

Draft Decision

ActewAGL distribution determination

2015–16 to 2018–19

Attachment 18: Connection policy

November 2014

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1. AER reference: 52254
2. Note
3. This attachment forms part of the AER's draft decision on ActewAGL’s 2015–19 distribution determination. It should be read with other parts of the draft decision.
4. The draft decision includes the following documents:
5. Overview
6. Attachment 1 – Annual revenue requirement
7. Attachment 2 – Regulatory asset base
8. Attachment 3 – Rate of return
9. Attachment 4 – Value of imputation credits
10. Attachment 5 – Regulatory depreciation
11. Attachment 6 – Capital expenditure
12. Attachment 7 – Operating expenditure
13. Attachment 8 – Corporate income tax
14. Attachment 9 – Efficiency benefit sharing scheme
15. Attachment 10 – Capital expenditure sharing scheme
16. Attachment 11 – Service target performance incentive scheme
17. Attachment 12 – Demand management incentive scheme
18. Attachment 13 – Classification of services
19. Attachment 14 – Control mechanism
20. Attachment 15 – Pass through events
21. Attachment 16 – Alternative control services
22. Attachment 17 – Negotiated services framework and criteria
23. Attachment 18 – Connection methodology
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1. Shortened forms

| 1. Shortened form | 1. Extended form |
| --- | --- |
| 1. AARR | 1. aggregate annual revenue requirement |
| 1. AEMC | 1. Australian Energy Market Commission |
| 1. AEMO | 1. Australian Energy Market Operator |
| 1. AER | 1. Australian Energy Regulator |
| 1. ASRR | 1. aggregate service revenue requirement |
| 1. augex | 1. augmentation expenditure |
| 1. capex | 1. capital expenditure |
| 1. CCP | 1. Consumer Challenge Panel |
| 1. CESS | 1. capital expenditure sharing scheme |
| 1. CPI | 1. consumer price index |
| 1. CPI-X | 1. consumer price index minus X |
| 1. DRP | 1. debt risk premium |
| 1. DMIA | 1. demand management innovation allowance |
| 1. DMIS | 1. demand management incentive scheme |
| 1. distributor | 1. distribution network service provider |
| 1. DUoS | 1. distribution use of system |
| 1. EBSS | 1. efficiency benefit sharing scheme |
| 1. ERP | 1. equity risk premium |
| 1. expenditure assessment guideline | 1. expenditure forecast assessment guideline for electricity distribution |
| 1. F&A | 1. framework and approach |
| 1. MRP | 1. market risk premium |
| 1. NEL | 1. national electricity law |
| 1. NEM | 1. national electricity market |
| 1. NEO | 1. national electricity objective |
| 1. NER | 1. national electricity rules |
| 1. NSP | 1. network service provider |
| 1. opex | 1. operating expenditure |
| 1. PPI | 1. partial performance indicators |
| 1. PTRM | 1. post-tax revenue model |
| 1. RAB | 1. regulatory asset base |
| 1. RBA | 1. Reserve Bank of Australia |
| 1. repex | 1. replacement expenditure |
| 1. RFM | 1. roll forward model |
| 1. RIN | 1. regulatory information notice |
| 1. RPP | 1. revenue pricing principles |
| 1. SAIDI | 1. system average interruption duration index |
| 1. SAIFI | 1. system average interruption frequency index |
| 1. SLCAPM | 1. Sharpe-Lintner capital asset pricing model |
| 1. STPIS | 1. service target performance incentive scheme |
| 1. WACC | 1. weighted average cost of capital |

# Connection policy

1. Part DA of Chapter 6 of the NER requires a distributor to prepare a connection policy for approval by the AER. The purpose of the connection policy is to set out the circumstances in which the distributor may require a connection applicant to pay a connection charge and explains how such a charge is determined.
2. The proposed connection policy:[[1]](#footnote-1)

* must be consistent with:
* the connection charge principles set out in chapter 5A of the NER
* the connection charge guidelines published by us under chapter 5A.[[2]](#footnote-2)
* must specify:
* 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.

1. The purpose of our connection charge guidelines for electricity retail customers is to ensure that connection charges:

* 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 cost of providing the connection services
* limit cross-subsidisation of connection costs between different classes (or subclasses) of retail customer
* are competitively neutral, if the connection services are contestable.

1. We may approve the proposed connection policy if satisfied that the proposed policy adequately complies with the requirements of Part DA of chapter 6 of the NER.

## Draft decision

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

## ActewAGL's proposal

1. ActewAGL proposed a similar connection policy for the forthcoming regulatory period as previously approved by us in the transitional distribution decision for ActewAGL for 2014/15,[[3]](#footnote-3) with the small exception of a 1.5 per cent increase in the per unit upstream augmentation charge rate,[[4]](#footnote-4) from $59.42 to $60.31 per kVA capacity inclusive of GST.

## AER's assessment approach

1. 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.

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

## Reasons for draft decision

1. We approve ActewAGL’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 also the necessary information to new customers as required by Part DA of chapter 6 of the NER.

We note that:

* All other connection related charges included in the connection policy, such as metering installation charges, are consistent with the service classification of this determination.
* It does not have terms and conditions that are unfair or unreasonable.
* The per unit upstream augmentation charge rate is reasonable. By way of example, we note that this rate is much less than the equivalent charges in South Australia at $120/kVA (2005 dollar value, indexed to CPI).[[5]](#footnote-5)
* The 1.5 per cent increase in per unit upstream augmentation charge rate is not unreasonable and does not present a price shock to customers because the increase is less than CPI.

1. NER, clause 6.7A.1(b). [↑](#footnote-ref-1)
2. AER, Connection charge guideline for electricity retail customers, Under chapter 5A of the National Electricity Rules Version 1.0, June 2012. [↑](#footnote-ref-2)
3. AER, Transitional distribution decision 2014–15: Ausgrid, Endeavour Energy, Essential Energy, ActewAGL, 16 April 2014, p. 57. [↑](#footnote-ref-3)
4. The upstream augmentation charge is specified in our Connection Charge Guideline (under clause 5.2.8) for recovering the cost of augmenting the upstream shared network because of the additional demand by new customers. This charge only applies to large customers. [↑](#footnote-ref-4)
5. Essential Services Commission of South Australia, Application of Chapter 3 of The Electricity Distribution Code Electricity Industry Guideline No. 13. [↑](#footnote-ref-5)