Ausgrid submission to AER Draft Connection charge guidelines for electricity retail customers

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Ausgrid submission

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1 Introduction

Ausgrid is pleased to submit these comments to the Australian Energy Regulator (AER) on the *Draft connection charge guidelines for electricity retail customers* released on 22 December 2011.

The approach taken by the AER has addressed a number of the issues raised by Ausgrid in response to the AER's consultation paper[1] in August 2011 and in developing the draft connection charge guidelines, has considered the contestability arrangements that operate in NSW. The approach taken by the AER now promises to provide a workable framework for the NSW connection contestability arrangements to continue to operate.

We wish, however, to raise a number of central concerns in relation to the possible effect on contestability of the way in which services are classified and some possible unintended consequences of drafting. Our submission also seeks further clarification from the AER on a few matters.

2 Maintaining a contestable framework

Because the AER's charging guidelines provide for charges to be determined by reference to the classification of the services, the continuing operation of the existing contestable framework in NSW will now depend on how services are classified and the charging arrangements which apply to that classification.

The potential impact of classification on contestability can be most clearly demonstrated in relation to connection works i.e. the construction of assets that are required so that the customer can be connected to the distribution network and which once constructed will form part of the shared network.

Currently in NSW, the customer generally funds the design and construction work[2]. Where the customer funds the works, the customer is entitled to choose an accredited service provider to carry out those works and once the assets are constructed, the Distribution Network Service Provide (DNSP) takes ownership and operational responsibility of the assets as part of the distribution system. The DNSP makes no capital return on these assets but does recover the costs of operating and maintaining the assets through use of system charges.

If contestable works of these type are unclassified by the AER, the current level of contestable work will continue.

However if the AER decides to classify any design and construction works, then there is scope for the connection charge guidelines to impact on what works the customer is required to fund. In turn, any such classification decision will impact on the work available for accredited service providers. So, to the extent the classification and charging approach results in a DNSP funding part or all of the works currently funded by a customer, that work is effectively withdrawn from contestability and funded by a DNSP's broader customer base.

It will therefore be critical to ensure the AER adopts the correct classification for services.

In the explanatory note and draft connection charge guidelines the AER has clarified that the cost revenue test will apply to connection services that are classified as standard control services. The AER explains that by not including competitive services in the cost revenue test it would facilitate competitive neutrality of contestable services in accordance with the purpose of the guidelines. Further, that, contestable frameworks can be maintained or promoted by applying an appropriate service classification in each jurisdiction. The AER stated that the connection charge guidelines will not determine the charge for negotiated services, alternative control services or unclassified services.[3]

Ausgrid supports the approach taken by the AER to clarify that the cost revenue test will not apply to connection services that are not classified or classified as negotiated services or alternative control services. In our previous submission we argued that the approach taken by the AER in adopting the cost revenue test was not compatible with the arrangements in NSW, where the provision of connection services was contestable.

[1] AER, Consultation Paper, Issues and AER's preliminary positions, Connection charge guidelines: for accessing the electricity distribution network, June 2011

[2] There are some limited circumstances where Ausgrid may remove some work from contestability due to potential risks associated with safety, security or reliability of the network. In these circumstances the customer does not fund the work.

[3] AER explanatory statement page 3

Ausgrid is preparing it's submission to the AER's consultation paper on framework and approach paper on the classification of these services, where we will propose connection services that are provided in a contestable market should not be classified.

We outline our views on the application of the cost revenue test to standard control services further in this submission.

Success of contestability of connection services in NSW

The NSW Government introduced contestability for the provision of particular connection services in 1995. The connection contestability arrangements are supported by a scheme to accredit service providers that are qualified to provide these services.

In July 2010, the NSW Government conducted a review of the contestable services framework and sought comments on particular aspects of the scheme. The NSW Government found that since 1995, there had been a significant maturing of the market for electricity distribution services with over 1200 accredited service providers operating in the contestable connections market. The value of contestable works undertaken each year has increased to an estimated $300 million per year and the complexity of the type of work undertaken had increased.[4]

Each year there are approximately 20,000 new customer connections in Ausgrid's distribution area. The majority of these connection customers involve accredited service providers designing and building the connection asset.

Ausgrid's objective is to retain the policy and capital contribution arrangements that underpin the successful contestable arrangements under the new National Energy Customer Framework (NECF). We consider that the contestability of services in NSW will depend on these services being unclassified.

