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ETSA Utilities' Submission:

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

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

EXECUTIVE SUMMARY

SA's connecting charging regime

The current SA connection charging regime, as detailed in Chapter 3 of the SA Electricity Distribution Code complies with the NER Chapter 5A charge principles, in that:

- It requires a capital contribution towards extension and connection assets;
- It only requires a capital contribution to shared network augmentation when the customer's demand exceeds a predefined threshold;
- It does not require a capital contribution where funding is provided in our Distribution Determination; and
- It provides a refund to upstream customers where another customer(s) connects to their extension asset within 7 years.

The customer's capital contribution towards a connection is the incremental capital cost less a rebate. The rebate for a new connection is the greater of:

- $3,000; or
- $1200 + 3 years of DUoS revenue.

Under this connection charging regime new customers are only required to make a reasonable capital contribution to the provision of a connection service and the connection charging regime strikes the right balance between the proportion of a new customer's revenue that is allocated to:

- lowering distribution tariffs for the benefit all customer (ie existing and new); and/or
- contributing to the new customer's connection.

Under SA legislation ETSA Utilities applies postage stamp pricing and we consider the current charging regime provides appropriate pricing signals for new customers.

Significant impact on customers arising from the AER's preliminary position

Based on our understanding of the AER's preliminary position will mean that existing customers in SA will fund about $30M in additional capital expenditure per year. This estimate is based on a new customer's rebate increasing from about 3 times incremental DUoS to 10 times for residential customers (NPV of 30 years revenue) and 8 times (NPV of 15 years revenue) for business customers. Its implementation will significantly increase charges to all customers through higher DUoS tariffs.

Response to AER's preliminary positions

Definitions

ETSA Utilities supports the AER's proposed definitions except for the definitions of *Point of Supply* and *Connection Point*. The AER's proposed *Point of Supply* definition is very similar to the NERR's connection/connection point definition and consequently the AER's connection point definition does not align with the NECF's definition.

In general, unless there are very good reasons, all definitions within the same regulatory framework should be aligned.

Design criteria

ETSA Utilities supports the AER's design criteria for developing the connection charge framework except that criterion 1 should be amended to remove the focus from just extension to extension and direct connection assets.

In addition two new design criteria (ie No.5 and No.6) should be added, which are:

5. Is consistent with the existing (ie prior to the NECF implementation) capital contribution regime; and
6. The charging regime is simple, transparent and easily understood by retail customers.

Method for determining capital contributions

ETSA Utilities supports that a customer's capital contribution towards a connection service is based on the incremental cost (IC) less incremental (IR) except with specific modifications as detailed in our submission to the determination of IR.

Incremental revenue

ETSA Utilities does not support the AER's preliminary position on IR and considers that the current SA customer rebate complies with the NER's Chapter 5A charge principles and is consistent with design criterion No.5 and 6 outlined above. ETSA Utilities considers this would transfer costs from new customers to existing customers as highlighted above.

If the AER intends to continue with its proposal to adopt 15 and 30 years NPV of incremental revenue as the customer rebate, then the incremental revenue should only include those parts of the DUoS tariff applicable to those components of the distribution system included in the customer's incremental cost.

ETSA Utilities supports the AER's preliminary position to use the DNSP's distribution determination pre-tax WACC in calculating the net present value (NPV) of the IR stream and in determining the augmentation charge unit rate.

Further, future revenue should be based on a flat revenue path for the current and future regulatory periods (ie no adjustment for X factors).

Incremental cost

ETSA Utilities supports the AER's preliminary position. ETSA Utilities considers that the inclusion of the extension and direct connection costs in the cost-revenue-test as appropriate and seek confirmation from the AER's that these costs are included.

Shared network augmentation charge

ETSA Utilities supports the AER's preliminary position of including a unit rate augmentation charge, based on average cost of recent projects, in the IC calculation. The charge applies to the customer's demand above the augmentation threshold and a DNSP can vary the unit rate applicable for different locations. Further, DNSP's should be able to vary the unit rate where a customer's demand is large compared to other customers in the same location (ie under the SA regime where a customer demand exceeds 5% of a substation capacity we can employ a higher unit rate).

