



Draft Decision
ActewAGL distribution determination
2015–16 to 2018–19
Attachment 18: Connection policy

November 2014

© Commonwealth of Australia 2014

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 Attribution 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, ACCC, GPO Box 3131, Canberra ACT 2601, or

publishing.unit@accc.gov.au .

Inquiries about this document 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

AER reference: 52254

Note

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.

The draft 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 methodology

Attachment 19 – Pricing methodology

Contents

Note	18-3
Contents.....	18-4
Shortened forms	18-5
18 Connection policy	18-7
18.1 Draft decision	18-8
18.2 ActewAGL's proposal.....	18-8
18.3 AER's assessment approach.....	18-8
18.4 Reasons for draft decision	18-8

Shortened forms

Shortened form	Extended form
AARR	aggregate annual revenue requirement
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
ASRR	aggregate service revenue requirement
augex	augmentation expenditure
capex	capital expenditure
CCP	Consumer Challenge Panel
CESS	capital expenditure sharing scheme
CPI	consumer price index
CPI-X	consumer price index minus X
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

Shortened form	Extended form
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
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 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

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.

The proposed connection policy: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
- 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.

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.

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.

¹ NER, clause 6.7A.1(b).

² AER, *Connection charge guideline for electricity retail customers, Under chapter 5A of the National Electricity Rules Version 1.0*, June 2012.

18.1 Draft decision

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.

18.2 ActewAGL's proposal

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 with the small exception of a 1.5 per cent increase in the per unit upstream augmentation charge rate,⁴ from \$59.42 to \$60.31 per kVA capacity inclusive of GST.

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

18.4 Reasons for draft decision

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.

³ AER, *Transitional distribution decision 2014–15: Ausgrid, Endeavour Energy, Essential Energy, ActewAGL*, 16 April 2014, p. 57.

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.

- 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
- 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.

⁵ Essential Services Commission of South Australia, Application of Chapter 3 of The Electricity Distribution Code Electricity Industry Guideline No. 13.