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5 August 2011

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

Email: aerinquiry@aer.gov.au

Dear Mr Pattas

RE: ISSUES AND AER'S PRELIMINARY POSITIONS, CONNECTION CHARGE GUIDELINES: FOR ACCESSING THE ELECTRICITY DISTRIBUTION NETWORK

1. Introduction

CitiPower and Powercor Australia (**the Businesses**) welcome the opportunity to comment on the Australian Energy Regulator's (**AER**) consultation paper entitled "*Issues and AER's preliminary positions, Connection charge guidelines: for accessing the electricity distribution network*" (**Consultation Paper**) published on 10 June 2011.

The Businesses recognise that in developing the initial positions in its Consultation Paper the AER has had regard for:

- The requirements of Chapter 5A of the National Electricity Rules (**NER**); and
- Existing jurisdictional differences in relation to all aspects of customer connections to the distribution system.

Attachment 1 to this submission provides a detailed description of the Businesses' preferred positions on each of the issues raised in the Consultation Paper for the AER to incorporate into its Draft National Connection Guideline. The Businesses would welcome the opportunity to comment on this draft when it is released. An overview of the Businesses' preferred positions is as follows:

1. *Definition of types of connections* – The Businesses support the AER's definitions, but note that there should be consistency with existing national legislative and regulatory instruments.

2. *Design criteria for developing the connection charges framework* – The Businesses support the AER's design criteria, but emphasise that the 'market price' criterion should have regard for the unique characteristic of the connection (location, environmental conditions etc) as these characteristics will impact the price.

   The market price criterion should be replaced with a criterion that provides customers with the option to choose an alternative service provider to undertake their connection service (i.e. only for 'greenfield' connection services). Allowing certain connections services to be contestable will ensure that the price for these services reflects the market price. Where it is not practicable for a service to be contestable (i.e 'brownfields' connection services), then DNSPs should charge a reasonable rate which is reflective of the market price.

3. *Approach to underpin future connection charges framework* – The Businesses conditionally support the AER's incremental cost (**IC**) less incremental revenue (**IR**) approach subject to specific modifications, with respect to the basis for calculating the IC and IR components of the test detailed in this submission.

   The Businesses do not, however support different tests being applied to the costs incurred by the DNSP, where the DNSP constructs the assets, and to the costs incurred by the customer where a third party constructs the assets, (and the assets are gifted the DNSP). To achieve competitive neutrality, costs incurred by the DNSP and costs incurred by the customer (in respect of gifted assets), should be subject to the same test.

   The Businesses recognise that there are limitations with its preferred approach including that it is:

   - Administratively costly to apply as it requires the agreement on what the following inputs should be, or how they should be derived and applied:
     - IC;
     - IR;
     - Shared network augmentation charge;
     - Operation and Maintenance (**O&M**) charge;
     - Time period for future revenue;
     - Discount factor; and
     - Forecast price path beyond current regulatory control period.
   - Difficult for customers to understand, particularly in terms of derivation and application of the shared network augmentation charge.

   Accordingly, without prejudice to its preferred approach, the Businesses recognise and support an alternative approach, whereby customers pay for dedicated assets (including extension assets) upfront, and all other assets are included in the regulatory asset base (**RAB**). The benefit of this approach is that it maintains the strong locational price signals, by requiring customers to pay for dedicated and extension assets, however does not require all the other inputs (listed above) that are needed for the IR less IC

approach. On this basis is an administratively simpler approach that is easier for customers to understand.

The remainder of this submission relates to the businesses preferred position being the incremental cost IC less IR approach.

4. *Basis for determining IC* – The Businesses support the AER's initial position, subject to the cost of direct connection assets (including extension assets) being excluded. These should be paid up-front by the customer on the basis that they are directly attributable to the customer seeking the connection service (i.e. easily identifiable). Charging the customer directly for these assets supports strong locational signals and is consistent with subsidy free pricing. This approach also addresses any competitive neutrality issues because the customer will pay the full costs of direct connection and extension assets regardless of whether the service is provided by the DNSP or a third party.