Charging for shared network augmentation – Embedded Generators

ETSA Utilities supports the AER's preliminary position that embedded generators should contribute to shared network augmentation. ETSA Utilities proposes that 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.

Operation and Maintenance Charge

ETSA Utilities supports the AER's concept that a DNSP can incorporate O&M costs into the IC calculation.

Individually calculated and pre-calculated capital contributions

ETSA Utilities supports the AER's preliminary position to allow DNSP's the flexibility to permit individually calculated and pre-calculated capital contributions.

Tendering of connections works

ETSA Utilities does not support the AER's preliminary position. We consider that

- tendering should only be considered where a customer is required to make a capital contribution towards extension and/or direct connections assets where those assets can be built in isolation of the network; and
- who tenders the work should be specified in the DNSP's connection policy and can be undertaken by either the customer; or the DNSP at the customer expense (ie not included in the IC calculation);

Augmentation threshold

ETSA Utilities partially supports the AER's preliminary position, in that the augmentation threshold should:

- be based on a fixed demand proposed by the AER's of 70kVA;
- be 25kVA for customers connecting to SWER networks; and
- not be based on only charging 10% of new customers an augmentation charge.

ETSA Utilities supports the AER's preliminary position of applying the augmentation charge to the customer's peak demand (not the customer's coincident peak demand) in excess of the threshold.

Treatment of augmentation assets

ETSA Utilities supports the AER's preliminary position that assets funded by DNSPs should be included in the RAB and gifted assets should be included in the RAB net of customer contribution.

Prepayment of capital contributions

ETSA Utilities supports the AER's preliminary position that part payment of a capital contribution prior to construction works commencing is appropriate. ETSA Utilities considers that the AER should limit the upfront capital contribution to 50% with the remainder being paid prior to connection of the customer's installation. This is consistent with current SA connection charge arrangements.

Security fee

ETSA Utilities supports the AER's position in regard to security fees. However, if the DNSP determines that a bank guarantee is required instead of a security fee for completion of works etc, the same requirements should not apply to the bank guarantee as those that apply to a security fee.

Refunds

ETSA Utilities partially supports the AER position on refunds in that an upstream customer should receive a refund if a new customer connects to their extension assets within 7 years. ETSA Utilities does not support the depreciation of the extension assets over 20 years to determine the maximum value that an upstream customer can receive.

We consider that a refund should be based on the initial cost (ie no adjustment to the cost) and then proportioned based on the amount of the extension employed to supply the new customer. This amount should then be proportion based on the respective demands of the customers connected to the extension.

BACKGROUND

Connection charging arrangement in SA.

The charging arrangements for new customer connections and upgrade connections where Codified in Chapter 3 of the SA Electricity Distribution Code in 1999. The arrangements have remained virtually the same since that time except for how the augmentation charge is determined.

Prior to 2005, the augmentation was based on good economic principles (ie NPV of any augmentation works advanced by the customer's demand), was complex and generally could not be understood by retail customers.

As a result of considerable lobbying from customers the augmentation charging regime was modified in 2005. This new augmentation charging regime applies an augmentation charge, based on $/kVA for the customer's peak demand that exceeds a defined threshold. A 90kVA threshold applies across the network except for SWER where it is 25kVA. The only exception to the fixed published value is where the connection is more than 15 kms (radially) from a substation[1] or where the customers demand is greater than 5% of the substation's capacity.

The customer charge is based on the incremental cost less a rebate (the rebate is based on the customer's expected increased DUoS revenue). The incremental cost includes the following components:

- Cost of connection;
- Cost of extension to the existing network (where applicable);
- Augmentation (where applicable); and
- Refunds[2] to any upstream customers

The rebate for a new connection is the greater of $3,000 or $1,200 plus 3 times annual DUoS. The rebate for an upgraded connection is 3 times increased DUoS.

The rebate only applies to a standard connection (ie minimum cost connection that satisfies the customers demand for electricity). Any cost in excess of this minimum connection cost is paid for by the customer.

