



# **FINAL DECISION**

## **United Energy Distribution Determination 2021 to 2026**

### **Attachment 18 Connection policy**

April 2021

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AER reference: 63603

## Note

This attachment forms part of the Australian Energy Regulator's (AER) final decision on the distribution determination that will apply to United Energy for the 2021–26 regulatory control period. It should be read with all other parts of the final decision.

The final decision includes the following attachments:

### Overview

Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 3 – Rate of return

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

Attachment 8 – Efficiency benefit sharing scheme

Attachment 9 – Capital expenditure sharing scheme

Attachment 10 – Service target performance incentive scheme

Attachment 12 – Customer Service Incentive Scheme

Attachment 13 – Classification of services

Attachment 14 – Control mechanisms

Attachment 15 – Pass through events

Attachment 16 – Alternative control services

Attachment 18 – Connection policy

Attachment 19 – Tariff structure statement

Attachment A – Negotiating framework

# Contents

<b>Note</b> .....	18-2
<b>Contents</b> .....	18-3
<b>18 Connection policy</b> .....	18-4
<b>18.1 Final decision</b> .....	18-5
<b>18.2 United Energy’s revised proposal</b> .....	18-5
<b>18.3 Submissions</b> .....	18-6
<b>18.4 Assessment approach</b> .....	18-7
<b>18.5 Reasons for final decision</b> .....	18-7
18.5.1 Including tax liability arising from capital contributions from large embedded generators to the connection charge .....	18-7
18.5.2 Threshold for capital contribution for network extension or shared network augmentation. ....	18-8
18.5.3 Storage systems and exemption from network Tariff.....	18-9
18.5.4 Other minor modifications .....	18-9
<b>18.6 Upstream charge rates</b> .....	18-9
<b>Shortened forms</b> .....	18-11
<b>A AER approved connection policy for United Energy</b> .....	18-12

# 18 Connection policy

We are required to make a decision on the connection policy that is to apply to United Energy for the 2021–26 regulatory control period. This may be the connection policy prepared by a distributor, some variant of it, or a policy substituted by the AER.<sup>1</sup>

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:<sup>2</sup>
  - the connection charge principles set out in chapter 5A of the National Electricity Rules (NER)
  - the connection policy requirements set out in part DA of chapter 6 of the NER
  - our connection charge guidelines published under chapter 5A,<sup>3</sup> and,
- must specify:<sup>4</sup>
  - 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 a non-registered embedded generator or 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.<sup>5</sup>

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<sup>1</sup> NER, cl 6.12.1(21).

<sup>2</sup> NER, cl 6.7A.1(b)(1).

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

<sup>4</sup> NER, cl 6.7A.1(b)(2).

<sup>5</sup> 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, p. 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 have taken into account United Energy's revised revenue proposal, submissions raised by stakeholders and our draft decision in reaching our final decision. Our final decision is to apply a variant of the connection policy proposed by United Energy for the 2021–26 regulatory control period because parts of its revised connection policy are not consistent with:

- the connection charge principles in chapter 5A of the NER
- our connection charge guidelines for electricity retail customers under chapter 5A.

The variations that we have made to United Energy's proposed connection policy are explained in the following sections. Our approved connection policy can be found in Appendix A to this attachment.

The key reasons for not applying United Energy's revised connection policy are that:

- United Energy refers to a 100A total on 3 phases to define the threshold for capital contribution for the shared network augmentation charges - this is not consistent with our connection charge guideline.<sup>6</sup> Our guideline refers to '100A 3 phase' which means 100A per phase.
- United Energy's revised proposal includes a modified tax treatment for large embedded generator connections, which has not been adequately consulted on with United Energy's stakeholders.

## 18.2 United Energy's revised proposal

In the revised connection policy, United Energy made the following changes:

- Upstream augmentation charge rates<sup>7</sup>—this matter is discussed in section 18.6.
- The threshold level where a connection applicant needs to pay the upstream augmentation charge to be 100A in total across all phases—for example 100A single-phase supply or 33A 3-phase supply. It contended that:<sup>8</sup>

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<sup>6</sup> AER, *Final Decision, Connection charge guidelines: under chapter 5A of the National Electricity Rules, For retail customers accessing the electricity distribution network*, June 2012.

<sup>7</sup> United Energy, *2021–2026 Revised proposal*, December 2020, p. 91.

United Energy's deemed distribution contract stipulates that the maximum allocated supply capacity taken at a customer's premise is the lesser of:

- 63 amperes in aggregate across all phases elsewhere in the distribution network and
- The rating of the smallest component of the distribution system used solely to supply electricity to your premises.

The shared network augmentation threshold is significantly above the needs of a standard residential or small business connection and we do not consider it appropriate or proportionate for the threshold to be raised. United Energy's current thresholds are around 10 times the average residential maximum demand for residential customers, and three times for small business customers. As noted above, the impact of the threshold being raised is that all customers subsidise these non-standard connections.

- Storage systems and exemption from network tariff, United Energy stated that:<sup>9</sup>

Customers with storage systems will be exempt from a network tariff (i.e. Distribution Use of System (DUoS) charges) if the customer has a signed contract with United Energy which exempts the customer from a network tariff. United Energy would only enter into such a contract if:

- there is no other load at the site other than load associated with the storage system
- the contract provides United Energy with assurance that the storage system will be operated to the net benefit of United Energy's customers
- the customer waives their right to receive avoided TUoS rebates

Where network charges are exempt, United Energy will apply zero incremental revenue calculations to your customer contributions model. For clarity this means that the customer is required to fully fund any upgrade works required to support the storage system.