In order to maintain the NSW contestability arrangements, there are several areas where the AER's needs to reconsider its approach to the connection charge guidelines.

Australian Government draft Energy White Paper

In December 2011, the Australian Government released the *Draft Energy White Paper Strengthening the Foundations for Australia's Energy Future.* In the draft White Paper the Government notes that there are areas, such as network connections, where the provision of network services could be contestable and that this would assist in delivering the most efficient outcomes for both the direct users of those services and consumers more generally.

The Government notes that Standing Council on Energy and Resources is currently looking into developing a national framework for the provision of contestable distribution connections.[5]

In light of the Australian Government's interest with contestability for network connections we are seeking an outcome from the AER's connection charge guidelines that does not stifle or create uncertainty in the arrangements for the connection contestability in NSW.

3 Key comments on the guidelines

The AER has clarified that the cost revenue test will apply to standard control services and stated that the connection charge guidelines will not determine the charge for negotiated services, alternative control services or unclassified services.

Ausgrid's key comments relate to the following issues:

1. The definitions in the guidelines should be carefully considered to ensure that they clearly separate the different components of the connection service and can be aligned with the Rules (National Electricity Rules).
2. Some further consideration should be given to whether the draft connection charge guidelines meet the requirements of Chapter 5A of the Rules and to clarifying the status of the guidelines. For example, the AER's approach of requiring DNSP's to submit its shared network augmentation charge threshold for approval does not appear consistent with Chapter 5A requirements.
3. DNSPs be allowed to propose an alternative approach to the cost revenue test for charging for standard control services and have this published in its connection policy. This is mainly to provide DNSPs operating in markets

[4] NSW Government, Review of contestable services on the New South Wales electricity network, Final report July 2010
[5] Australian Government, draft White Paper, page 145

where the provision of connection services is primarily contestable, with an opportunity to develop an approach to cost services that is based on a more accurate reflection of the actual costs.

4. In relation to the refund of connection charges the current owner of the premises with the connection assets should be the party that obtains the rebate rather than the original customer.

4 Scope of AER's responsibilities under draft Chapter 5A

In the introduction of the draft guidelines, the AER explains that DNSPs must prepare a connection policy setting out the circumstances in which they may require a retail customer or real estate developer to pay a connection charge, for the provision of a connection service under Chapter 5A.

The AER states that the proposed policy must comply with the connection charge principles stipulated in clause 5A.E.1 and the AER's connection charge guidelines. Further that the AER may "approve" the proposed connection policy if it is satisfied that the proposed policy complies with the requirements of Chapter 5A and the connection charge guidelines.

Ausgrid notes that the AER must approve a proposed connection policy if the AER is satisfied that it adequately complies with the requirements of draft Part DA of chapter 6. That is, the AER must approve a connection policy if it consistent with the connection charge principles stipulated in clause 5A.E.1 and the AER's connection charge guidelines.

Ausgrid would like to clarify the status of the guidelines and elements of them within the framework. It is correct that the DNSP's connection policy must be prepared and submitted for consideration by the AER as part of its regulatory proposal. The DNSP's connection policy [6]must be "consistent with" the connection charge principles set out in clause 5A.E.1 and the AER's connection charge guidelines. The AER's guidelines in turn must meet the requirements of clause 5A.E.3(c)-(g). The AER must develop and apply the guidelines so that they operate as guidelines against which consistency can be measured, not inflexible rules. There are several significant areas where the AER should consider whether the guidelines meet the requirements of the rules and could operate as guidelines against which consistency can be measured.

The first instance is the AER's treatment of the network augmentation charge threshold. Section 2 of the draft connection charge guidelines seeks to impose an obligation upon DNSPs to submit a shared network augmentation charge threshold to the AER for approval. This requirement is not supported by Chapter 5A of the Rules which require the AER to "establish principles for fixing a threshold…"[7]. The DNSP's connection policy must then specify the threshold, which is then submitted for approval.

There is no scope for the AER to require the threshold to be submitted separately from the connection policy. Ausgrid has analysed the requirements for the threshold set out in section 2 of the draft guidelines and whilst these do have some flavour of principles, they have been cast as approval criteria and therefore do not operate as principles for a threshold to be set.

