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10 August 2011

Mr Chris Pattas
General Manager
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

By email to: aerinquiry@aer.gov.au

Dear Mr Pattas

Submission on connection charge guidelines consultation paper

ActewAGL Distribution welcomes the opportunity to comment on the AER's 10 June 2011 consultation paper on issues and AER's preliminary positions in relation to guidelines for connection charges for accessing electricity distribution networks. ActewAGL Distribution continues to give consideration to this issue and the matters raised for consultation and addresses the AER's questions in the accompanying submission.

We note the balance to be achieved between efficiency and equity in accessing the network and the potential for imposition of undue administrative costs. We note also the recognition by the AER of the need to consider historical, geographical and inter-jurisdictional regulatory differences in reaching its conclusions.

The paper provides a good basis for addressing the issues involved, but further attention is required to the practicalities involved in implementing a framework consistent with the principles in chapter 5A of the National Electricity Rules. One such practicality which receives insufficient attention in the paper is that of its application in the case of developers who will not be the eventual consumers of electricity from the network.

The variety and diversity of cases that might be encountered and their effective treatment points to the development of a framework that provides sufficient discretion to service providers, rather than an attempt by to codify every circumstance.

Should you have any further queries on this matter, they should be addressed to Manager Technical Regulations and Standards, on (02) 6293 5871.

Yours sincerely

S P Devlin

Stephen Devlin
General Manager Asset Management

ActewAGL

Response to the consultation paper on issues and AER's preliminary positions on connection charge guidelines

Submission to the
Australian Energy Regulator

August 2011

1. Introduction

On 10 June 2011, the Australian Energy Regulator (AER) issued a consultation paper on issues and the AER's preliminary positions on connection charge guidelines for accessing electricity distribution networks, and is seeking submissions from DNSPs and other interested parties.

This submission is made by ActewAGL Distribution, a partnership between Actew Distribution Ltd and Jemena Networks (ACT) Pty Ltd, which owns and operates the electricity distribution network in the Australian Capital Territory. In the following sections, ActewAGL Distribution provides some general comments, and then addresses each of the requests for comment in the consultation paper.

2. General Comments

ActewAGL Distribution continues to give consideration to relevant aspects of the AER's consultation paper on the connections charge guidelines. Concern remains regarding the nature of applications in relation to connections where multiple parties are involved. The most relevant examples of this involve a developer and subsequent consumer/s.

ActewAGL Distribution notes with particular concern that the AER's consultation paper does not clarify requirements for real estate developers. Additionally, ActewAGL Distribution is concerned about the use of thresholds. In some cases, multiple customers (meters) may individually fall below a threshold while the total project may exceed the threshold. The practical application of many of the concepts proposed is also problematic. For example, in accordance with the ACT Electricity Network Capital Contributions Code, ActewAGL Distribution customarily funds extensions to the distribution network to a basic overhead standard, with developers contributing to the additional cost of undergrounding in line with ACT planning requirements.

The AER says in the consultation paper that:[1]

> … in developing the guidelines, the AER must have regard to:
>
> (1) historical and geographical differences between networks; and
>
> (2) inter-jurisdictional differences related to regulatory control mechanisms, classification of services and other relevant matters; and
>
> (3) the circumstances in which connection services may be provided by persons other than Distribution Network Service Providers (and are therefore contestable)."

[1] Consultation paper p 5

ActewAGL Distribution believes that these are critical matters for the AER to address. We note that the AER has indicated that it does not seek to adjust the historical split between DUoS and capital contributions in each jurisdiction, noting that it generally does not matter whether costs are recovered upfront, or as ongoing payments.[2] ActewAGL supports this position. However, the guidelines need to make clearer how the AER intends to address historical, geographical and jurisdictional differences.

Comments in the following sections address information sought by the AER.

3. Information sought by the AER

3.1 Typical connection works

The AER seeks comments on the above proposed definitions and those in appendix A for use in the connection guideline.

ActewAGL Distribution supports the AER's proposed definitions, including those in appendix A of the consultation paper.

3.2 Design criteria and considerations

The AER seeks comments on its design criteria for the connection charge guideline.

ActewAGL Distribution has a number of concerns with the proposed design criteria.

Firstly, connection charges need, in general, to be reflective of the costs of connection for the customer class, rather than those for the individual customer. Estimating costs is a complex process. It is difficult to identify the specific costs attributable to a consumer because the nature of networks is such that consumers share many common assets which in turn allow distributors to connect consumers at a lower than standalone cost. The relevant exercise is therefore, in most cases, one of aggregating costs for a particular class of consumer and dividing those costs among consumers rather than estimating the cost for each consumer.

Secondly, ActewAGL Distribution encourages the AER to consider jurisdictional factors in assessing market price of services where suitable alternative service providers are not readily available.