- In the revised connection policy, United Energy also proposed to charge the net tax liability (netting off future depreciation reverse cash flow) arising from the capital contribution to embedded generators (EGs) larger than 1.5 MW.<sup>10</sup>

## 18.3 Submissions

We have not received any specific submissions regarding United Energy's proposed connection policy.

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<sup>8</sup> United Energy, *2021–2026 Revised Proposal*, December 2020, p. 96.

<sup>9</sup> United Energy, *Connection policy, To apply from 1 July 2021*, December 2020, p. 19.

<sup>10</sup> *Ibid*, p. 20.

## 18.4 Assessment approach

We examined the revised 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 final determination
- the connection policy contains terms that are not fair and reasonable.

## 18.5 Reasons for final decision

Our assessment findings of United Energy's proposed changes are presented below.

### 18.5.1 Including tax liability arising from capital contributions from large embedded generators to the connection charge

In response to our questions, United Energy advised that:<sup>11</sup>

It did not conduct a consultation process to support the proposal. This proposal seeks to align its position with AusNet Services on the matter.

We rejected this proposal to change the tax treatment of capital contributions from large embedded generators' capital contribution for the following reasons:

- We are concerned that this change will result in price shock to new connections in this category, specifically by resulting in potentially significant increases to the capital contributions made by connection applicants. We acknowledge that we have approved a similar change proposed by AusNet Services, however AusNet Services had consulted with its stakeholders prior to proposing that capital contributions may include an amount to reflect the tax incurred on the capital component of the expenditure.
- We understand United Energy did not consult with its stakeholders on this change, prior to submitting its revised proposal. For United Energy, we are concerned that this represents an unexpected and significant change in the way that capital contributions are calculated, which United Energy's stakeholders are unaware of.

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<sup>11</sup> Powercor (CitiPower and United Energy), *Information request #100*, March 2021.



Accordingly, we do not consider that it would be reasonable for United Energy to charge its customers capital contributions, which include amounts to reflect the tax United Energy incurs on the capital contribution.

If United Energy wants to implement such a change in future, it should fully consult its stakeholders before implementation in the ensuing regulatory control period.

### **18.5.2 Threshold for capital contribution for network extension or shared network augmentation.**

United Energy sought to retain its proposal in the initial connection policy to set the threshold for:<sup>12</sup>

- All connections at 100A in aggregate across all phases, for example 100A single phase or 33A 3-phase supply, because this level is consistent with the deemed standard connection agreement set out by the Essential Services Commission Victoria (ESCV) in 2018.

We rejected the originally proposed threshold in the draft decision. We amended the threshold level to 100A 3-phase (meaning 100A per phase or 70 kVA).

For the final decision, we maintain that United Energy's upstream charge threshold be amended to 100A per each of the three-phase supply, because:

- The proposed 100A in total threshold is the default capacity availability specified by the ESCV.<sup>13</sup> It is about the minimum capacity entitlements by all customers in Victoria; rather than a delineation line on who should contribute to upstream cost when a new small customer is seeking connection, as contemplated by the NER.
- The threshold value recommended in our connection charge guideline (at 100A three-phase) is consistent with Victorian distributors' tariff proposals that set the threshold for residential and small commercial customers at consuming up to 160 MWh per annum.<sup>14</sup>
- A 100A three-phase connection can only consume 160 MWh of energy only if it operated at full power for 6.4 hours a day every day of the year. Hence, this threshold is consistent with the threshold for small connections expressed in the distributor's tariff proposal.
- This threshold is being applied to all other distributors in the national electricity market.

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<sup>12</sup> United Energy, *2021–26 Revised proposal*, December 2020, p. 92.

<sup>13</sup> Essential Services Commission of Victoria, *Decision: Deemed distribution contract variations: AusNet Services, CitiPower, Powercor, United Energy and Jemena*, April 2018, p. 10.

<sup>14</sup> AusNet Services, *Revised Tariff Structure Statement 2022–26*, December 2020; Jemena, *Att 12-01 Tariff Structure Statement for 1 July 2021 to 30 June 2026*, December 2020; CitiPower, *APP06 - Tariff Structure Statement 2021–26*, December 2020; Powercor, *APP06 - Tariff Structure Statement 2026–26*, December 2020; United Energy, *APP06 – Tariff Structure Statement 2021–26*, December 2020.

We maintain that United Energy' upstream charge threshold be amended to 100A 3 phase or 100A per each of the three-phases of a three phase supply.

### 18.5.3 Storage systems and exemption from network Tariff

Given the new conditions proposed by United Energy relate to how storage systems' network tariffs should be applied, we consider that this is a tariff structure matter, rather than a connection policy matter. Hence, we have removed these tariff related conditions from the approved connection policy.

### 18.5.4 Other minor modifications

United Energy's minor edits and updated links have been accepted because they are appropriate and minor in nature.

United Energy sought to change the capacity unit for inverters, embedded generators and storage systems from kW to kVA.<sup>15</sup> We agree with this change because kVA is the true measure of network capacity.

## 18.6 Upstream charge rates

In its revised proposal, United Energy stated that:<sup>16</sup>

We accept the AER's change to discount our unit rates for shared network augmentation in our connections policy, however this will necessitate a change to our customer contributions forecast. The AER amended the 'diversification factors' applied to the shared network augmentation unit rates for non-residential customers to reflect the period for which the connection will use the network. The AER considered the unit rates for new residential and non-residential customer's upstream contribution rates should be discounted to 75.4 per cent and 50.4 per cent of the full augmentation unit rates, based on an assumed 30 year and 15-year connection period respectively.