NER's Connection charge principles

The NER Chapter 5A Part E deals with Connection charges and contains under section 5A.E.1 the connection charge principles. The major features of the connection charge principles are:

1. A retail customer can not be required to make a capital contribution towards the cost of augmentation (upstream)[3] where:
   a. The application is for a basic connection service; or
   b. The relevant threshold set in the DNSP's connection policy is not exceeded.

[1] In SA a substation is what is known interstate as a zone substation (eg 66kV/11kV substation).

[2] A refund is pay to upstream customers where a new customer connects/uses an extension asset

[2] A refund is pay to upstream customers where a new customer connects/uses an extension asset where those customers have contributed to that extension. The upstream customer(s) total refunds can not exceed their original contribution to their connection.

[3] In general, the intention is to exclude deep system augmentation charges for retail customers.

2. Subject to 1 above, customers may be required to make a reasonable capital contribution towards:
    a. An extension to the distribution network where required to provide a connection service;
    b. Augmentation of premises connection assets at the retail customer's connection point is necessary in order to provide a connection service;
    c. Augmentation of the distribution system is necessary to provide a standard connection or negotiated connection service;
    d. However, a capital contribution may only be required where the costs have not already been made through existing DUoS or a tariff applicable to the connection.
3. Further, where a connection asset ceases, within 7 years of its construction or installation, to be dedicated to exclusive use of that retail customer and the connection charge guidelines require a refund of connection charges, the DNSP must refund and may recover the amount of the refund from the new users.

Note: No guidance is provided within the connection charge principles on how the customer's incremental revenue should be or not be used to reduce their contribution towards their connection cost. The principles require that any charge be reasonable.

AER'S PRELIMINARY POSITIONS AND ETSA UTILITIES RESPONSES

Definitions (page 6, 43 & 44)

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.

ETSA Utilities position

ETSA Utilities understands why the AER have proposed the above definitions which are similar to the SA EDC definitions. It has posed additional definitions in Appendix A.

ETSA Utilities supports the AER's proposed definitions except for the definitions of *Point of Supply* and *Connection Point*. The AER's proposed *Point of Supply* definition is very similar to the NECF's *connection/connection point* definition and consequently the AER's *connection point* definition does not align with the NECF's definition.

As a general principle all definitions should be the same though out the NERL, NERR, NEL and NER unless there are very good reasons to vary a definition within a specific regulatory instrument. However, it may be appropriate to have different definitions for the same term between electricity and gas due to their inherent differences.

Design criteria for developing connection charges (page 7)

The AER has proposed the following design criteria for developing its connection charging guideline:

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 shared network augmentation.

ETSA Utilities position

ETSA Utilities supports the AER's proposed design criteria for developing connection charges except that we consider Criterion 2 should be slightly amended to:

"Where possible, the connection charge should be reflective of the actual cost for connecting individual customer's installations to the existing distribution network"

We consider that this amendment will ensure that any costs directly associated with connecting the customer's installation to the existing network are included in the customers charge. Also, it should avoid confusion with the AER's definition of extension and direct connection assets (ie it removes the design criterion's reference to "network extension").

Further, we consider that two additional criteria (ie No.5 & No.6) are required to develop the connection charges, which are:

5. Is consistent with the existing (ie prior to the NECF implementation) capital contribution charging regime; and
6. The charging regime is simple, transparent and easily understood by the average retail customer.

Criterion no. 5

ETSA Utilities considers that criterion no.5 is an appropriate additional criterion provided that the existing charging regime is consistent with the charging principles as detailed in the NER Chapter 5A. A DNSP's existing charging policy would be consistent with local jurisdiction and government policy and was used to connect most of the existing customers.

Also, It is consistent with the following AER statement "The AER must also have regard to historic and geographical differences between networks" which is stated in a number of times in the consultation paper.

Further, under the NECF framework specifically NER 5A.B.3(b) the AER must have regard to:

(2) the basis on which the DNSP has provided the relevant services in the past; and

(3) the geographical characteristics of the area served by the relevant distribution network.

in deciding whether to approve a proposed model standing offer for the provision of basic connection services.

