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Department for Transport, Energy and Infrastructure

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Dear Mr Pattas

Thank you for the opportunity to comment on the Australian Energy Regulator's (AER) *Connection charge guidelines: for accessing the electricity distribution network – Consultation Paper*. The Energy Division considers the development of the national guidelines critical for ensuring a smooth transition from the existing jurisdictional practices to the implementation of the National Energy Customer Framework.

Currently the South Australian electricity charging arrangements are undertaken in accordance with National Electricity Rules' (NER) clause 9.28.3 in which the AER must perform and exercise the relevant functions and powers of the Essential Services Commission of South Australia (ESCOSA) under the relevant clauses of the Electricity Distribution Code (EDC) and Electricity Industry Guideline No.13 concerning the regulation of connections and augmentations in South Australia.

The Energy Division supports the design criteria developed by the AER, the key framework for determining connection charges and the positions and processes for implementing a national connection guideline. There are some key implementation areas where further comments are provided below.

Connection charges should be based on a cost-revenue-test
The AER's proposed approach for customers in a large class where the administrative burden outweighs the benefits of the cost-revenue-test, standard connection charges should be utilised, i.e. for basic and some standard connection offers. Energy Division supports the understanding announced at the AER's Forum on 11 July 2011 that a pre-calculated capital contribution amount for such groups of customers would be based on a typical standard connection. As an example of such an arrangement, it would be expected that residential customers seeking a typical standard new connection of a minor nature would pay no connection charge, with the average connection being paid through distribution use of system (DUOS) charges. However, for those connections or modifications requiring special services or of a more significant nature they may attract a connection charge through the application of the test.

Incremental revenue
The amount of the proposed incremental revenue stream in the AER's cost-revenue-test, which is based on DUOS charges over a term of 30 years for residential customers, may result in the funding of connections largely by all existing customers through DUOS charges with minimal contribution by the individual customer.

As the Rules at clause 5A.E.3(b) require connection charges to provide a user-pay's signal and to limit cross-subsidisation, it is more appropriate that the time period reflect a consistent 15 year term period (as proposed for business customers) rather than being based on an assumed useful life of the asset. This also ensures that the connecting customers' costs remain reasonable.

Incremental cost
In regards to the call for tenders for connections works over $3,000, it is important to note that in South Australia (EDC clause 3.4) a competitive provision on the DNSP exists whereby the design and construction of extensions and direct connection assets can be built by a third party contractor in isolation to the existing distribution network. Subject to customers using the distributors' technical specifications for the work, customers can call for tenders to engage a third party contractor for construction of the connection assets. It is important to note, this provision can not be utilised for augmentation of the shared network.

The AER considers that not including competitive services in the cost-revenue-test is more likely to facilitate competitive neutrality of contestable services in accordance with the purposes of the guideline. The AER suggests that where costs are borne by a third party, they should be excluded from the cost-revenue-test.

The Energy Division is unclear on how such exclusion would facilitate competitive neutrality and seeks further clarification on how the AER considers the cost-revenue-test will operate in these circumstances.

Shared network augmentation cost
The Energy Division is supportive of the proposed approach for shared network augmentation, where a charge is set ($ per kVA) for all customers connecting above the shared network augmentation charge threshold, as outlined in the South Australian Guideline No. 13. This approach is consistent with the AER's design criteria in the development of the Guideline as it would be reflective of charges of efficient costs and would limit large step changes.

Shared network augmentation charges to embedded generators
The Energy Division considers that unless there is evidence showing a net benefit to the network and surrounding network users, embedded generators who are seeking to raise revenue from selling their generation output should pay for removing output constraints rather than this cost being cross subsidised by other network users.

Refund of connection charges for extension assets
Whilst noting that the AER considers that DNSPs should have a high degree of flexibility in developing their own rebate scheme, the Energy Division considers that some degree of certainty and clarity for customers, DNSP's and Energy Ombudsman (in disputes) offers the best approach in ensuring such a rebate scheme provides

benefits to all. The current South Australian rebate scheme as detailed in clause 3.8.4 of the EDC is prescriptive for that purpose.

As it is understood, the AER proposes that the DNSP's rebate scheme is to be submitted with DNSP's connection policies at each revenue regulatory period. Without a degree of prescriptive certainty, if major changes in the design and operation of the rebate scheme are proposed by the distributor in the following revenue determination period, existing and pending new proposed recipients may be disadvantaged. Further, it is important to note that as specified in the Rules, a customer that has contributed to a connection is entitled to receive contribution from other connecting customers for a period of seven years, compared to the five year regulatory period.

As an example of prescriptive certainty, clause 3.8.4 of the EDC uses the formula which is based on the capacity of new customers, not length of extension or numbers of customers. The maximum demand of the connecting customer is used as a proportion of the total demand on the extension. In relation to the situation proposed by the AER in regards to a DNSP building the network (if reasonably forecasted) to a greater standard than that required by the customer, the amount of rebate in this example would be independent of the capacity or size of the assets being built by the DNSP.

Further, there is no threshold in the South Australian rebate scheme as, in principle, if a new customer connects to an extension asset funded by a pioneer customer, the distributor must allow a rebate to the pioneer customer, as well as to any other customers who have also a contribution to that extension asset.

Should you have any question in relation to this submission, please contact Rebecca Knights, Director, Energy Markets on (08) 8226 1715.

Yours Sincerely

Vince Duffy
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<u>ENERGY DIVISION</u>
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