In addition, Clause 2.1.6 seeks to set a default position for the threshold if the AER is not satisfied that the requirements in 2.1.3 and 2.1.4 are met. Again this is not consistent with Chapter 5A of the Rules. A default threshold as expressed by the AER is not a principle but a firm requirement. Ausgrid submits that the AER should reconsider the requirements of section 2 and ensure that they are expressed as principles which can be applied by the DNSP in setting its threshold. As well as our central concern relating to the AER's proposal to set a default threshold, we have other concerns regarding possible unintended consequences of Section 2 of the AER's draft guidelines. These concerns are discussed in section 7 of this submission.

5 Definitions

Ausgrid strongly advocates that the definitions proposed by the AER and their application in relation to the draft connection charge guidelines align with Chapter 5A of the Rules and operational practice. We note for example that different definitions for the same terms have been proposed in the AER's Consultation Paper published in December 2011 *on Matters relevant to the framework and approach ACT and NSW DNSPs 2014 -2019* (and currently subject to consultation).

[6] See proposed Rule 6.7A and in particular 6.7A.1
[7] See section 5A.E.3(c)(4)

In its explanatory note the AER explains that in the AER's previous issues paper it was proposed that standard definitions would be developed and applied to all DNSPs. However, following receipt of submissions to the issues paper, the AER has concluded that due to differences in jurisdictional regulation, it is not practical to standardise these definitions at this time. The connection services listed (premises connection assets, extensions, shared augmentation and incidental costs) only serve as useful illustrations for the purpose of the explanatory paper.[8] Further, the AER states that the DNSPs may propose disaggregating these services or propose further services as they consider appropriate.

The AER's comments create some uncertainty regarding how a DNSP is to apply the connection charge guidelines to connection services that it provides. The AER's draft guidelines will be a legal instrument operating under Chapter 5A of the Rules in which the DNSPs will be required to develop a connection policy. Therefore there needs to be clarity about the components of connection services and their definitions.

We acknowledge this is a difficult area and that it will be important to clearly delineate between "network", "system", "(premises) connection assets" and the treatment of works required to enable the provision of connection services. For example, if there is no clear understanding of the distinction between an "extension" of the physical boundary of the "network" required to enable a customer to connect and the actual "(premises) connection assets", the classification and charging arrangements may not be clear. In its December 2011 Framework and Approach consultation paper, the AER appears to have identified this issue and is seeking to redefine or rework the concept of premises connections assets.

Ausgrid is keen to work with the AER and other stakeholders to develop a workable approach to these definitional issues. Prior to this, we intend to submit a supplementary submission to the AER with our further analysis of the definitions used in:

- draft chapter 5A and the draft connection charge guidelines;
- proposals under the consultation paper on the framework and approach; and
- the National Electricity Rules.

In the interim we have provided the following comments on areas we consider impact on the workability of the connection charge guidelines.

Terms used by the AER

The AER does not refer to the components of the connection service as services. Rather the AER uses a mix of terms including "assets' and "costs" to describe what we consider are more correctly described as services.

We request that the AER refer to the components of the connection services as services and not assets. We will cover this in more detail in our response to the AER's to the December 2011 Framework and Approach consultation paper and also in our a supplementary submission.

Premises connection assets and extensions

The AER is required under Chapter 5A of the Rules to describe the method for determining charges for *premises connection assets* in the connection guidelines. *Premises connection assets* are defined in Chapter 5A as the components of a distribution system used to provide connection services. Distribution system is a term used in the National Electricity Rules and is defined as "a distribution network together with the connection assets associated with the distribution network which is connected to another transmission or distribution system"[9].

The AER considers that a typical connection can be separated into at least four separate connection service including premises connection services. However the definition of *premises connection assets* in Chapter 5A of the Rules are defined as the components of a distribution system used to provide connection services. This seems to suggest that premises connection assets are an overarching concept – not a component.

This issue is relevant because the draft connection charge guidelines use the term premises connection assets in the cost revenue test in clause 5.1.3. Specifically:

> *ICCS = Incremental Cost Customer Specific—the incremental costs incurred by the distribution network service provider for premises connection assets and extensions. ICCS is calculated in accordance with clauses 5.2.1 to 5.2.5 of this guideline*

Further in clause 5.2.4

[8] Refer to footnote 9 of the AER explanatory statement
[9] Refer to Chapter 10 of the National Electricity Rules.