5. *Basis for determining IR* – The Businesses support the AER's initial position, subject to IR being limited to only reflect corresponding costs included in IC calculation. This will ensure a comparison of the costs corresponding to the associated revenue ('like for like' approach).

6. *Shared network augmentation charge* – The Businesses support the AER's initial position to apply a unit rate based on average recent projects to be included in the IC calculation. This is similar to current Victorian arrangements which charge customers for the Marginal Cost of Reinforcement (**MCR**). Inclusion of this charge in the IC component promotes equity between new and existing customers by requiring that new customers contribute to the costs of the existing shared network in addition to meeting their incremental costs.

7. *O&M charge* – The Businesses support the AER's initial position to include current network *average* O&M costs in the IC calculation.

8. *Time period for future revenue* – The Businesses support the AER's initial position to provide flexibility around the time frame for business customers and a fixed period for domestic / residential customers.

9. *Discount factor* – The Businesses support the AER's initial position to apply a real pre-tax weighted average costs of capital (**WACC**) as per each distribution network service provider's (**DNSP**) Final Determination in calculating the net present value (**NPV**) of the IR and O&M streams.

10. *Forecast price path beyond current regulatory control period* – The Businesses support the AER's initial position to apply a flat future price path, such that there is no growth in prices assumed, when calculating the future IR stream.

11. *Cost recovery test formula* – The Businesses support the AER's proposed formula, subject to the specific comments on the IC and IR components above.

12. *Individually calculated versus pre-calculated capital contributions* – The Businesses support the AER's initial position, subject to further clarification of the basis on which pre-calculated charges will be developed (should have regard for existing charging arrangements for alternative control services).

13. *Revenue recovery* – The Businesses support the AER's initial position, which provides the DNSPs with flexibility to recover capital contributions up-front or over time.

14. *Tendering of connection works* – The Businesses do not support the AER's initial position. The Businesses consider that:

    - There should be no pre-determined value threshold above which connections works must be tendered. Tendering should be limited to circumstances where the customer requests a tender; and
    - Only greenfields sites should be contestable. This will ensure that 'brownfields' connections meet the Businesses' technical and safety requirements and thereby provide a safe and reliable electricity supply to all of its customers;
    - Customers should manage their own tender, or where customers request the DNSP to manage the tender on their behalf, the DNSP should be able to recover the cost of this service up front; and
    - It is not clear what the AER means in relation to requiring DNSPs to use "pre-determined" contract prices as a basis for calculating the cost of works below $3000.

15. *Threshold for contributing to shared network augmentation costs* – The Businesses support the AER's initial position:

    - For customers connecting to LV network, the threshold should be set at LV three phase connections; and
    - For customers connecting to SWER, the threshold should be 25kVA.

16. *Demand information for network augmentation threshold* – The Businesses support the AER's initial position that the threshold should be based on peak demand.

17. *Shared network augmentation charges* – The Businesses support the AER's initial position that customers should be charged on an incremental basis above the threshold.

18. *Shared network augmentation charges – Embedded Generators* – The Businesses support the AER's initial position that embedded generators should contribute to shared network augmentation. The Businesses propose that the embedded generators could be charged based on a per kW charge where their name plate exceeds a certain threshold e.g. 100kW. This would address fault level issues (i.e. output constraints) arising due to increased demand for connection of embedded generators.

19. *Treatment of augmentation assets* – The Businesses support the AER's initial position that assets funded by DNSPs should be included in the RAB and gifted assets should be included in the RAB net of customer contributions.

20. *Pre-payment of capital contributions* – The Businesses do not support the AER's initial position. The Businesses consider that they should be able retain current arrangements, which allow them to recover contributions up-front and in-full.

21. *Security fee* – The Businesses support the AER's initial position, which enables DNSPs to require a security fee. The Businesses support the current approach under Guideline 14.