Criterion no.6

ETSA Utilities is proposing this additional criterion on the basis of our SA jurisdictional experience associated with augmentation charging methodology that applied prior to 2005. That methodology was complex based on good economic principles but created considerable complaints from customers. Customers prefer simple charging methodologies that they can understand, based on sound economic principles and are equitable for new and existing customers. The regime should not be a "black box" but employ a simple equation that the majority of customers can understand and consider it fair.

Method for determining capital contributions (cost-revenue-test) - page 14

The AER is proposing the following equation for determining a new customer's capital contribution towards connection:

$CC = ICCS + ICSN – IR(n=X)$

Where:

CC	=	is the maximum amount of the customer's contribution;
ICCS	=	customer specific incremental costs incurred by the DNSP;
ICNS	=	incremental costs in the upstream (shared) network directly attributable to the new connection, where applicable

IR(n=X) = present value of X years revenue stream directly attributable to the new connection

Further, the AER proposes an additional constraint be place on this formula that CC>0 (ie customer does not receive a refund if their incremental costs are less than their incremental revenue).

ETSA Utilities position

ETSA Utilities supports the AER's preliminary position that a customer's capital contribution towards a connection service is based on the incremental cost (IC) less incremental (IR) except with specific modifications as detailed in our submission to the determination of IR.

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.

Further in accordance with design criterion no.3 (minimise cross subsidies) and equity, where components of the network are used to supply a new customer the new customer should contribute to those components' costs. However, in accordance with the NER charge principles, these costs are not permitted to be included in their IC calculation. Consequently, the only method available for a new customer to contribute to those components is to exclude the components' incremental revenue from their IR calculation. This exclusion would result in customers equally sharing the cost of assets used to supply energy.

This interpretation is supported by the NER's 5A.E.1(d) connection charging principle (ie customer who funds an extension is entitled to a refund if a new customer is connected within 7 years). That is the cost of the extension is shared between the existing and new customer.

Incremental revenue – pages 7, 17-18.

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.
- Only include revenue received by the DNSP.

In addition, the AER have proposed that the IR included in the customer capital contribution equation be based on the NPV (using the DNSP's WACC) of for:

- Residential customers of 30 years worth of revenue; and
- Business customers of 15 years worth of revenue but can be varied.

Further they have proposed adjusting the new customers DUoS by the know price path for the current regulatory period and a falt price path for future regulatory periods.

ETSA Utilities' position

ETSA Utilities does not support the AER's preliminary position on IR and considers that the current SA customer rebate complies with the NER's Chapter 5A charge principles, is consistent with design criterion No.5 and 6, and provides appropriate locational pricing signals

If the AER intends to adopt its preliminary position in regard to the time period, then the IR should be limited to the revenue corresponding to the costs included in the IC calculation. For example, if shared network costs are not included in the IC calculation then the corresponding revenue should not be included in the IR calculation.

In regard to the price path, we consider that it is appropriate to adopt a flat price path for the customer's incremental revenue for the current and future regulatory periods.

In regard to the discount factor, ETSA Utilities supports the AER's preliminary position of using the DNSP final distribution determination's real pre-tax weighted average cost of capital (WACC).

Incremental cost - pages 7, 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 include costs incurred by the DNSP.

Clarification of AER's preliminary position on extension and direct connection assets

The AER state on page 16 second paragraph states:

> *The AER's preliminary view is that the cost-revenue-test should be applied only on the costs incurred, and revenue received, by the DNSP. Where the costs are borne by a third party, they should not feature in the cost-revenue-test. Otherwise, the AER considers a customer would always seek the DNSP to perform the works given that the DUoS payment would offset the cost of the project, whereas if an accredited service provider undertook the works, the customer would pay the full cost to that provider in addition to DUoS payment to the DNSP. 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.*

This preliminary position as stated implies that if works are contestable (ie can be performed by a third party) then the customer must contribute the full cost of that work (ie cost is excluded from cost-revenue-test). This is contra to the SA charging regime where these costs are included in the cost-revenue-test. The implication of the implementing this proposal would be to significantly increase connection charges to small customers in SA. It would mean that there would be no more free connections. This seems contra to the NER's charge principles.

