CPI and labour escalators

<sup>7</sup> As applied in Victoria through the *National Electricity (Victoria) Act 2005*, and as amended by the *National Electricity (Victoria) Further Amendment Act 2016*

<sup>8</sup> AER, *Connection charge guidelines for electricity retail customers – Under chapter 5A of the National Electricity Rules*, Version 1.0, June 2012.

<sup>9</sup> Note, since the release of the F&A paper, the date for commencement of the next regulatory period has been shifted to 1 July 2021.

<sup>10</sup> AER, *Final framework and approach, AusNet Services, CitiPower, Jemena, Powercor and United Energy, Regulatory control period 1 January 2021*, January 2019, pp. 106-110.

<sup>11</sup> AER, *Connection charge guidelines for electricity retail customers – Under chapter 5A of the National Electricity Rules*, Version 1.0, June 2012, section 4.1.2.

<sup>12</sup> We may at a later date offer standard connection service for a particular class of connection service (that is currently offered as negotiated services) for which there will be a model standing offer approved by the AER. Such offers when approved by the AER will be published on our website.

- Materials costs reflect the cost of materials directly incurred in the provision of the service, material storage and logistics on-costs and overheads
- Contractor service costs reflect all costs associated with the use of external labour and include overheads and any direct costs. The contracted services are charged on a cost recovery basis.

When applying the price control formulae, we proposed to calculate the connection charge using labour rates approved by the AER (see Attachment 09-01 for our labour rates in this revised proposal), along with the cost recovery of material, and contractor costs, margin and tax. This is a deviation from the price control formula outlined in the F&A as we have added margin and tax to the formula, where:

- Margin is an amount equal to JEN's nominal vanilla weighted average cost of capital approved by the AER for standard control services. The margin will be applied to the total cost of Labour, Contractor Services and Materials, and
- Tax reflects the tax JEN incurs on the capital component of the expenditure.

## 1.2 Draft decision

The AER did not approve JEN's proposed connection policy on the basis that it did not contain all the necessary information required in a connection policy, and because it contains some conditions that it considers are inconsistent with our connection charge guidelines.

JEN proposed to add tax and margin to the charge for connection and connection related services that are classified as alternative control services. The AER acknowledged that, as the capital contribution is a cash receipt from the connecting customer, JEN's tax liability does include such incomes. However, the AER considers that the net charge to the connecting customers should take into account the reverse cash flow from the ensuing depreciation of the relevant network asset value of the capital contribution.

Further, the AER considered that our connection policy:

- had an insufficient explanation on metering, and
- needed clarity
  - that overhead connections not longer than 45 metres are basic connections and do not cover situations where service poles are required to achieve the prescribed minimum ground clearance under the Victorian safety regulations
  - that the shared network augmentation charge is based on the estimated peak coincident demand of the connection applicant
  - on whether public lighting charges are set under alternative control services or as a negotiated service.

The AER amended JEN's connection policy submitted as a part of our initial proposal to reflect the above changes. The marked-up version of JEN's approved connection policy for JEN is included in the AER's draft decision.<sup>13</sup>

In regards to the upstream augmentation unit rates proposed by JEN in the connection policy, the AER approved our proposed rates noting that our marginal cost for shared network augmentation is reasonable because the proposed rates are less than the actual historical average overall network cost, and this is a good representation of the long run marginal cost.<sup>14</sup>

<sup>13</sup> AER, *Draft Decision, Jemena Distribution Determination 2021 to 2026, Attachment 18 Connection policy*, September 2020, p. 9.

<sup>14</sup> *Ibid.*, p. 8.



### 1.3 Revised proposal

JEN accepts all the amendments made in the AER's draft decision to the connection policy we submitted in our initial proposal.

In JEN's revised proposal, we propose not to add the tax component to the charges for connection and connection related services that are classified as alternative control services as outlined in our Service Classification chapter<sup>15</sup>. The AER's amendments to our initial proposal connection policy as outlined in the draft decision are shown (underlined) in Table 1–1.