Thirdly, ActewAGL Distribution, while believing that minimisation of cross-subsidisation is desirable to provide the best locational signals, agrees with the AER that this should not be pursued at the cost of undue and inefficient costs of administration.

The practical application of the AER's proposed principles and design criteria remain a concern to ActewAGL Distribution. As a relevant example, the guidelines are ambiguous as to whether capital contributions would apply to a real estate developer constructing multiple

[2] Consultation paper pp 14-15

premises where the augmentation cost for the whole project is above the threshold, while the average cost per premises is below the threshold.

3.3 Method of determining capital contributions (cost–revenue test)

The AER seeks comments on its preliminary position to apply a cost-revenue test of the form CC = ICCS + ICSN – IR(n=X).

ActewAGL Distribution supports the concept of a standard cost-revenue test to determine where a capital contribution can be charged for a connection service. The specific cost-revenue test proposed by the AER is suitable where the revenue stream directly attributable to the new connection can be estimated with a high level of certainty. However, where an applicant for a connection service is not responsible for the revenue stream, this standardised formula would not be appropriate. ActewAGL Distribution suggests that, in these cases, discretion should be provided to the DNSP.

Additionally, there may not be an incremental cost of shared network assets that can be attributed to a new connection. Upstream assets are usually built for anticipated load, before the anticipated load is connected. It is necessary for the cost of these assets to be recovered and the revenue stream should recover costs already incurred in anticipation of the load. The alternative may be more expensive, with DNSPs forced to invest in capacity to accommodate the existing load and augment the network as demand rises.

3.4 Incremental revenue

The AER requests comments regarding whether DUoS is the appropriate measure of revenue to use in the cost-revenue-test.

ActewAGL Distribution believes DUoS is the appropriate measure of revenue to use in the cost-revenue test. However, the AER has not specified in the consultation paper whether the average revenue or the tariff revenue should be used for a given customer class. The average revenue reflects the additional revenue the DNSP earns under the revenue cap. The tariff for a specific customer class reflects the respective consumer contribution. ActewAGL Distribution believes the AER needs to clarify its position and/or allow the DNSPs discretion in determining the methodology.

Where a customer falls below the threshold, there is no contribution. In line with the AER's design criteria, any cross subsidy associated with connections below the threshold should not be removed as this would involve undue administration costs.

The AER requests comments on the appropriate assumptions regarding the connection period for new connections.

ActewAGL Distribution supports the assumption of a 30-year connection period for residential customers. However, business customers are diverse and determination of an appropriate connection period for these customers will require discretion by the DNSP.

The AER requests comments on how much flexibility DNSPs, or new business customers, should have to alter these default assumptions.

ActewAGL Distribution believes significant discretion should be provided to the DNSP regarding the assumed connection period for new business customers since it would be impractical (and undesirable) to develop rules for all possible contingencies.

The AER requests comments regarding whether the WACC is the appropriate discount rate to use in performing the net present value calculation.

The nominal WACC is the appropriate discount rate for performing the net present value calculation if the AER requires each DNSP to forecast the nominal prices and costs for the life of applicable projects. However as this is a complex process, ActewAGL Distribution proposes as preferable the use of current DUoS prices and current costs with reference to the real WACC (that is, the WACC adjusted for inflation).

The AER requests comment regarding whether it is appropriate to use a pre-tax WACC, or a post-tax WACC with a separate adjustment for taxation.

Generally, ActewAGL Distribution believes the pre-tax WACC should be applied. If post tax costs and revenue are to be calculated and discounted, then the post tax WACC should be applied.

The AER requests comments regarding the appropriate assumption of future price path to use in the cost-revenue test.

Forecasting future prices and costs raises additional errors that can distort the outcome. As indicated above, it is preferable and more consistent to estimate the NPV using current prices and current costs together with the real WACC.

3.5 Incremental cost

The AER seeks comments on its preliminary view that an extension should (be) funded by the customer requiring the extension, subject to the cost-revenue test.

ActewAGL Distribution supports customer funding of an extension, subject to the cost-revenue test. Additionally, ActewAGL Distribution believes DNSPs should be allowed discretion to determine if the costs are to be recovered solely in the form of a capital contribution.

The AER seeks comments on its preliminary view that:

- ***Subject to customer agreement, DNSPs should call tenders for connection works over $3000.***
- ***For works below this threshold, DNSPs should use pre-established period (standing) contract prices from qualified third party contractors as the basis for cost calculation.***

ActewAGL Distribution believes the AER should take account of the particular characteristics of each jurisdiction in determining a threshold for connection works. ActewAGL Distribution strongly believes that $3000 is too low to necessitate a tender process for those connection works and, at that level, the administrative burden associated with a tender process will outweigh any potential benefit to the customer, both in cost and timing. For any threshold the concept of a tender process for services which are not contestable cannot be implemented in practical terms.