The customer specific incremental costs (ICCS) will be calculated as the sum of the following cost items. a. premises connection assets. b. extension costs. c. administration costs (not limited by, but including design and certification).

However, as extensions are a component of premises connections assets (as currently defined), we question the workability of these clauses.

Incidental costs

In our submission to the AER's December 2011 Framework and Approach consultation paper we suggested that the AER explicitly acknowledge that there are other services provided by DNSPs that are supplementary to designing and constructing of connection assets.

In the explanatory statement, the AER has added a further connection service called "incidental costs" to the list of connection services. As outlined in Ausgrid's response to the AER's December 2011 Framework and Approach consultation paper, we agree that a component of the connection service provided by DNSPS includes 'support' services around the provision of design information, certification and inspection to support the current contestable regime in NSW (currently provided by Ausgrid as monopoly services), as well as the negotiation, preliminary enquiry, and preparation of connection offers required under the proposed Chapter 5A. These support services are not contestable.

The connection contracts for basic, standard and negotiated contracts need to refer to "incidental services" in accordance with clauses 5A.B.2(b)(5), 5A.B.4(c)(5) and 5A.E.2(d) in Chapter 5A of the Rules. However, these services are not defined. This is complicated by the use of the term "administration services" in Clause 5.2.4(c) of the draft AER Connection charge guidelines.

It is important to ensure that these services are referred to in the AER connection charge guidelines because in NSW, in the majority of cases, the services provided directly by the DNSP will be limited to the provision of these support services. This will ensure that the DNSP can recover the cost of providing these services.

We are concerned that the draft connection charge guidelines may not adequately provide for the recovery of these costs under the proposed total connection charge formula. We provide further comments on this in Section 6 of this submission.

6 Total connection charge

The draft connection charge guidelines contain a formula for the total connection charge that a connection applicant will pay to a distribution network service provider. The connection charge is made up of a number of components including service charges for alternative control connection services (AS); capital contribution payable to the DNSP for all standard control connection services (CC); and total amount payable for any existing pioneer scheme.

Clause 1.1.2 of the draft guidelines specifically refers to the capital contribution component being an amount payable for all standard control connection services. If shared network augmentation is classified by the AER as standard control then the cost revenue test will be applied.

Ausgrid considers that if shared network augmentation is classified as standard control service, then the connection charge guidelines needs to enable NSW DNSPs to recover the costs of the services from the connection applicant and therefore the guidelines should include provisions to allow the DNSP to propose an alternative approach to the cost revenue test. This is covered in more detail in Section 10 of this submission.

As previously discussed, Ausgrid is of the view that the total connection charge formula also needs to include an explicit component that allows for "support" (or incidental) services that may be classified as standard control services to be separate from the customer specific incremental cost. This is to ensure that the full costs of these monopoly services (provided to support contestability of connection services) can be recovered by DNSPs from the customer.

Another concern with this section of the draft connection charge guidelines is that clause 1.1.4(a) sets out that in determining the total connection charge for each component the DNSP must do so in a fair and reasonable manner. This clause is redundant because the DNSP's connection policy, must be consistent with the connection charge principles in clause 5AE.1, the AER's connection charge guidelines and the form of regulation applied by the AER.

7 Shared network augmentation charge threshold

Clause 5A.E.3 (c)(4) requires the connection charge guidelines to establish principles for fixing a threshold below which retail customers are exempt from any requirement to pay connection charges – or to give consideration in the form of a capital contribution, prepayment or financial guarantee – for an augmentation to the distribution network necessary to make the connection. The exemption to pay connection charges for an augmentation does not apply to real estate developers and non-registered embedded generators.

In the previous consultation paper, the AER's proposed approach was to set a fixed shared augmentation threshold. This approach was not supported by Ausgrid. The AER has amended its approach to one that requires DNSPs comply with a set of principles. However we are concerned that clause 2.1.6 sets a default threshold if the DNSP's proposal does not meet those principles.

In section 3 of this submission, we presented our view that Chapter 5A of the Rules only provide for the AER to set principles and not a default threshold. We also have a number of concerns with the AER's drafting in section 2 of the draft connection charge guidelines in relation to the shared network augmentation charge threshold, that we outline below.