22. *Refunds* – The Businesses support the AER's initial position, subject to DNSPs having a high degree of flexibility in developing their rebate scheme. The Businesses note that some detail provided by the AER in its preliminary positions is overly complex and not consistent with its overall position that DNSPs should have a high degree of flexibility.

Closing

The Businesses would welcome the opportunity to further discuss the issues raised in this submission with the AER.

Should you have any further questions in relation to this submission, please do not hesitate to contact Stephanie McDougall on 9683 4518 or at smcdougall@powercor.com.au.

Yours sincerely

Brent Cleeve

MANAGER REGULATION

ATTACHMENT 1: THE BUSINESSES' DETAILED COMMENTS ON ISSUES RAISED BY THE AER

[Note – page references are to the AER's Consultation Paper]

1. Definition of types of connection (page 6)

The AER proposes to define connection works as follows:

- Direct connection assets: *The premises' connection assets which run from the connection point to the point of supply and where applicable also include the consumer mains*.
- Augmentation: *Work to enlarge the system, to increase its capacity, to transmit or distribute electricity as a result of a need to connect a customer*.
- Extensions: *An augmentation that requires the connection of a power line or facility outside the present boundaries of the transmission or distribution network owned, controlled or operated by a Network Service Provider*.
- Shared network augmentation: *Augmentation of a distribution system to increase its capacity to distribute electricity. These are all augmentations other than extensions to extend the area of coverage.*

Businesses' preferred position

The Businesses recognise that the definition of types of connections "works" is important, as it is relevant to the charging arrangements.

The Businesses consider that the definitions used in the AER's Guideline should be consistent with definitions already provided in relevant legislation including the National Electricity Law (**NEL**), NER, National Energy Retail Law (**NERL**) and National Energy Retail Rules (**NERR**). This will avoid unnecessary confusion.

2. Design criteria for developing connection charges (page 7)

The AER proposes the following design criteria – connection charges should:

- Include actual attributable costs – The AER considers that this will provide a "user-pay signal";
- Reflect the price market – The AER considers that this will promote efficiency;
- Minimise cross subsidies – The AER considers that is consistent with efficiency principles; and
- Not result in a large step change in capital contributions for customers above and below the "exemption" threshold.

Businesses' preferred position

The Businesses support the AER's proposed design criteria. In relation to criteria two, the Businesses note that the market price must have regard for the unique characteristics of each connection including location, environmental conditions and particular timing requirements as these characteristics may directly influence the cost of providing the connection.

The market price criterion should be replaced with a criterion that provides customers with the option to choose an alternative service provider to undertake their connection service (i.e. only for 'greenfield' connection services). Allowing certain connections services to be contestable will ensure that the price for these services reflects the market price. Where it is not practicable for a service to be contestable (i.e 'brownfields' connection services), then DNSPs should charge a reasonable rate which is reflective of the market price.

3. Implement cost revenue test (page 14)

The AER's initial position is that a customer's capital contribution should be calculated based on a cost-revenue test: Incremental Cost (**IC**) less Incremental Revenue (**IR**).

Businesses' preferred position

The Businesses conditionally support the retention of a cost-revenue based approach to determining capital contributions (subject to specific modifications with respect to the cost and revenue components as discussed below).

This approach is consistent with economic efficiency, which requires that existing customers are no worse off following the connection of a new customer. This means that the expected network revenue from the new customer must at least cover the incremental cost of connecting that customer. The revenue "shortfall" should be recovered through a customer capital contribution. This will ensure that, on average, network prices do not rise significantly due to a disproportionate number of higher cost network connections. This approach is consistent with the AER's design criteria.

The Businesses do not, however support different tests being applied to the costs incurred by the DNSP, where the DNSP constructs the assets, and to the costs incurred by the customer where a third party constructs the assets, (and the assets are gifted the DNSP). To achieve competitive neutrality, costs incurred by the DNSP and costs incurred by the customer (in respect of gifted assets), should be subject to the same test.

Further, without prejudice to its preferred approach, the Businesses recognise and support an alternative approach, whereby customers pay for dedicated assets (including extension assets) upfront, and all other assets are included in the RAB.