The AER seeks comments on its preliminary view to charge for shared network augmentation on a per unit rate based on the calculation method outlined in the South Australia Guideline No. 13.

ActewAGL Distribution believes the South Australia Guideline No. 13 does not adequately address variables associated with capacity. Capacity varies, for example, with temperature. While there may be value to customers in a consistent methodology across jurisdictions, ActewAGL Distribution does not believe that different DNSPs would be able to apply any methodology consistently in view of the variety of circumstances in which it would need to be applied.

The AER seeks comments on its preliminary view to allow DNSPs to segment their network into areas where different shared network augmentation charge rates would apply.

ActewAGL Distribution supports unique network area segmentation as the basis for differing shared network augmentation charge rates.

The AER requests comments on:

- ***What is the most appropriate manner to calculate the operation and maintenance costs imposed by a new customer?***

ActewAGL Distribution proposes that current average costs be used. For costs of the high voltage network, the total O&M costs should be divided by the maximum system demand to determine an average high voltage O&M cost per kVA that could be applied to a customer's anticipated load. For the low voltage network, the average cost of maintaining the low voltage network should be divided by the number of customers connected to the low voltage network to estimate average low voltage O&M costs for small consumers. To estimate the total O&M costs for low voltage customers, the estimated high voltage O&M costs needs to be added to the average low voltage O&M costs.

- ***Should the O&M cost be excluded from the incremental cost calculation; and instead the incremental revenue calculation be adjusted, based on the equivalent network tariff with the O&M component removed?***

ActewAGL Distribution has doubts regarding the practicality of this approach. However, if it were to be adopted, ActewAGL Distribution suggests that the prices be discounted for the proportion that O&M costs contribute to the total revenue requirement.

3.6 Capacity threshold for shared network augmentation charge

The AER seeks comments on its preliminary view to set a fixed demand threshold rather than a threshold dependant on local capacity.

ActewAGL Distribution remains concerned about the practicality of applying a fixed demand threshold.

The AER seeks comments on its preliminary view to set a threshold for most areas of networks on the greater of:

- ***the level of customer demand in each DNSP's network that would result in approximately 10 per cent of new customers paying for specific shared network augmentation (based on existing customer demand information);***

  or

- ***70 kVA (equivalent to 100 Ampere 3-phase low voltage supply).***

Where thresholds are used, they should be designed to ensure that administrative costs are not excessive. ActewAGL Distribution considers the use of a 70 kVA threshold is appropriate from a technical perspective. Discretion needs to be available in application due to the potential for threshold effects.

The AER seeks comments on its preliminary view to allow DNSP's to nominate less developed areas of the network where a different threshold would be more appropriate.

ActewAGL Distribution supports the AER's preliminary view that DNSPs should be afforded discretion to determine a threshold with respect to less developed areas of the network.

The AER seeks comments on its preliminary view that customers connected on SWER lines should pay for shared network augmentation on demand above 25 kVA as the default level unless a different threshold is nominated by a DNSP and deemed appropriate by the AER.

This question is not applicable to ActewAGL Distribution since there are no SWER lines forming part of its network.

The AER seeks comments on its preliminary view that it will be difficult to verify and enforce a customer's peak coincident demand and therefore the threshold should be set based on peak demand.

ActewAGL Distribution agrees with the AER that verification and enforcement of peak coincident demand would be a difficult and costly exercise. ActewAGL Distribution supports the use of a threshold for capacity, not a threshold for demand. While it is not practical to apply estimated demand, capacity estimates can be applied appropriately with a consistent methodology.

The AER seeks comments on its preliminary view that the approach outlined in ESCOSA's Guideline No. 13 is a fair and practicable approach for estimating peak demand that should be adopted.

ActewAGL Distribution suggests DNSPs should be allowed greater discretion to estimate a maximum demand where a customer's estimated demand is deemed questionable. The additional administrative burden associated with a three year re-evaluation period may not ultimately result in customer benefit. Additionally, NECF has appropriate provisions for dispute resolution between DNSPs and customers in such circumstances. An additional dispute resolution process would create an unnecessary administrative layer. In addition, a three year review would be likely to shift risk from the developer/builder to the subsequent consumer/s.

The AER seeks comments on its preliminary view that a customer who is required to pay for shared network augmentation, would pay for shared network augmentation on the amount of their peak demand above the shared network augmentation threshold.

ActewAGL Distribution proposes no use of peak demand threshold. AER involvement in the operational matters at this level is likely to be intrusive and impractical. As noted in the earlier general comments, the AER needs to adopt a flexible, high level approach to such issues, recognising jurisdictional differences. There are too many variables to be considered in any single application and it is impossible to cover every situation in rules or guidelines.