In particular we are concerned with the clause 2.1.3 whereby the AER may not approve a DNSP's proposed "shared network augmentation charge" unless:

- it only applies in circumstances detailed in section 5A.E.3(d) of the NER; (clause 2.1.3(a)) and
- connection services below and above the threshold have identifiably different characteristics (a clear natural breakpoint) (clause 2.1.3(b)).

The AER provides the example that the threshold could be set with reference to whether or not a particular type of equipment is necessary for the connection. In the explanatory note, the AER explains that where there is no clear break point, the AER will have regard to the principles in Chapter 5A when approving a DNSP's connection policies. We note that the AER's preliminary position was based on the South Australian precedent where only customers above 100 A 3-phase low voltage supply pay for augmentation.

The first point that we seek to clarify is that the reference in clause 2.1.3 should be to a "network augmentation charge threshold" rather than "network augmentation charge". Secondly, despite the AER's comments in the explanatory statement regarding what happens if there is no clear break point, in Ausgrid' view, 2.1.6 requires the DNSP to comply to clauses 2.1.3(a) and 2.1.3(b) and 2.1.4 in order to for the AER to approve the DNSP's proposed shared network augmentation threshold.

This requirement creates a problem for Ausgrid because historically our policies for seeking capital contributions are not based on a physical breakpoint as required by 2.1.3(b). Instead, Ausgrid's capital contribution policies apply IPART's capital contribution determination, which applies a capacity based threshold to rural and large load customers founded on economic principles rather than physical characteristics. Therefore, some of Ausgrid's thresholds would fail to meet the requirement of 2.1.3(b) (e.g. rural connections).

In clause 2.1.4, the AER has provided for the circumstance where a DNSP's proposed threshold(s) does not meet clause 2.1.3(b) by the DNSP demonstrating to the AER how the threshold:

(a) limits cross subsidies between new connection applications and existing network users, and

(b) allows for historic or geographic differences.

Currently, Ausgrid's applies IPART's capital contribution determination[10] which is based on an economic assessment for rural and large load customers and not based on a physical characteristic as such but on capacity. This principle is consistent with Chapter 5A of the Rules and Ausgrid considers would satisfy the requirements of 2.1.4.

However, the ability to utilise 2.1.4 when 2.1.3(b) is not satisfied is then removed by clause 2.1.6, where it states that if a DNSP cannot satisfy the AER that the network augmentation charge threshold or thresholds meet the requirements of 2.1.3 and 2.1.4, then the threshold will be set at the default threshold specified in this clause.

A requirement to comply with both clause 2.1.3 and 2.1.4 does not appear to be consistent with the AER's comments in the explanatory note that where there is no clear break point, the AER will have regard to the principles in chapter 5A.

[10] IPART, Capital Contributions and Repayments for Connections to Electricity Distribution Networks in New South Wales, 2002

The draft connection charge guidelines also appear to be inconsistent with the intention expressed by the AER in the explanatory statement. We suggest that clause 2.1.6 be amended to:

> *If a distribution network service provider cannot satisfy the Australian Energy Regulator that the network augmentation charge threshold or thresholds meet the requirements of 2.1.3 ~~and~~ or 2.1.4.*

If this change is not made to clause 2.1.6, Ausgrid (and possibly all NSW DNSPs) would then become subject to the default the threshold for requiring payment of augmentation charges contained in clause 2.1.6. This would fundamentally alter the regime in NSW, where "large load" and rural customers can be required to contribute to augmentation.

As discussed in section 3 of this submission, we consider that Chapter 5A of the Rules only provides for the AER to set principles not a fixed default threshold. We request that the AER amend the draft connection charge guidelines to remove the proposed default threshold.

We have a further concern regarding clause 2.1.7 of the draft connection charge guidelines which requires that all shared network augmentation charge thresholds must be based on a measure of demand. In effect this clause negates the principles contained in clauses 2.1.4 and 2.1.5. In addition, Clause 5A.E.3(c)(4) of Chapter 5A of the Rules allows for the connection charge guidelines to establish principles for fixing a threshold based on capacity or any other measure the AER thinks fit.

In NSW, thresholds for payment for network augmentation have historically been based on capacity rather than demand (for large load and rural customers). A threshold based purely on demand would be problematic to adopt especially in the case of rural customers. We consider that we would not be able to charge capital contributions for rural customers if this clause was retained in its current form. We request that clause 2.1.7 be reworded to allow for a threshold to be based on capacity or in accordance with the principles set out in 2.1.4 and 2.1.5.

