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12 August 2011

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

Attention: David Chan

Dear Mr Pattas,

Consultation Paper – Issues and AER's preliminary positions Connection charge guidelines: for accessing the electricity distribution network

Thank you for the opportunity to comment on the aforementioned consultation paper outlining the issues and preliminary positions of the AER regarding the development of a national connection charge guideline.

Aurora understands the AER developed the following set of design criteria based on the principles and the rules set out in Chapter 5A:

1. Where possible, the connection charge should be reflective of the actual cost for providing the network extension attributed to the individual customers.

2. Where suitable alternative service providers for construction works are available, the DNSP's charge should be reflective of the market price; where no alternative service providers are available, DNSPs must charge at a reasonable rate, which is reflective of the market price.

3. Any cross subsidies between new and existing customers should be minimised. However, minimising cross subsidies should not be pursued at the expense of undue administrative costs.

4. Customers should not experience a large step change in capital contributions if they fall above or below the threshold for charging for augmentation.

Overall Aurora supports the broad intentions of the AER to develop a guideline that is equitable, promotes economic efficiency, clear price signalling, limits cross-subsidisation, avoids price shocks to customers, and recognises geographical and historical differences.

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These were the broad principles of the NECF and are on the whole supported by the preliminary positions of the AER.

Aurora would like to make the following detailed comments regarding the issues raised within the paper:

AER's Proposed 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)*

  Where
  - *CC = Capital Contribution;*
  - *ICCS = Customer specific incremental costs incurred by the DNSP;*
  - *ICSN = Incremental costs in the upstream (shared) network directly attributable to the new connection, where applicable; and*
  - *IR(n=X) = Present value of a X year revenue stream directly attributable to the new connection.*

Aurora agrees with the AER's preference of introducing a cost revenue test to cover all connections, and considers the above formula is appropriate.

Aurora concurs with the AER's position that the customer should pay a capital contribution equal to the difference between the cost of connecting the customer and the revenue to be collected as a result of the connection.

Aurora is in agreement with the AER that incremental revenue should be based on the DUoS attributable to the new connection. Aurora notes that the formula will ensure that where incremental costs are not fully offset by the incremental DUoS attributable to the new connection, that the connecting customer will fund the difference and not be cross-subsidised by the existing customer base.

Having said that, Aurora suggests consideration is given to the following issues:

- The differing application to distributors operating under a price cap regime and a revenue cap regime;
- The original premise in the NECF that connection assets be fully funded by the connecting customer other than through DUoS, only upstream augmentation for small customers was to be recovered through DUoS;
- Effects of the timing of the payment of a customer capital contribution – payment upfront or over a period of time through DUoS; and
- Recovery of a portion of the costs for a connection asset through DUoS requires that the customer base support the financing costs for that portion.

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

Aurora agrees that DUoS is the appropriate measure of revenue.

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

Aurora considers that the assumptions regarding the period for new connections are appropriate. If, for example, the 15 year period for business customers is not negotiable, DNSPs can seek a prudential requirement.

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

Aurora considers that DNSPs should have flexibility to alter these default assumptions or request a security fee/prudential requirement where, for example, a business is a green-field investment. This is provided for under Part K of Chapter 6 of the National Electricity Rules.

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

Aurora agrees that WACC is the appropriate discount rate for this calculation

- *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.*

Aurora considers that a pre-tax real WACC is the most appropriate discount rate.

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

Aurora considers that the use of a pre-tax real WACC would infer that a flat price path would be the most appropriate of the options provided.

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

Aurora agrees and notes that any extension assets that have received a Capital Contribution maybe entitled to a reimbursement in the future.

- *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.*

Aurora considers this is a matter for jurisdictional policy makers. On the second point, Aurora disagrees noting that the regulatory process under which Aurora is currently being assessed by the AER deems the DNSPs prices are efficient.

Shared Network Augmentation Cost

- *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.*

Aurora understands the intention of the AER is to provide transparency to customers that they are contributing an appropriate and fair proportion of upstream shared network augmentation costs. Aurora understands the AER's primary intention is transparency for customers, avoiding uneconomic connections, and to prevent any step changes, and considers this is not a primary factor in preventing price shocks.

A general per unit rate charge could be developed based on the methodology in South Australia. In Tasmania recognising the network is highly dispersed, an appropriate split might be: Urban, Rural, 11 kV, 22 kV, and SWER.

- *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.*

As mentioned above Aurora's network is highly dispersed with many regional communities. An appropriate split might be: Urban, Rural, 11 kV, 22 kV, and SWER.

- *The AER requests comments on*
  - *what is the most appropriate manner to calculate the operation and maintenance costs imposed by a new customer*
  - *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?*

Aurora agrees that an O & M component should be included in the incremental cost to ensure the O & M cost is netted – off from the revenue recovered via DUoS. Calculating an O & M component is difficult, particularly for complex connections, therefore Aurora agrees with the AER's preliminary view that an O & M cost should be based on the current network average for each class of customers.