**Table 1–1: AER amendments to our initial proposal connection policy**

JEN's initial proposal	AER draft decision amendments
<p>A basic new connection service means the establishment of a permanent or temporary connection (single or three-phase) with a capacity less than 100 amps per phase that is either:</p> <ul style="list-style-type: none"> <li>• a physical connection between an agreed connection point at the supply address and Jemena's distribution network where: <ul style="list-style-type: none"> <li>– the connection assets are comprised of an overhead single span service cable from an existing pole; and</li> <li>– where the length of the service cable does not exceed 45 meters in total; and</li> <li>– does not exceed 20 metres over the customer's property at the supply address; <i>or</i></li> </ul> </li> </ul> <p>a physical connection between the supply address and Jemena's distribution network via an underground cable where the connection point is in an existing service pit located at the property boundary at the supply address.</p>	<p>A basic new connection service means the establishment of a permanent or temporary connection (single or three-phase) with a capacity less than 100 amps per phase that is either:</p> <ul style="list-style-type: none"> <li>• a physical connection between an agreed connection point at the supply address and Jemena's distribution network where: <ul style="list-style-type: none"> <li>– the connection assets are comprised of an overhead single span service cable from an existing pole; and</li> <li>– where the length of the service cable does not exceed 45 meters in total <u>and there is no need for a service pole in order to meet the minimum ground clearance requirements under the safety regulations</u>; and</li> <li>– does not exceed 20 metres over the customer's property at the supply address; <i>or</i></li> </ul> </li> </ul> <p>a physical connection between the supply address and Jemena's distribution network via an underground cable where the connection point is in an existing service pit located at the property boundary at the supply address.</p>

<sup>15</sup> Attachment 02-01.

JEN's initial proposal	AER draft decision amendments
We did not include information on metering.	<p><b><u>Metering</u></b></p> <p><u>All connections must be metered except where the energy consumption can be accurately assessed without the need for a meter.<sup>16</sup> Jemena is responsible for providing types 5 (including smart metering) metering services and these services are classified by the AER as alternative control services.</u></p> <p><u>The cost of installing a meter for basic connection services is included in the fixed fees approved by the AER. A meter reconfiguration fee may apply in some circumstances. Refer to section 4.2.</u></p> <p><u>For negotiated connection services, Jemena is responsible for metering services where the customer's annual energy consumption is less than 160 MWh. Where we are responsible for metering, we will include the labour cost of installing a meter in the connection offer. The cost of the meter and current transformers will not be charged at the time of connection but will be recovered through the ongoing metering services charges approved by the AER.</u></p>
Where a basic micro embedded generator is connected to an existing connection, a remote meter reconfiguration fee will apply. The remote meter reconfiguration is necessary to enable the meter to record export energy flowing into the distribution network.	<p><u>The cost of installing a meter is included in the fixed fees for basic connection services. Where a basic micro embedded generator is connected to an existing connection, a remote meter reconfiguration fee will apply. The remote meter reconfiguration is necessary to enable the meter to record export energy flowing into the distribution network.</u></p>
Tax reflects the tax Jemena incurs on the capital component of the expenditure.	<p><u>Tax reflects the tax Jemena incurs on the capital component of the expenditure, <u>netting of the net present value (NPV) of the reverse cash flow resulting from the depreciation of the capital expenditure.</u></u></p> <p><i>[Note: As noted above, JEN's revised proposal, we propose not to add the tax component to the charge for connection and connection related services that are classified as alternative control services in the F&amp;A.]</i></p>
The maximum demand agreed between us and the connection applicant will be used to calculate the incremental costs of the shared distribution network for all negotiated load connections, as well as incremental revenue, where the cost-revenue-test is applied.	<p>The maximum demand agreed between us and the connection applicant will be used to <u>determine the peak coincident demand by applying diversification. The peak coincident demand is used to</u> calculate the incremental costs of the shared distribution network for all negotiated load connections, as well as incremental revenue, where the cost-revenue-test is applied.</p>
<i>Real estate developers</i> are required to fully fund the provision of new public lighting assets.	<p><u>The provision of new public lighting assets is classified as alternative control services by the AER. Therefore, <i>real estate developers</i> are required to fully fund the provision of new public lighting assets.</u></p>

<sup>16</sup> Unmetered supply connections are generally provided for facilities such as street lights, bus shelters, telephone booths, telecommunication cabinets, etc.

Our revised connection policy submitted in this revised proposal mirrors the approved connection policy in the draft decision.<sup>17</sup> It is reproduced in Appendix A of this document.

On a related matter, the AER's draft decision on the control mechanisms<sup>18</sup> for the next regulatory period rejected JEN's proposal to include a tax or margin component in the price cap formula that applies to quoted ancillary network services. Consequently, JEN's revised connection policy on the pricing formula for connection and connection related services classified as alternative control services and offered on a quoted basis may be subject to change in the final determination.

Our response to the AER's draft decision on control mechanisms is set out in Attachment 07-01 in our revised proposal.

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<sup>17</sup> AER, *Draft Decision, Jemena Distribution Determination 2021 to 2026, Attachment 18 Connection policy*, September 2020, p. 9.

<sup>18</sup> AER, *Draft Decision, AusNet Services, CitiPower, Jemena, Powercor and United Energy, Distribution Determination 2021 to 2026, Attachment 14 Control mechanisms*, September 2020, p. 31.