There is one other matter where clarification is required: -

- Clause 2.1.5(c) refers to "The network classification". It is not clear what this criteria is intended to refer to because networks are not classified as such under the National Electricity Rules. Is this to provide for distinctions to be made between CBD, urban and rural networks?

8 Charges for negotiated distribution services and unclassified distribution services

The AER states that for negotiated or unclassified services, the charge will be agreed upon by the customer and the relevant service provider in accordance with the principles in Chapter 5A.

Clause 3.1.2 states that regardless of the classification of the service, the charge must still be in accordance with the requirements of Chapter 5A, including the connection charge principles and this connection charge guidelines. We consider that the wording of this clause does not reflect the AER's intention.

We propose that this be redrafted to refer to "the charge for the services classified as negotiated distribution services must be in accordance with chapter 5A and the connection charge guidelines".

9 Charges for alternative control services

Chapter 6 of the National Electricity Rules state that "*The AER may classify a distribution service to be provided by a Distribution Network Service Provider.* Therefore if the DNSP does not provide the service then the service cannot be classified under Chapter 6 of the Rules. In situations where Ausgrid may be required to provide services related to the provision of connection assets and shared network augmentation then these services are subject to classification provisions under the Rules.

One area of uncertainty is the form of control that will apply to alternative control services and whether the DNSP will be able to recover the costs of providing a connection service that is classified as alternative control. We note that in the discussion on real estate developers, the AER commented that it considers its' guidelines allow DNSPs to charge for this

work upfront, when classified as an alternative control service.[11] We would support this principle of allowing DNSPs to charge upfront for all connection services that are classified as alternative control.

Ausgrid is currently forming its position on the classification of services as part of the AER's December 2011 Framework and Approach consultation process currently underway.[12] As outlined in Section 5 of this submission, the continuing operation of the contestable framework in NSW will now be dependant on how services are classified and the charging arrangements which apply to that classification.

Clause 4.1.2 states that regardless of the classification of the service, the charge must still be in accordance with the requirements of Chapter 5A, including the connection charge principles and this connection charge guidelines. We consider that the wording of this clause does not reflect the AER's intention.

We propose that this be redrafted to refer to "the charge for the services classified as alternative control services must be in accordance with chapter 5A and the connection charge guidelines".

10 Capital contributions for standard control services

The AER has amended its approach from its initial proposal and clarified that a DNSP may seek a capital contribution for standard control services. The capital contribution will be based on the cost revenue test as set out in the draft connection charge guidelines.

Under the contestable arrangements in NSW, Ausgrid does not usually provide the service of designing and constructing the connection assets. Consequently, Ausgrid will not usually be required to seek a capital contribution from a connection applicant. However in limited circumstances, where Ausgrid will not permit a component of the service to be provided contestably for policy reasons (for example, because of impacts on safety, security or reliability of the network), Ausgrid may be required to undertake some components of the construction works. In this small number of circumstances, there may be instances where it may be appropriate to seek a capital contribution from the customer. These however are very few in number and the works typically forms a small component of the overall works funded by the customer (directly to an ASP).

The AER is proposing that the incremental cost of the shared network component will be based on a unit cost rate multiplied by demand. In Ausgrid's situation using a unit cost rate approach for the shared network augmentation will be problematic. As discussed above, Ausgrid may need to exclude a component of connection service from contestability because of impacts on safety, security or reliability of the network. In these situations a unit cost approach is not appropriate because it is unlikely to reflect the actual costs. A unit cost approach reflects an average cost which may be appropriate where the majority of shared network augmentations are performed by the DNSP – but not in Ausgrid's situation where these types of services are very few in number, diverse and complex in nature.

Therefore a unit charge approach for shared network augmentations is not likely to bear any relation to the actual cost. The proposed approach does not reflect economic pricing.

We suggest that in addition to a unit rate approach that the DNSPs are allowed to propose an alternative approach to charging for the shared network augmentation which would be published by the DNSP in its connection policy. This is mainly to provide DNSPs operating in markets where the provision of connection services is primarily contestable with an opportunity to develop an approach to cost services that is based on a more accurate reflection of the actual costs.

11 Refund of connection charges

The draft connection charge guidelines require DNSPs to develop and publish a pioneer scheme to apply to network extension assets.