We agree we should amend our methodology to align with the AER's connection charge guideline, however that methodology should be appropriately applied to both residential and non-residential customers. The AER only amended the diversification factors for non-residential customers. In updating our approach and applying the AER's percentages, we will remove our diversification factors and adopt the AER's discount factors. This will result in higher shared network unit rates for residential customers and lower rates for business customers. The resultant discounted shared network augmentation unit rates compare well with other distributors and will remain lower than those of AusNet Services, Jemena and the AER's own rates in the draft determination.

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<sup>15</sup> Powercor, *Information request 096*.

<sup>16</sup> United Energy, *2021–2026 Revised proposal*, December 2020, p. 91.

In the Draft Decision, we found that:<sup>17</sup>

...United Energy's historical average overall network cost at low voltage levels to be about \$2,995,869 per megavolt amperes (MVA) based on its latest Economic Benchmarking Regulatory Information Notices report for 2018–19. This represents a charging rate of \$ 2,186,994 and \$1,448,324 per MVA for residential and non-residential customers connecting at the low voltage networks respectively. This historical cost is higher than United Energy's proposed charge rates for shared network augmentation for low voltage networks at \$1,070,000.

Based on the weighted average cost of capital of this draft determination, we calculated that the percentage of the full upstream augmentation rate for new residential and non-residential customer's upstream contribution rates should be 75.4 per cent and 50.4 per cent respectively, based on the expected connection lives of these customers.

We therefore conclude that United Energy's proposed marginal cost for shared network augmentation is reasonable, because the rate is less than the actual historical cost, which is a good representation of the long run marginal cost.

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<sup>17</sup> AER, *Draft decision, United Energy Distribution Determination 2021 to 2026, Attachment 18 Connection policy*, September 2020, pp. 8–9.

## Shortened forms

Shortened form	Extended form
AER	Australian Energy Regulator
distributor	distribution network service provider
DUoS	distribution use of system
ESCV	Essential Services Commission of Victoria
NER	National Electricity Rules
TUoS	transmission use of system

# **A AER approved connection policy for United Energy**



# Connection policy

United Energy

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To apply from 1 July 2021

Modified by the AER

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# Contents

<u>1</u>	<u>Introduction .....</u>	<u>5</u>
	<u>1.1 Background and scope .....</u>	<u>5</u>
	<u>1.2 Overview of connection works and categories .....</u>	<u>5</u>
<u>2</u>	<u>Basic connections .....</u>	<u>8</u>
	<u>2.1 Service description .....</u>	<u>8</u>
	<u>2.2 Basic connection charges .....</u>	<u>10</u>
	<u>2.3 Other charges .....</u>	<u>10</u>
	<u>2.4 Application process .....</u>	<u>10</u>
<u>3</u>	<u>Negotiated connections .....</u>	<u>12</u>
	<u>3.1 Service description .....</u>	<u>12</u>
	<u>3.2 Negotiated connection charges .....</u>	<u>12</u>
	<u>3.3 Other charges .....</u>	<u>16</u>
	<u>3.4 Application process .....</u>	<u>16</u>
<u>4</u>	<u>Embedded generators and real estate developers .....</u>	<u>18</u>
	<u>4.1 Embedded generators and storage systems .....</u>	<u>19</u>
	<u>4.2 Real estate developers .....</u>	<u>19</u>
<u>5</u>	<u>Contestable services .....</u>	<u>21</u>
	<u>5.1 Competitive tendering and contestable works .....</u>	<u>21</u>
	<u>5.2 Reimbursement .....</u>	<u>21</u>
<u>6</u>	<u>Modifying assets .....</u>	<u>22</u>
	<u>6.1 Modifying assets .....</u>	<u>22</u>
	<u>6.2 Avoided costs .....</u>	<u>22</u>
<u>7</u>	<u>Further information .....</u>	<u>24</u>
	<u>7.1 Contact .....</u>	<u>24</u>
	<u>7.2 Complaints .....</u>	<u>24</u>
<u>8</u>	<u>Augmentation unit rates .....</u>	<u>25</u>





# Introduction

## 1.1 Background and scope

A connection is the physical link between the electricity distribution network and customers' premises to allow the flow of electricity. Every year we connect thousands of households, businesses and generators to our network.

This policy outlines the connection services we provide, how connection charges are calculated and the application process. It accords with the Australian Energy Regulator's (**AER**) connection charge guidelines for electricity retail customers and the requirements in Chapter 5A of the National Electricity Rules (**Rules**).

This policy applies to retail customer or real estate developer connections requested from 1 July 2021. The policy does not apply to Registered Participants or intending Registered Participants—which are typically large industrial customers or large generators—as outlined in the Rules.<sup>1</sup>

The types of connections covered by this policy are:

- connecting new premises
- making alterations to existing connections to meet a customer's new requirements<sup>2</sup>
- connecting embedded generators such as solar, wind power generators, or embedded storage.

## 1.2 Overview of connection works and categories

To connect a customer we will need to undertake:

- **premises connection** works—typically consisting of a new line between the closest pole and the dwelling, or a connection to an existing underground pit.