The benefit of this approach is that it maintains the strong locational price signals, by requiring customers to pay for dedicated and extension assets, however does not require all the other inputs that are needed for the IR less IC approach. On this basis is an administratively simpler approach that is easier for customers to understand.

The remainder of this submission relates to the businesses preferred position being the incremental cost IC less IR approach.

4. Basis for determining costs (pages 6, 15-16, 19-20, 22)

The AER's initial position on cost is that the IC calculation should Include:

- Direct connection costs, extension costs, shared network augmentation costs and an allowance for O&M costs.
- Only costs incurred by the DNSP.

Businesses' preferred position

The Businesses generally support the proposed IC calculation, however recommend that it be modified to exclude direct connection and extension costs. These could be paid upfront by the customer on the basis that they are directly attributable to the customer requesting the service. Charging the customer directly for these assets supports strong locational signals and is consistent with subsidy free pricing. This approach also addresses any competitive neutrality issues because the customer will pay the full costs of direct connection and extension assets regardless of whether the service is provided by the DNSP or a third party.

5. Basis for determining revenues (pages 6, 15-16, 19-20, 22)

The AER's initial position on revenue is that the IR calculation should:

- Be based on distribution use of system (**DUOS**) revenue from the customer; and

- Only include revenue received by the DNSP.

Businesses' preferred position

The Businesses generally support the proposed IR calculation, however consider that it should be limited to the revenue corresponding to the costs included in the IC calculation. For example, if augmentation costs and incremental O&M costs are not included in the IC calculation then the corresponding IR should not be included in the IR calculation.

6. Shared network augmentation charges (pages 22-25)

AER's initial position is that:

- DNSPs should apply a unit rate charge to calculate shared network augmentation charges, where the unit rate is based on average recent projects;
- DNSPs may propose to apply different shared network augmentation charges to different areas of their network (to promote locational signals); and
- Any future guideline should accommodate the difference between DNSPs' shared network augmentation charges.

Note: Only customers above the "shared network augmentation threshold" and who are not seeking a "basic connection service" (as opposed to a "standard" or "negotiated" connection service) are required to contribute to the shared network augmentation costs.

Businesses' preferred position

The Businesses support the AER's initial positions including that:

- Any future guideline should accommodate differences between DNSPs;
- Shared network augmentation charges should be based on a unit rate calculated based on average recent projects; and
- DNSPs should be able to nominate different shared network augmentation charges for different areas of their network (at DNSPs discretion).

7. O&M charges (page 25)

The AER's initial position is that an O&M allowance should be included in the IC component of the IC-IR calculation, and that this should be based on the current network average O&M cost for each "class of customer".

The AER has flagged that an alternative approach would involve excluding the O&M from both the IC and IR (i.e. DUoS) calculations.

Businesses' preferred position

The Businesses support the AER's proposal to include current network *average* O&M cost in the IC calculation. The Businesses note that this is administratively simpler than the alternative.

8. Time period for future revenue (page 17)

The AER's initial position is that for the purposes of calculating the IR, the "time period" over which a DNSP will receive revenue from the connecting customer:

- For Business Customers – should reflect the useful life of assets (reflecting the nature of the business connection), however the AER proposes a default of 15 years; and
- For Residential / Domestic Customers – should be a fixed period.

Businesses' preferred position

The Businesses:

- Support flexibility around the time frame for Businesses Customers and propose that the time frame should reflect the economic life of the connection assets; and
- Agree that a fixed time period should be established for Residential / Domestic customers.

9. Discount factor (page 18)

The AER's initial position is that for the purposes of calculating the IR, the discount rate used to calculate NPV of future revenue stream should be the real WACC as determined in each DNSP's Final Determination.

Businesses' preferred position

The Businesses support the AER's initial position to apply the real pre-tax WACC as determined in each DNSPs Final Determination as a basis for calculating the NPV of the future revenue stream.

