



PRELIMINARY DECISION
Energex determination 2015–16
to 2019–20

Attachment 18 – Connection
policy

April 2015

© Commonwealth of Australia 2015

This work is copyright. In addition to any use permitted under the Copyright Act 1968, all material contained within this work is provided under a Creative Commons Attributions 3.0 Australia licence, with the exception of:

- the Commonwealth Coat of Arms
- the ACCC and AER logos
- any illustration, diagram, photograph or graphic over which the Australian Competition and Consumer Commission does not hold copyright, but which may be part of or contained within this publication. The details of the relevant licence conditions are available on the Creative Commons website, as is the full legal code for the CC BY 3.0 AU licence.

Requests and inquiries concerning reproduction and rights should be addressed to the Director, Corporate Communications, Australian Competition and Consumer Commission, GPO Box 4141, Canberra ACT 2601 or publishing.unit@acc.gov.au.

Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

Tel: (03) 9290 1444
Fax: (03) 9290 1457

Email: AERInquiry@aer.gov.au

Note

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.

The preliminary decision includes the following documents:

Overview

Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 3 – Rate of return

Attachment 4 – Value of imputation credits

Attachment 5 – Regulatory depreciation

Attachment 6 – Capital expenditure

Attachment 7 – Operating expenditure

Attachment 8 – Corporate income tax

Attachment 9 – Efficiency benefit sharing scheme

Attachment 10 – Capital expenditure sharing scheme

Attachment 11 – Service target performance incentive scheme

Attachment 12 – Demand management incentive scheme

Attachment 13 – Classification of services

Attachment 14 – Control mechanism

Attachment 15 – Pass through events

Attachment 16 – Alternative control services

Attachment 17 – Negotiated services framework and criteria

Attachment 18 – Connection policy

Contents

Note	18-2
Contents	18-3
Shortened forms	18-4
18 Connection policy	18-6
18.1 Preliminary decision	18-7
18.2 Energex's proposal	18-7
18.3 AER's assessment approach	18-7
18.4 Reasons for preliminary decision	18-7

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

Shortened form	Extended form
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

18 Connection policy

We are required to approve a connection policy prepared by a distributor under the National Electricity Rules (NER).¹

A connection policy sets out the nature of connection services offered by a distributor, when connection charges may be payable by retail customers and how those charges are calculated. A connection policy: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 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

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

¹ NER, Part DA of chapter 6.

² NER, cl. 6.7A.1(b).

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

- 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 Preliminary decision

We approve Energex's connection policy because it:

1. meets the requirements of Part DA of Chapter 6 of the NER
2. is consistent with the connection charge principles, and
3. is consistent our connection charge guidelines for electricity retail customers.

18.2 Energex's proposal

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

18.3 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.

18.4 Reasons for preliminary decision

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.

⁴ Energex, *Attachment 11: Energex connection policy*, October 2014.

- 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 rates⁵ 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 cost⁶ 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
 - 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
 - they are comparable to the current charge rate of \$154/kVA in South Australia.⁹

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.

⁶ It measures the annualised cost of supplying the required capacity over the life of the asset.

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.

⁸ AER, *Guidance Paper: The AER'S Conclusion On The Benchmark Upstream Augmentation Charge Rates for CitiPower's Network*, 25 June 2010, p. 5.

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.