Where adequate supply is not available in an area to make a connection, we may also need to undertake:

- **customer specific** works—extend the network or augment the connection assets at the customer's premises
- **shared network** works— where the network's capacity is insufficient to support a connection, we may need to upgrade or augment the network 'backbone' to the benefit of all customers, including the new customer. All connections require use of shared network capacity, and add to the need for network augmentation.<sup>3</sup>

<sup>1</sup> These connections will be considered under the requirements of Chapter 5 of the Rules.

<sup>2</sup> Such as increasing the supply capacity or the number of phases that supply a premises, relocating the connection point at a premises or changing from an overhead to underground service

<sup>3</sup> Under Rule 5A.E.1(b) of the NER, a retail customer (other than a non-registered embedded generator or a real estate developer) who applies for a connection service for which augmentation is required cannot be required to make a capital contribution towards the cost of the augmentation (insofar as it involves more than an extension) if: (1) the application is for a basic connection service; or (2) a relevant threshold set in the Distribution Network Service Providers' connection policy is not exceeded.

As set out in this policy, we provide two types of connection offers: basic (where supply is available) and negotiated (where adequate supply is not available). The way we calculate connection charges and timeframes depend on the connection type. A summary of the most common connection types is provided below.

**Table 1 Connection offer types**

Seeking a new connection or modified connection for...	Conditions	This connection is typically a...
Residential premises or small commercial premises such as small shops	Where supply is available	Basic connection
	Where adequate supply is not available	Negotiated connection
Temporary supply, e.g. for carrying out construction works or holding a special event	Where supply is available	Basic connection
	Where adequate supply is not available	Negotiated connection
Unmetered supply e.g. electronic parking meters, bus shelters or phone boxes	Uniform load	Basic connection
Micro-embedded generator with pre-approval of exported capacity e.g. solar panels	With an inverter capacity of less than 10 <u>kVA</u> single phase, or less than 30 <u>kVA</u> for a three phase connection	Basic connection
	With an inverter capacity greater than 10 <u>kVA</u> single phase or 30 <u>kVA</u> for a three phase connection	Negotiated connection
Embedded generator that is not a micro-embedded generator e.g. thermal or wind generating systems	N/A	Negotiated connection
Commercial premises and/or multi-tenancy residential e.g. apartment building, shopping complex	Over 100 ampere	Negotiated connection
New land subdivision/ real estate development	N/A	Negotiated connection

Source: United Energy



## 2 Basic connections

### 2.1 Service description

Our basic connection service covers most routine connections such as:

- residential dwellings and small commercial premises, including temporary and permanent connections
- micro-embedded generator connections, such as inverter energy systems using solar, thermal or wind
- unmetered supply connections, such as electronic parking meters, bus shelters or phone boxes.

Whether a connection is a basic connection is discussed in more detail below.

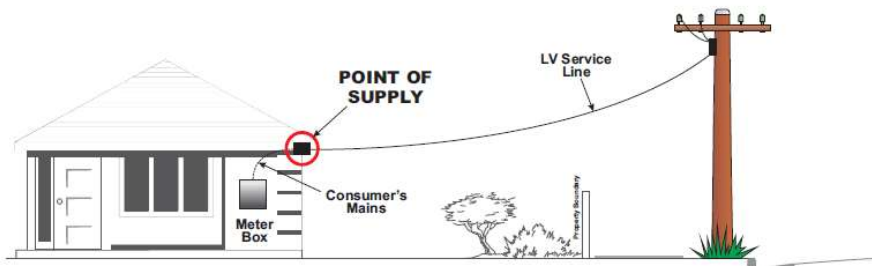
#### 2.1.1 Load connections

Basic connections are available for:

- loads up to 170 amperes (**amps**) where adequate supply is available
- loads less than 10kVA (i.e. 40 amps in total) for connections to a single phase substation or on a Single Wire Earth Return (**SWER**) line where adequate supply is available.

For premises located in areas with overhead power lines, the connection involves a service wire to a point of supply (typically a fuse) on the customer's premises. A compliant overhead service is where the length of the service cable does not exceed 45 metres in total, the portion on the customers' property does not exceed 20 metres, and there is no need for a service pole, in order to meet the minimum ground clearance requirements under the safety regulations.<sup>4</sup> A typical overhead service illustrated in the following diagram.

**Figure 2.1 Typical overhead connection for residential or small commercial premises**

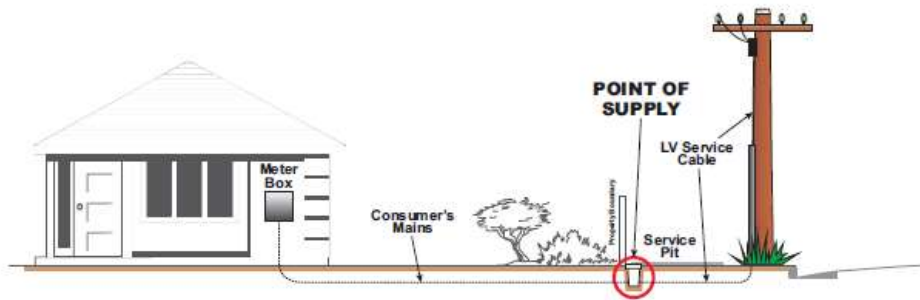


<sup>4</sup> The overhead line must comply with the requirements of the Victorian Service and Installation Rules, available from: <http://www.victoriansir.org.au/>

Source: United Energy

An underground service cable can be included as a basic connection where there is an existing underground pit and the service cable is no longer than 45 metres (where there is no underground pit, it can be installed as a negotiated connection service as outlined in 0). The customer is responsible for the Consumer's Mains to the premises as illustrated in the following diagram.