10. Forecast price path beyond the current regulatory control period (page 18)

The AER's initial position is that for the purposes of calculating the IR, DNSPs should assume a flat future price path.

The AER canvasses a number of other options including: a continuation of the current price path; a price path based on the historical average growth rate; price path growth based on CPI and a flat price path.

Businesses' preferred position

The Businesses support the AER's initial position to calculate the IR beyond the current regulatory control period based on a flat future price path (no growth in prices assumed).

11. Cost recovery test formula (page 16)

The AER's initial position is that capital contributions should be determined based on the following formula:

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
- IR(n=X) = Present value of a X year revenue stream directly attributable to the new connection

The AER has included the following constraint: CC ≥ 0.

Businesses' preferred position

The Businesses support the above formula, subject to their specific comments on the IR and IC components of this formula.

12. Individually calculated versus pre-calculated capital contributions (pages 15-16)

The AER's preliminary position is that DNSPs should apply:

- Pre-calculated capital contributions (i.e. a set capital contribution) for basic and standard connections based on a "typical" customer / customer class. The AER considers that this approach may be administratively more efficient in certain circumstances.
- Individually calculated capital contributions for large customers or customers with specific requirements.

Businesses' preferred position

The Businesses consider that the charging arrangements for connection services must accommodate differences in DNSPs' service classifications, and recognise that the classification of services itself requires DNSPs to recover revenue in certain ways. For example, a fixed fee alternative control service requires a DNSP to charge the customer the fixed alternative control charge.

The Businesses agree that pre-calculated capital contributions may be administratively simpler for certain basic connection services (i.e. for certain classes of customers) where these services are already classified as a fixed fee alternative control service.

The Businesses note however that the basis for determining fixed alternative control charges is approved in the DNSP's Final Determination, and in their case is not based on an IC and IR approach. The Businesses therefore request that the AER clarify the basis on which pre-calculated charge will be developed and how this will accommodate differences in charging arrangements for alternative control services.

13. Revenue recovery (pages 14-15)

The AER's preliminary position is that:

- It "does not matter if…costs are recovered up front or as an ongoing payment" so long as costs are subsidy free; and
- Excess IR is not required to be returned to customers.

Businesses' preferred position

The Businesses support the AER's initial position which provides:

- DNSPs with flexibility with regard to the timing of recovery of customer connection costs - either upfront or over time; and
- That DNSPs are not required to return excess IR to customers.

14. Tenders to ensure cost efficiency (page 20)

The AER's preliminary position is that DNSPs should be required to tender works above $3000 to determine efficient market price for undertaking the connection works. The AER proposes that DNSPs should use pre-determined contract prices, from qualified third parties, as the basis for calculating cost of works below $3,000.

Businesses' preferred position

The Businesses consider that:

- There should be no pre-determined value threshold above which connections works must be tendered. For efficiency reasons, tenders should be limited to circumstances where the customer requests a tender – this is consistent with requirements of Guideline 14. If, however the AER introduces a threshold, then the Businesses consider that (without prejudice to their preferred position) any threshold should be greater than $3000 for administrative efficiency reasons and indexed annually for CPI;
- For safety reasons, tenders should be limited to "greenfield" sites only. This will ensure that 'brownfields' connections meet the Businesses' the technical and safety requirements and thereby provide a safe and reliable electricity supply to all of its customers. This approach eliminates any risk of the new connection assets not being connected to the Businesses' Distribution System in accordance with its technical and safety requirements;
- DNSPs should be able to recover the administrative costs of running a tender at the customer's request. This service (running a tender) should be classified as a quoted alternative control

service and the associated costs should be recovered up front from the customer and not included the IC-IR calculation; and

- It is not clear what the AER means in relation to requiring DNSPs to use "pre-determined" contract prices as a basis for calculating the cost of works below $3000.