The approach adopted by the AER is that where an original customer has paid for specific extension assets, and a subsequent customer connects to these extension assets, the distribution network service provider must provide the original customer with a rebate The DNSP will charge subsequent customers the amount determined by the pioneer

[11] AER Explanatory statement page 65

[12] AER Consultation Paper, Matters relevant to the framework and approach ACT and NSW DNSPs 2014–2019, December 2011

scheme. The charging approach is based on the physical attributes of the asset, the depreciated value and the requirements of the subsequent customer.

As discussed previously, greater clarity is needed regarding the definitions of premises connection assets and extensions. This will assist in administering such as scheme. Further we consider that the current owner of the premises with the connection assets should be the party that obtains the rebate rather than the original customer. The reason for this is that that cost of the connection forms part of the cost of the property incurred by the original owner. The original owner will seek a return on these costs incurred and the costs will effectively be factored into the purchase price paid for by the subsequent owner of the premises. For this reason we consider it appropriate and equitable for any payments that may be made, to be provided to the current owner.

The AER's proposed approach will be difficult and costly to administer. We consider that the cost of administering the scheme is greater than the benefits. The benefits of the scheme are further reduced because the current owner is not benefiting from the scheme.

12 Embedded generation

In accordance with clause 5A.E.3(c)(4) the draft connection guidelines require non-registered embedded generators to pay augmentation costs regardless of their size. The draft guidelines require the cost of connecting the non-registered embedded generator to be based on the greater of the generation or load capacity. Load capacity is based on the gross peak capacity.

Firstly, it needs to be clarified that the charging approach proposed by the AER is relevant only where the augmentation service is classified as a standard control service. Ausgrid supports the requirements of 7.1.2 that require the capital contributions for non-registered embedded generators that are also load customers to be calculated on both the generation and load components of the connection service separately. However, 7.1.2(a) states that non-registered embedded generators will pay a connection charge on the cost of connecting either its generation or load capacity, whichever amount is greater. This drafting appears to contradict the requirement that generators should pay the costs associated with both components of the connection service. Further, in a contestable environment the connection applicant would procure and fund both elements.

As with load connections, connection works for generator connections is contestable except for limited circumstances where Ausgrid will not permit a component of the service to be provided contestably for policy reasons (for example, because of impacts on safety, security or reliability of the network).

For similar reasons as outlined in Section 10 of this submission, a unit cost approach for the component of connection works performed by DNSPs for generator connections is highly unlikely to bear any relation to the actual cost. As with the approach for load connections, we propose that DNSPs are allowed to propose an alternative approach to charging for the connection services works and for this to be published in the DNSPs connection policy. This is mainly to provide DNSPs operating in markets where the provision of connection services is primarily contestable, with an opportunity to develop an approach to cost services that is based on a more accurate reflection of the actual costs.

In the draft connection charge guidelines the AER maintains its initial views that non-registered embedded generators should pay for the cost of removing specific output constraints, unless there is a demonstrable net benefit to other network users. That is, the AER considers that distribution DNSPs should propose constraint reduction services, such as a fault level mitigation service, which relate to augmenting the shared network to reduce network constraints. DNSPs should also propose an appropriate form of control for these services. If a DNSP proposes such a service, the AER will examine the appropriate service classification and form of control in accordance with section 6.2 of the NER.[13]

13 Real estate developers

Consistent with Chapter 5A, the AER's draft connection charge guidelines specify that the shared network augmentation charge threshold will not apply to real estate developers. That is, developers will pay for shared augmentation costs. The

[13] AER, Explanatory statement, Proposed Connection charge guidelines: under chapter 5A of National Electricity Rules, December 2011, page 64

draft guidelines note that if a distribution network service provider considers that it is prudent to provide spare capacity in any extension assets used to connect a real estate developer, it should enter into a pioneer scheme with the real estate developer.[14] The AER does not provide a reason for this approach in its explanatory paper.

The AER's approach seems to suggest that the real estate developer will be paying for greater capacity than it requires.

Ausgrid envisages that there may be situations in high growth areas where it would be prudent to build spare capacity in the connection assets built and funded by the real estate developer. However, rather than entering into a pioneer scheme, a more efficient approach would be for the DNSP to fund this spare capacity as part of its capital expenditure program. A pioneer scheme is intended to provide the original applicant with an equitable contribution from other users. It helps to alleviate the problems associated with disadvantages of being the first mover. We consider that it is not appropriate for a DNSP whose primary services are managing and planning the network to enter into a pioneer scheme where there is a forecast need for investment.