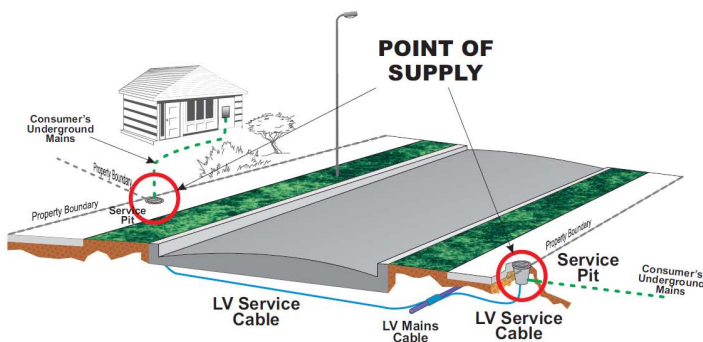
**Figure 2.2 Typical underground connection for residential and small commercial premises**



Source: United Energy

In new housing estates, customer connections are often underground. Generally, the electricity infrastructure would be installed under a negotiated connection contract with the developer and then each dwelling would be connected as a basic connection service. A typical customer connection in an underground residential housing development is shown in the following diagram.

**Figure 2.3 Typical underground connection in a residential housing estate**



Source: United Energy

Basic connections also include connection modifications, such as upgrades from a single phase connection to a three phase connection (up to 170 amps) or an upgrade of the service fuse. The alterations must not require customer specific or shared network works.

For clarity, we note that where a connection exceeds 100 amps per phase but less than 170 amps per phase, we may initially require the connection to be submitted as a negotiated connection to

assess whether supply is available. Where supply is available, it will be treated as a basic connection. Where supply is not available, it will be treated as a negotiated connection which may attract charges if the capacity exceeds the shared augmentation charge threshold.

### 2.1.2 Micro-embedded generation and storage

Rooftop solar PV is the most common type of micro embedded generator. Other examples include thermal or wind powered generators, or embedded storage such as a battery. To be eligible for a basic connection, the generator must meet the following requirements:

- be connected to our distribution network by an inverter with a capacity of no more than 10 **kVA** on a single phase, or no more than 30 **kVA** on a three phase connection
- comply with Australian Standard 4777 (**AS4777**) (see the Clean Energy Council website for a list of approved inverters)
- not require customer specific or shared network works
- you have informed your retailer, as discussed in section 2.9.1.

### 2.1.3 Unmetered supply

Unmetered supply connections are typically provided for electronic parking meters, CCTV, bus shelters or telephone boxes. We offer unmetered supply when it is impractical to read or maintain a meter. Connections eligible to be unmetered must be small and have a steady and uniform load so the energy consumption can be accurately estimated.

## 2.2 Basic connection charges

A fixed fee is charged for basic connection services. The applicable fee depends on the connection characteristics, such as whether a current transformer is required (typically required for loads between 100-170 amps). These fees are approved by the AER and published in our General Service Charge Pricing Schedule available on our website.

## 2.3 Other charges

Other (non-connection) charges may also apply depending on your connection characteristics. These charges are outlined in our General Service Charge Pricing Schedule and have been approved by the AER. For example, a typical charge that may apply is for reconfiguring the electricity meter where you are connecting a micro embedded generator.<sup>5</sup>

## 2.4 Application process

You or your registered electrical contractor (**REC**) (on your behalf) may request a basic connection. This can be done via your retailer of choice or directly from us. If you raise the request:<sup>6</sup>

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<sup>5</sup> Where we are the meter provider.

<sup>6</sup> If your connection requires current transformer metering the connection timeframes may differ.

- via your retailer, we will provide you with an expedited connection including supply turned on, within 10 business days after we receive the properly completed connection documentation (including acceptance of our model standing offer (**MSO**) via your retailer)
- directly from us via the form available on our website, your connection will be made without supply turned on, within 20 business days after we receive the properly completed connection documentation. You will be required to raise a separate request with your retailer to have supply turned on.

If you require a written offer, additional steps will be required before the connection can be made.

For a basic connection, you are required to pay us the connection charges on acceptance of the offer or by the due date where we issue an invoice to you for those connection charges.

If you do not accept the MSO, then your connection will be a negotiated connection as outlined in chapter 3 **Error! Reference source not found..**



## Negotiated connections

### 2.5 Service description

Negotiated connections are those that may be too large or complex to meet the basic connection service criteria. This includes:

- connecting residential dwellings and small commercial premises where adequate supply is not available
- embedded generation or storage that is not compliant with AS4777 or requires greater than 10 **kVA** per single phase connection and 30 **kVA** for a three phase connection up to 5MW (connections above this threshold are not governed by this policy)
- high voltage (**HV**), reserve capacity or dedicated assets
- public electric vehicle charging facilities
- enabling embedded networks
- real estate developments
- where customers construct and gift connection assets to us under our contestability framework, discussed in chapter 0.

### 2.6 Negotiated connection charges

Negotiated connection charges are calculated in accordance with the AER's cost-revenue-test:

$$CC = ICCS + ICSN - IR + SF$$

Where:

- **CC** is the capital contribution the customer must pay
- **ICCS** is the incremental cost of customer specific works, reflecting the cost for the connection services used solely by the customer (e.g. an extension)
- **ICSN** is incremental cost of shared network work, reflecting the costs incurred for connection services that are not used solely by the customer (e.g. an augmentation)
- **IR** is incremental revenue which is calculated as the present value of expected distribution revenue over 30 years (residential) or up to 15 years (non-residential).
- **SF** is the amount of any security fee

Under the cost-revenue-test:

- the component of the connection that forms part of a basic connection (e.g. the premises connection asset) is charged in accordance with the basic connection charges and is not subject to the cost-revenue-test. If, however, there is no clear distinction between the premises connection and the customer specific works (typical for large customers) or the basic connection does not cover the type of premises connection works required for the connection, all works will be subject to the cost-revenue-test.