15. Threshold for contributing to shared network costs (pages 31 - 34)

Chapter 5A provides that only customers above the "threshold" are required to contribute to shared network augmentation costs and that the AER must determine the "threshold" as part of its Guideline. The AER's initial position is that:

- The shared network augmentation threshold should be based on a fixed electricity demand threshold being the higher of either:
    - 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. The AER proposes that the DNSP should use existing customer demand information to estimate this value; or
    - 70 kVA (equivalent to 100 Amps 3 phase low voltage supply), where the above can not be reasonably estimated.

  In accordance with the requirements of clause 5A.E.3 of Chapter 5A, the AER considers that this will ensure that the exemption only applies to low voltage connections**.**
- The default threshold on SWER lines should be 25kVA unless a different threshold is nominated by the DNSPs and approved by the AER.
- DNSPs should be able to nominate an alternative threshold where an alternative threshold would be more appropriate (in particular for less developed areas of the network). This will assist in limiting cross-subsidies and ensure that augmentation charges will not be levied on customers that would not normally require shared network augmentation.

The AER considers that it would be too difficult to base the shared network augmentation threshold on peak coincident demand.

Businesses' preferred position

The Businesses recognise that Chapter 5A provides that customers are not required to contribute to augmentation if:

- Their connection request is for a "basic connection service"; or
- They are below the threshold determined by the AER. Chapter 5A requires that the threshold is limited to:
    - Low voltage connections; and
    - Connections that would not normally require an augmentation beyond the extension; and
    - Connections that are not expected to increase the load on the network beyond that which the DNSP would expect in the ordinary course of managing its network.

On this basis the Businesses, agree with the AER's preliminary position:

- For customers connecting to the LV network, the threshold should be set at LV 3-phase connections. This relates to residential and business customer's who generally do not require augmentation of the shared network to facilitate their connections; and
- For customers connecting to SWER, the threshold should be 25kVA.

16. Threshold for contributing to shared network costs – customer demand information (pages 34 - 35)

The AER's preliminary position is that the threshold should be set based on peak demand. This is consistent with the approach applied in South Australia and set out in the Essential Services Commission of South Australia's (**ESCOSA**) Guideline 13. The AER considers that this approach is likely to minimise customer disputes.

Businesses' preferred position

The Businesses support the AER's initial position that the threshold should be based on peak demand.

17. Shared network augmentation (page 35)

The AER's preliminary position is 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.

Businesses' preferred position

The Businesses support the AER's initial position that customers should be charged based on an incremental basis above the threshold. This is consistent with existing arrangements in other jurisdictions including South Australia and is the most equitable approach to ensure that the step change between the last customers who is not required to pay for shared network augmentation and the first customer who is required to pay for shared network augmentation.

18. Charging for shared network augmentation – Embedded Generators (pages 35 - 36)

The AER's preliminary position is that:

- For generators who also consume electricity (i.e. load customer), the shared network augmentation charge should be based on their overall expected peak electricity demand on the basis that the network would need to be able to support this level of peak demand should the customer's generating unit become unavailable.
- Embedded generators should pay for user specific costs of removing output constraints, unless there is a demonstrable net benefit to other network users. Accordingly, embedded generators should fund the shared network augmentation to remove constraints on their outputs due to limits of the existing network.

Businesses' preferred position

The Businesses support the AER's initial position which would involve customers (embedded generators) contributing to the cost of augmenting the shared network.

The Businesses propose that the embedded generators could be charged based on a per kW charge where their name plate exceeds a certain threshold e.g. 100kW. This would address fault level issues (i.e. output constraints) arising due to increased demand for connection of embedded generators.

19. Treatment of augmentation assets (page 37)

Clause 5A.E.3(c)(7) of Chapter 5A requires that the AER's guideline must describe the treatment of augmentation assets.

The AER's preliminary position is that augmentation assets should be treated as follows:

- If the DNSP funds the assets, then the assets should be included in the RAB; and
- If the customer pays for the assets (and gifts them to the DNSP), then the customer funded assets should be netted off the RAB.

Businesses' preferred position

The Businesses support the AER's initial position on the basis that this is consistent with the treatment of assets under Chapter 6 of the NER.