For this reason, Ausgrid proposes that in situations where it would be prudent to build spare capacity in the connection assets built and funded by the real estate developer, that the payment by the real estate developer should be based on a capacity utilisation of the development. This would be included in the DNSPs connection policy.

14 Prepayments

Ausgrid understands that Section 9 (Prepayments) of the draft connection charge guidelines is drafted to enable prepayment of connection charges however the payment of these charges appears to be linked to the acceptance of the connection offer.

Costs can be incurred by DNSPs to undertake detailed design work (including design work for shared network augmentation) before a connection applicant has obtained financial and/or development application approval for their project. These costs need to be recovered by a DNSP regardless of whether the project proceeds to a point where a connection offer is actually accepted. This is particularly true in NSW where the design and construction of services is contestable and the customer separately contracts with, and pays, an ASP for these services. As drafted, Section 9 of the draft guidelines does not apply to the recovery of those costs incurred by the DNSP.

We wish to confirm that the recovery of the costs associated with these support services provided by DNSPs provided prior to acceptance of the connection offer can be recovered from the connection applicant through the connection charge, regardless of the classification of the services determined by the AER. i.e. whether the service is classified as standard control or alternative control.

We seek the AER's confirmation of this interpretation.

Ausgrid will be proposing a number of new fees to cover the requirements associated with negotiation, preliminary enquiry, and making of connection offers as a result of the requirements of the proposed Chapter 5A. We consider these services are support services forming part of the overall connection service and the fees would be reflected in the total connection charge, regardless of the classification of these services.

15 Security fee

The AER's draft decision requires a DNSP to develop and publish, in its connection policy, a policy regarding the calculation and charging of security fees. A security fee scheme should be in the form of either an upfront payment, or a bank guarantee. A security fee scheme acts to help protect the DNSP against the risk of not collecting cost where the connection does not go ahead. As noted by the AER, if the DNSP does not collect the total estimated incremental revenue, then the shortfall would eventually be recovered through higher network tariffs to all other network users.

Ausgrid supports the requirement for the publication of a security fee scheme by the DNSP.

Where ASPs construct contestable works, Ausgrid requires either the ASP or the customer to provide a remediation guarantee, to secure the remediation of defects within a three year warranty period after connection assets are

[14] Refer to the note in clause 8.1.5 of the *AER draft connection charge guidelines for electricity retail customers, December 2011*

electrified. Ausgrid also requires a real estate developer to provide security if Ausgrid consents to the registration of a plan of subdivision before connection assets funded by the customer are completed. This ensures that the connection works will be completed even if the development is sold prior to practical completion. Ausgrid considers that both these kinds of security are important and would be published in its connections policy.

16 Treatment of augmentation assets

The AER has clarified that the net cost to the DNSP of providing a connection service will be included in the regulatory asset base (RAB) of the DNSP. This will be calculated as the gross capital cost to the DNSP of performing a connection service minus the customer connection charge.

The AER connection charge guidelines state that the value of any assets gifted to a DNSP by a customer, will not be included in the DNSP's RAB. Ausgrid contends that gifted assets need to be included in the regulatory asset base at zero value. The reasons are outlined below.

Under the contestable connection arrangements operating in NSW, where the connection assets and shared network assets are built by an accredited service provider and paid for by the connection applicant, in most (if not all) cases, the assets are gifted to Ausgrid. The connection and shared augmentation assets that are gifted by the customer to Ausgrid are maintained and operated as part of the shared network. Where the works include a shared network asset component, Ausgrid generally reaches agreement with the ASP who constructs the customer funded connection assets also constructs the shared assets at Ausgrid's expense. These assets are included at cost in the regulatory asset base.

The connection assets that are gifted by the customer to Ausgrid are maintained and operated as part of the shared network. The service of operating and maintaining these assets should be recognised and classified as a standard control service. This is consistent with the most recent regulatory determination for Victoria by the AER. Note: Ausgrid considers that the service of designing and construction of connection assets will not be classified as a standard control service due to contestability of these services.

We consider that it is important for the gifted assets to be included in the regulatory asset base at zero value. The primary reason is that the record of the gifted asset is maintained for regulatory purposes to align with forecasts and actual operating expenditure.