- a capital contribution is only payable where the connection cost exceeds the revenue expected to be derived from it.
- we calculate the charge for each component in a fair and reasonable way and based on the least cost technically acceptable standard necessary for the connection.<sup>7</sup>
- some customers may be required, or in some cases may request, to make a pre-payment to initiate design or purchasing of long lead time material. Full payment of connection charges is generally required before construction commences.

The calculation of element of the cost-revenue-test is described in more detail below.

### 2.6.1 Customer specific charges

The customer specific charges include:

- costs to augment connection assets at a customer's premise
- network extension costs
- administration costs (including any design and certification costs)
- cost of providing any other connection services which are used solely by the customer
- tender costs (where relevant).

Overheads will be applied to these costs.

### 2.6.2 Shared network charges

The shared network charge is the cost of augmenting the network backbone to provide capacity for a new or modified connection.

Only customers requiring a connection capacity:

- greater than 100 A single phase, or 100 amps per phase of a multiphase supply, or
- more than 40 amps on a SWER line

are required to pay the shared network charges. These limits are known as the augmentation charge threshold.

The shared network cost is calculated as follows:

$$\text{Incremental cost of shared network} = \text{average cost of augmentation} \times \text{demand estimate}$$

The average cost of augmentation is the cost we incur to add a unit (i.e. a kVA) of capacity to the network. The applicable rate depends on which 'level' of the network the connection is made. For example if a connection is made at the HV level, you will not pay for augmenting LV assets. The rates are calculated from a review of recent actual augmentation project costs and are outlined in appendix A.

<sup>7</sup> This standard may differ depending on the connection's location, for example a higher standard may apply in high consequence bushfire areas. Where the customer is a real estate developer, we may also include the cost of providing for forecast load growth.

Overheads will be applied in addition to the augmentation unit rates.

### **2.6.3 Incremental Revenue**

The incremental revenue is the component of customers' electricity charges, over the life of their connection, that pays for the network backbone. It is calculated as the forecast revenue customers pay to the distributor through their electricity charges (distribution use of system charges (**DUoS**)) less the amount that pays for operating and maintenance costs. In calculating this value:

- the DUoS price path is set out in our distribution determination for the 2021–2026 regulatory period, and a flat path (real terms) is used thereafter
- DUoS is discounted by our regulated real pre-tax weighted average cost of capital.

This is calculated over 30 years for residential customers and 15 years for business customers—however an alternative period may be applied to business customers where 15 years is not a reasonable estimate of the connection services' life.

### **2.6.4 Estimating peak coincident demand and energy consumption**

As discussed, an estimate of peak coincident demand and electricity consumption is needed to calculate the connection charge. For residential and small commercial premises, we will assess a customer's consumption and peak coincident demand based on:

- previous load history (if available)
- information supplied in the connection application (e.g. expected energy use, supply voltage, meter type)
- energy consumption / demand from similar customers.

For commercial and industrial premises, or real estate developments, we may also consider:

- the total load of all equipment in the building or project
- the method of estimating the maximum demand outlined in Australian Standard AS/NZS 3000 - Wiring Rules
- the proposed usage pattern
- typical load factors for similar customer installations or industry types.

If we and the customer cannot agree to these estimates, we may apply a provisional estimate for up to three years. Once the customer's likely demand or consumption has been revealed, a new value will be applied to the connection charge calculation. The customer will be subject to an additional charge or refund for the difference between the provisional estimate and actual demand or consumption. This additional charge/refund is only applicable where the customer is solvent and still using the premises.

The provisional estimate provisions do not apply to real estate developers. We may apply a similar provision to real estate developers by agreement.

### **2.6.5 Security fee**

If we consider there is a risk we will not receive the incremental revenue used to estimate a customers' capital contribution, a security fee may be required. The security fee is refundable if the assumed incremental revenue eventuates. This ensures electricity users do not fund large customers' connections via their general electricity charges.

We will operate the security fee in accordance with the following principles:

- the security fee will be capped at the amount of incremental revenue we assess as being at risk
- the security fee will not exceed the present value of the connection cost
- we will not recover more than the total estimated incremental revenue through the security fee<sup>8</sup>
- the security fee may be in the form of either a prepayment or a financial guarantee.

We will provide an annual rebate of the security fee. The first qualifying period is 12 months after the connection is tied-in to the network. In order to receive the maximum allowable refund for the year, we will verify that the customer's actual electricity use meets the estimate used in the connection offer.

We will pay interest on the refund amount based on the AER's approved cost of debt outlined in the most relevant distribution determination. Interest will not be payable on security held in the form of a bank guarantee

### **2.6.6 Pioneer scheme**

A pioneer scheme applied for network extensions that cease being dedicated to the use of a customer within 7 years. The customer may be entitled to a partial refund of their connection charge. Similarly, if you connect to an extension within 7 years of its construction, you may be required to make a financial contribution towards its cost to the customers already connected. This scheme will apply to dedicated network extensions which have been fully funded by a customer or towards which a customer has paid a capital contribution, with the exclusion of service pits.