20. Pre-payment of the capital contribution (pages 37 -38)

Clause 5A.E.3(c)(2) of Chapter 5A requires that the AER's guideline must describe the circumstances (or how to determine the circumstances) under which a DNSP may receive a prepayment (i.e. upfront payment of the capital contribution) from a retail customer or real estate developer.

The AER's preliminary position is that:

- DNSPs should have discretion in deciding whether to charge a prepayment and the amount of any prepayment.
- For transparency, DNSPs will be required to publish a policy which sets out the circumstances under which they will require a pre-payment and how they will calculate any prepayment.
- The AER may limit the amount of any pre-payment to either the actual costs that the DNSP will incur before construction works (i.e. design costs etc) or some defined percentage of the capital contribution.

Businesses' preferred position

The Businesses do not support the AER's initial position and consider that they should be able to retain their current arrangements which allow them to recover customer contributions up-front and in full, with exceptions for large projects at the Businesses' discretion.

Alternatively, the Businesses consider that if connection works are expected to be undertaken within 12 months, then the customer should pay the contribution up front, in full. For a longer construction period where the customer contribution is greater than $100,000, then 50 per cent should be paid up front and 50 per cent when the detailed design is completed. This mitigates the risk of other customers having to fund stranded connection assets.

21. Security fee (pages 38 - 39)

Clause 5A.E.3(c)(2) of Chapter 5A requires that the AER's guideline must describe the circumstances (or how to determine the circumstances) under which a DNSP may receive a financial guarantee from a retail customer or real estate developer.

The AER's is seeking feedback from interested parties on:

- Whether any future connection guideline should allow DNSPs to implement a security fee.
- Adopting the approach outlined in Guideline 14 subject to the following modifications:
    - Calculation of interest rate paid by the customer should reflect how the security fee is treated by the DNSP. If the security fee is invested in the DNSP, then interest should be paid at the WACC. However, if the security fee is held in trust, then it is more appropriate for the interest to reflect a commercial deposit rate;
    - Limit the revenue received by DNSP (revenue from DUoS and security fee) to ensure that it does not exceed original estimated IR calculation; and
    - The customer should not receive an amount greater than the security fee deposit plus interest from the DNSP in total over the security fee period.

Businesses' preferred position

The Businesses support the retention of a security fee as currently provided for under Guideline 14.

22. Refunds (pages 39 - 41)

Clause 5A.E.3(c)(6) of Chapter 5A requires that the AER's guideline must describe the method for calculating a refund of connection charges to apply when a connection asset, originally dedicated to a single connecting customer, becomes a shared asset and the threshold below which the refund is not payable.

The AER's preliminary position is that:

- DNSPs should have high degree of flexibility in developing their rebate scheme – must have regard to equity principles.
- The amount of the rebate should be calculated on the depreciated value of assets over 20 years.
- The rebate scheme should have regard to the length of an extension and the capacity of the assets used by subsequent customers.
- The threshold below which a refund is not payable is $500 – the AER considers that this balances administrative costs against materiality.

The AER seeks comment on the following:

- How, practically, a rebate scheme would be applied if DNSPs do not size works optimally for the customer but rather build connection assets to a greater standard than that required by the connecting customer; and
- How cost allocation issues could be dealt with where a DNSP does not size works optimally for the customer but rather builds connection assets to a greater standard than that required by the connecting customer.

Businesses' preferred position

The Businesses note that customer rebate schemes are costly to administer and consider that any future rebate scheme should be as simple as possible and not be extended to include developers. The Businesses support the AER's initial position that DNSPs should have a high degree of flexibility in developing their rebate scheme.

The Businesses note that some detail provided by the AER in its preliminary positions is overly complex and not consistent with its position that DNSPs should have a high degree of flexibility. For example, the threshold below which DNSPs are not required to provide a rebate is too low and would result in an administratively complex and inefficient approach to customer rebates. The Businesses consider that the threshold should be increased to $3000 (consistent with the AER's threshold for tendering works) and should be indexed for CPI.