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.*

Aurora supports the setting of a fixed demand threshold but there should be flexibility for jurisdictions to set a lesser threshold for rural areas or SWER lines to ensure greater locational pricing signals.

- *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).*

Aurora's preference is for a fixed demand threshold and is comfortable with the 100 Ampere three phase LV supply threshold proposed by the AER. Aurora notes that in Tasmania the overwhelming majority of new connections are in the residential small business category - consumption averaging approximately 10 MWh pa or 2 kVA and for Non-Residential 80 MWh (if excluding the single largest new customer).

For these reasons very few connections trigger the requirement to augment the network and therefore a threshold of 100 Ampere three phase LV supply or 70 kVA (which is roughly 2% of new non-residential connections in Tasmania) would be appropriate noting the comments provided below.

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

Aurora agrees that the AER should allow DNSPs to nominate less developed areas of the network where a different threshold would be more appropriate. The less developed parts of the network that may be addressed are SWER lines, which is explored in further detail below.

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

Aurora supports the 25 kVA threshold for SWER lines.

If a development/customer requires a connection with more phases than are available from the SWER network in the vicinity eg customer requires three phase where only SWER exists, the augmentation should be considered to be connection works or an extension to customer's connection assets and charged based on the cost – revenue test for a typical network.

In this instance, Aurora considers it is equitable to charge a customer a contribution towards the full cost of the augmentation if their demand is above the higher threshold (70kVA) associated with the replacement assets.

- *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 a set based on peak demand.*

Aurora agrees that the threshold should be set based on peak demand not a customer's peak coincident demand.

- *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.*

Aurora agrees with using the approach outlined in ESCOSA's guideline.

- *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.*

Aurora agrees that a customer should pay for shared network augmentation on the amount of their peak demand above the shared network augmentation threshold.

- *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.*

Aurora agrees that embedded generators should fund specific shared network augmentation to remove constraints on their outputs due to limits of the existing network.

Capital expenditure on the network required to allow the network to receive energy from the generator should be paid for by the customer unless the DNSP agrees there is a demonstrable net benefit to other network users and a lesser contribution is considered appropriate. The arrangements must be negotiated and agreed between the DNSP and the customer recognising the requirements under Chapter 6 of the NER – NER 6.1.4.

Prepayments

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

  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?

Aurora considers that no limits should be set on prepayments. Prepayments required to progress design and other matters as part part of the application process, once construction is ready to commence, construction shouldn't start until the full customer contribution has been received.

If the AER puts a limit on prepayments, Aurora must borrow the difference, meaning additional borrowing cost spread across the customer base. A limit on prepayments also raises the question of how non-prepayment costs are to be recovered.

Security Fee (financial guarantee) scheme

- *The AER seeks comments on whether its connection guideline should have options for DNSPs to implement security fee schemes.*

Aurora understands the security fee scheme is aimed at preventing otherwise risky projects from being effectively bank guaranteed by the rest of the customer base and this is already contemplated under Part K of Chapter 6 of the NER. A security fee scheme provided it was in the form of an irrevocable bank guarantee could be considered appropriate for the recovery of outstanding incremental costs associated with a customer connection.

In the absence of payments being collected upfront it would be vital that DNSPs and the broader customer base are protected from any risky connections using a security fee scheme.

An alternative approach maybe that DNSPs provide non-standard network tariffs only to those customers that are a risk of bypass; that is, application of the standard tariff makes it more economical for the customer to connect directly to the transmission network.

At present there are fewer than 10 customers on non-standard network tariffs at Aurora.

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

If customers contributions are not paid upfront based on the incremental cost of connection, the DNSP should be allowed to request a security fee. Overall, Aurora is comfortable with the proposed principles for a security fee scheme.

Refund of Connection Charges for Extension Assets

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

Aurora is supportive of this approach, as it removes the issue of whether the assets are for business or residential purposes.

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

Aurora agrees with this approach. Aurora notes that it is consistent with Aurora's current rebate scheme.

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

Aurora agrees with the refund threshold.

- *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.

Aurora considers the customer payment under this circumstance should be a pro-rata amount based on the equivalent least cost technically acceptable method. The initial customer should pay for the inefficient expenditure where works are requested above standard to avoid uneconomic connections. Subsequent customers should not have to subsidise the initial customers 'gold plated' assets.

- *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.

Aurora considers the DNSP responsible for above standard work should contribute the difference above the equivalent least cost technically acceptable method. Subsequent customers should not have to contribute towards the premium works requested by the DNSP.

Definitions :

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

Definitions proposed – Aurora is satisfied with each of the definitions contained in the consultation paper.

Thank you again for the opportunity to respond to the consultation paper. Aurora looks forward to receiving further guidance on the AER's proposed connection charge guideline to be included in the Draft Guideline released later in the year.

If you have any queries regarding any of Aurora's responses please contact Leigh Mayne at Leigh.Mayne@auroraenergy.com.au or Jeremy Inglis at Jeremy.Inglis@auroraenergy.com.au.

Yours sincerely

Kim Rosinski
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