We will calculate the charge (from a subsequent customer) and refund (to each customer already connected) by:

- taking into account the length or amount of electricity used relative to customers already connected to the extension
- depreciating the extension's value on a straight line basis over a 20 years
- if the original extension was built to a higher standard than the least cost technically acceptable standard, then only the cost of constructing to the least cost technically acceptable standard will be used for the purposes of the pioneer scheme. Where the extension's cost is unknown, for example because it was contestably constructed, we will estimate it.

The pioneer scheme will apply in the following circumstances:

- the original premises must be occupied and using the extension

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<sup>8</sup> If the actual incremental revenue realised over the period of the security fee scheme exceeds the estimated incremental revenue, we will refund the security fee in full.

- the payment to any customers already connected is greater than \$1,250 (\$2021, real) adjusted for CPI
- a pioneer payment can be made to the current occupier of a premises or the original occupier (who paid for an extension) of the premises. If there is a dispute between the current and original occupier, the current occupier of the premises shall be taken to be entitled to any refund unless there is written evidence or an agreement to the contrary
- the pioneer scheme does not apply to business customers or real estate developments.

This pioneer scheme will apply to offers made from 1 July 2021. The pioneer scheme in place at the time of an offer made prior to this date will continue to apply to those connections.

## 2.7 Other charges

Other (non-connection) charges may apply depending on the connection's characteristics. These charges are outlined in our General Service Charge Pricing Schedule and have been approved by the AER, and could include:

- upfront charge to cover our expenses incurred in assessing the application and making a connection offer
- where you request a higher standard connection, you must pay the additional cost of providing the service to the standard<sup>9</sup>
- specification and design enquiry services (which haven't been included in the connection offer)<sup>10</sup>
- specification and design enquiry services where a customer requests information to assist them undertake feasibility studies or budget estimates
- audit design and construction services where our review, approval or acceptance of third party works is requested or considered necessary.<sup>11</sup>

Once the physical connection is completed by United Energy, there may be other charges to energise the supply of electricity via your retailer. For example, the metering co-ordinator (who may not be United Energy) may levy charges for your meter via your retailer.

## 2.8 Application process

Connection requests should be made well in advance of the anticipated date of the connection requirement so that we can meet your timeframes.

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<sup>9</sup> This may include an applicant requesting a supply point that requires additional extension work or a request for a reserve high voltage feeder.

<sup>10</sup> If uncertainty exists with respect to matters including, but not limited to, the route of an extension, location of other utility assets, environmental considerations, obtaining necessary permits from state or local government bodies.

<sup>11</sup> This may be required in situations including, but not limited to: customer provided buildings, conduits or ducts used to house our electrical assets; customer provided connection facilities including switchboards used for connections; electrical distribution work completed by one of our approved contractors that has been engaged by a customer; provision of system plans and system planning scopes e.g. to bidders for contestable works; reviewing and/or approving plans submitted by bidders for contestable works.

Requests for negotiated connection services must be made to us directly in writing. You should include, where relevant, the:

- site plan
- copy of planning permit
- copy of subdivision
- road construction plan
- complete loading details
- embedded generation details.

We will provide budget estimates free of charge, however, a project fee will be charged for a firm offer to enable detailed design (as discussed in section 2.7).

We will use best endeavours to provide an offer within 65 business days of receiving a completed application (not counting any time in which further information that we have sought from the customer is provided) or a period agreed with you. To accept the offer, you must sign and return it to us before the date lapses, which will be outlined in the offer.

We will outline the basis of our charges in the offer.

# Embedded generators and real estate developers

## 2.9 Embedded generators and storage systems

There are unique connection arrangements for embedded generators, [storage systems](#), electric vehicles and real estate developers. These are outlined below.

### 2.9.1 Pre-approval for export capable connection process

If you are require a basic connection to connect an embedded generator up to 10kW on a single phase or 30kW for three phase connections, you must inform you retailer.

For negotiated connections, such as where the generation capacity is between 10kW/30kW on three phases and 5MW, we need to undertake a detailed connection assessment. This requires you (or your representative) to lodge an application using [embeddedgeneration@ue.com.au](mailto:embeddedgeneration@ue.com.au). Further information on the pre-approval process is available in our Embedded Generation Standards policy, available on our website.<sup>12</sup>

As part of this connection process you will be required to provide information on your embedded generator or storage system as outlined in guidelines that are being developed by the Australian Energy Market Operator. Once the guidelines are completed, the required information will also be specified in this connection policy.

### 2.9.2 Charges for non-registered embedded generation

For embedded generators requiring a negotiated connection, the cost-revenue-test as outlined in chapter 0 **Error! Reference source not found.** will apply, however, for those that are also load customers:

- the connection cost will be calculated on the cost (including shared network charge) to support both the load and generation components of the connection
- the relevant load for calculating the shared network costs will be the gross peak demand of the load, regardless of the embedded generator's expected electricity output
- the augmentation unit rate does not apply to the generation output
- no incremental revenue will be received from the generation component for the purposes of the cost-revenue-test.

### 2.9.3 Electric vehicles

We seek customers to make an enquiry when they intend to install an electric vehicle (EV) charging station or wall charger to their premises.

The increasing prevalence of EV connections may mean that quality of supply issues may arise for some customers. A connection enquiry will assist us in monitoring the impact of EV charging stations and wall chargers on our network and enabling us to respond where appropriate.