Rules that have broad implications may not be appropriate in every circumstance and are best avoided. For example, a customer may seek augmentation that includes irrigation pumps, ovens, and/or freezers, that may operate during low cost, off-peak times. The use of peak demand to determine the shared augmentation cost is likely to be inappropriate under these circumstances. If a peak demand threshold is applied, as the AER has proposed, it could negate economically sound behaviour.

The AER seeks comments on its proposal that embedded generators should fund specific network shared network augmentation to remove constraints on their outputs due to limits of the existing network.

ActewAGL Distribution agrees with the AER's view that embedded generators should fund specific shared network augmentation.

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3.7 Other issues

The AER seeks comments on:

- ***Should the AER place limits on the maximum amount of prepayment that a DNSP can charge the connecting customer?***

ActewAGL Distribution believes it is not practical to place a specific limit on the amount of prepayment that a DNSP can charge a connecting customer. In some cases, a DNSP may charge the actual upfront costs incurred by the DNSP as a prepayment charge. In other cases, a DNSP may charge the actual upfront costs incurred plus an amount toward a deposit of the construction costs. In either case, these are prudent charges by the DNSP that ultimately reduce the risk of increased cost to existing customers. Default of an applicant during design and procurement phases, for example, could result in additional costs to the DNSP that are ultimately passed to existing customers.

- ***If so, should the AER specifically limit the amount of a prepayment to the actual upfront costs incurred by the DNSP, or should it set a maximum percentage?***

Not applicable.

The AER seeks comments on whether its connection guideline should have an option for DNSP's to implement security fee schemes.

ActewAGL Distribution supports the option for a security fee scheme.

The AER seeks comments on its proposed principles for a security fee scheme.

While ActewAGL Distribution supports the concept of a security fee scheme, concern remains regarding the relationship between the connection charges applicant and the ongoing connection services applicant. In many cases, DNSPs will receive connection applications from parties who will not be responsible for the downstream revenue from the respective connection. ActewAGL Distribution encourages the AER to consider in such cases a security fee scheme model which will define this relationship and/or allow DNSPs discretion. Also, it may be preferable to apply a security fee in the form of a bank guarantee as this avoids the need for refunds, and does not affect the DNSP's revenue if not drawn upon.

The AER seeks comments on its preliminary view that the assets subject to a rebate scheme should be depreciated over a 20 year term.

The 20 year period is appropriate, however ActewAGL Distribution notes the inconsistency between the AER's proposed 20-year term and the calculation of NPV of future revenue in other sections of the consultation paper.

The AER seeks comments on its preliminary view that a rebate scheme should have regard to a length of an extension and the capacity of the assets used by subsequent customers.

ActewAGL Distribution believes that, for simplicity, any rebate scheme should be flexible in allowing DNSPs to determine the most appropriate parameters for the scheme, including deciding whether the costs of running such a scheme make it worthwhile in the circumstances.

The AER seeks comments on its preliminary view that a $500 refund threshold strikes an appropriate balance between a DNSP's administrative costs and the materiality of a refund.

ActewAGL Distribution believes a refund threshold of $500 is too low in consideration of administrative costs. Given the staged development approach practised in the ACT, refunds are seldom likely to be required providing a high average cost of system development and maintenance for each (rare) instance when a refund would be applicable.

The AER seeks comments on its preliminary view on customer payments when the network is built to a greater standard than a customer or group of customers would otherwise require, if the DNSP did not consider it more efficient to build the network to a greater standard based on forecast load growth.

ActewAGL Distribution supports the AER's position that customer payments should reflect the standard required by the customer or group of customers and not necessarily that deemed necessary for forecast load growth. ActewAGL Distribution believes DNSPs should be allowed flexibility in how this principle is achieved. If the DNSP chooses to install additional capacity, it does so at its cost. If new customers take up this additional capacity, the customers that made the capital contribution should not be entitled to any rebate. In the latter case, it is the DNSP that takes the risk of investing in the additional capacity.

The AER seeks comments and alternative approaches to deal with the costs allocation issues where a DNSP provides a network extension on request of a single customer, to a standard greater than that customer requires due to the DNSP's network planning process.

ActewAGL Distribution believes DNSP's should be allowed flexibility in how this principle is achieved. [See above]

3.8 Proposed definitions

The AER requests feedback on the completeness, consistency and adequacy of the proposed definitions.

ActewAGL Distribution is satisfied with the completeness, consistency and adequacy of the proposed definitions.

The AER seeks comment on whether stakeholders require clarification of any additional terms.

Clarification of additional items is not necessary at this time.