## 2.10 Real estate developers

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<sup>12</sup> Refer <https://www.unitedenergy.com.au/>



### **2.10.1 Charges for real estate developers**

When determining the requirement for a capital contribution:

- a real estate developer is treated as a single customer
- incremental costs may include the costs of providing efficiently for forecast load growth
- incremental revenue is the estimated revenue we will receive from all the sites/connection services within the real estate development.

## Contestable services

### 2.11 Competitive tendering and contestable works

When we make an offer to modify our network in relation to a connection request, we must call for tenders (or you may run a tender process) unless you agree no tenders should be called for.<sup>13</sup> Our tendering policy, available on our website, provides more details.<sup>14</sup> Where a competitive tender has been sought by the applicant, and we receive a request in writing for information pertaining to that offer, we will provide an:

- itemised breakdown of the materials, labour costs and overheads, and the final price, offered to us by any person who submitted a tender
- explanation of why a person was selected as preferred tenderer for the performance of works associated with the modification.

We may charge you the reasonable costs incurred in conducting or assisting in the tender process. An estimate of the costs will be provided before the tender process begins.

### 2.12 Reimbursement

Assets constructed on a contestable basis must be gifted to us, after which we will own and maintain them.

Where works are undertaken by a third party, we ensure competitive neutrality by providing the customer with a reimbursement for the gifted connection assets. The value of the reimbursement is the amount of the incremental revenue that we estimate will be received from your connection.

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<sup>13</sup> Essential Services Commission, Electricity Industry Guideline No. 14.

<sup>14</sup> <https://www.unitedenergy.com.au/>

## Modifying assets

### 2.13 Modifying assets

Asset modification includes the undergrounding, relocation, replacement or removal of assets.

Where we receive written request, we will develop an offer to modify our assets. Our offer will include:

- the price, calculated on the basis we make a contribution to the cost for our avoided costs
- the cost that we will incur for the modification works (not subject to the cost-revenue-test), including the costs of materials and labour
- other terms and conditions.

Following receipt of the offer, the applicant may make a written request for an itemised breakdown of our material, labour and overhead costs contained within the offer, in addition to our calculation of the avoided costs set out below. Our response will be provided within 10 business days.

### 2.14 Avoided costs

Customers will be eligible for a rebate of the amount of our avoided costs that may result from the modification of our assets. The avoided costs will be calculated as follows:

$$AC = AM + DAR$$

where:

- *AC is the amount of our avoided costs*
- *AM is the present value of the maintenance and vegetation management we will avoid in relation to existing assets as a result of their modification*
- *DAR is the amount of our deferred asset replacement (DAR) costs*

The DAR costs are calculated as follows:

$$DAR = RC_E - RC_N$$

where:

- *RC<sub>E</sub> is the present value of the future capital costs that we will avoid in connection with the replacement of existing assets as a result of their modification*
- *RC<sub>N</sub> is the present value of the future capital costs that we will avoid in connection with the replacement of new modified assets*

The future capital costs in the calculation of DAR include the cost of materials, labour and a margin of up to 10 per cent for overheads.

In determining the present value, we will use a discount rate equal to our regulated pre-tax weighted average cost of capital. The asset life used in the calculation will be consistent with that set out in our distribution determination for the prevailing regulatory control period.



## Further information

### 2.15 Contact

For more information about connecting to our network you may:

- visit our website <https://www.unitedenergy.com.au/>
- email us via [ueservicedesk@ue.com.au](mailto:ueservicedesk@ue.com.au)
- call us on 1300 131 689.

### 2.16 Complaints

We aim to provide our customers with a positive connection experience. However, if you ever find the service we provide is less than satisfactory, we encourage you to contact us via one of the ways outlined above so that we may address your concerns. All complaints are recorded for investigation and resolution. If the complaint is not resolved to your satisfaction, a dispute resolution process will start and a senior customer relations consultant will investigate the matter further.

If we cannot resolve your concerns you may contact the Victorian Energy and Water Ombudsman, the Australian Energy Regulator or raise the complaint on the Essential Services Commission (Victoria) complaints register.<sup>15</sup>

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<sup>15</sup> <https://www.esc.vic.gov.au/electricity-and-gas/information-consumers/electricity-and-gas-provider-complaints-form>

## Augmentation unit rates

**Table 2** Discounted augmentation unit rates (\$ per MVA of peak coincidental demand, \$2018)

	<u>Discounted unit rate per level</u>	<u>Discounted cumulative unit rate</u>
<b><u>Residential customers</u></b>		
<u>LV feeder</u>	<u>236,002</u>	<u>806,780</u>
<u>Distribution substation</u>	<u>140,998</u>	<u>570,778</u>
<u>HV feeder</u>	<u>116,870</u>	<u>429,780</u>
<u>Zone substation</u>	<u>183,222</u>	<u>312,910</u>
<u>Sub-transmission line</u>	<u>129,688</u>	<u>129,688</u>
<b><u>Non-residential customers</u></b>		
<u>LV feeder</u>	<u>157,752</u>	<u>539,280</u>
<u>Distribution substation</u>	<u>94,248</u>	<u>381,528</u>
<u>HV feeder</u>	<u>78,120</u>	<u>287,280</u>
<u>Zone substation</u>	<u>122,472</u>	<u>209,160</u>
<u>Sub-transmission line</u>	<u>86,688</u>	<u>86,688</u>

Source: United Energy

Note: The average augmentation unit rates are escalated each subsequent year by the Consumer Price Index (CPI). Overheads will be applied in addition to the augmentation rates