ETSA Utilities is confused on what is the AER's actual preliminary position on extension and direct connection assets being included in the IC calculation. As the above statement is contrary to the AER's following question on page 20, which states:

> *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.*

ETSA Utilities seeks clarification on whether extension and direct connection assets are or are not included in the cost-revenue-test. We have assumed in our submission that extension and direct connection assets will be included in the IC calculation, to determine a customer capital contribution.

ETSA Utilities' position

ETSA Utilities supports the AER's preliminary position on incremental costs based on our interpretation of their intent, as detailed above.

Shared network augmentation charges

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).
- 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.

ETSA Utilities' position.

ETSA Utilities supports 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.

In addition, we support a DNSP's flexibility to nominate a different shared network charge for different locations. Further, we consider that flexibility should extend to incorporating other criteria like, the where the customer's:

- peak demand exceeds more than 5% of the substation[4] normal rating; and/or
- point of connection is more than 15km radially from the nearest substation.

Operation and Maintenance (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.

ETSA Utilities' position

ETSA Utilities supports the AER's proposal to include current network *average* O&M cost in the IC calculation. ETSA Utilities considers that this is administratively simpler than the alternative of excluding the O&M component from the revenue.

Individually calculated and pre-calculated capital contributions

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.

[4] Substations referred to here are HV to HV substations (eg 66/11kV) and are in excess of a certain capacity (eg 5MVA) and are referred to zone substation interstate.

- Individually calculated capital contributions for large customers or customers with specific requirements.

ETSA Utilities' position

ETSA Utilities 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 negotiated service allows a DNSP to charge the customer a negotiate charge.

ETSA Utilities agrees that pre-calculated capital contributions may be administratively simpler for certain basic connection services and are required to be approved by the AER. We need clarification on what basis the AER will approve these fixed charges.

Tendering of connection works – page 20

The AER's preliminary position is that DNSPs should call tenders, subject to customer agreement, for all work where the cost of the works exceeds a certain dollar amount (eg $3,000). The AER argues that the cost of tendering should not exceed 10% of the works.

Where the cost is less than $3,000 the DNSP should use pre-established period (standing) contract prices from qualified third party contractors as the cost calculation basis.

ETSA Utilities' position

ETSA Utilities considers that there are issues with the AER's preliminary position, as the basis for tendering the work is subject to the cost of the work not the customer's capital contribution. The customer's capital contribution depending on the customer's IR could be relative low compared to the cost of the works. In this case the cost of tendering could be significant in comparison to their capital contribution.

For example, if the cost of the works was $20,000 (direct connection and extension assets) which required the customer to pay $3,000 (ie IR rebate was $17,000). Then the cost to the customer would increase from $3,000 to $5,000 (ie tender cost of $2,000 ie 10% of the works cost).

In SA, where a customer is required to make a capital contribution towards a connection service that involves an extension, those extension works are contestable and can be built isolated from the network (ie greenfields). That is the customer is able to seek, obtain and employ accredited contractors to undertake the work. In these circumstances ETSA Utilities makes the final connection to the contestable extension asset. We provide the customer with a rebate based on their incremental revenue (does not exceed estimated cost) less our costs.

ETSA Utilities proposes that the AER amend their preliminary position to make any extension (may include direct connection assets) contestable. This would then allow the DNSP to either called tenders at the customer's expense or allow the customer to call tenders for the work, depending on what is specified in the DNSP's Connection Policy. The appropriate treatment of how tenders are called should be based on Design Criteria No.5 (ie past practices).

Further, where suitable independent service providers (contractors) are not available the Guideline must enable the DNSP to determine a charge where suitable pre-established period (standing) contract prices from qualified third party contractors are not available.

Note: Any customer capital contribution must include in its incremental costs an appropriate allocation of the DNSP's overhead costs as determined in accordance with a DNSP's cost allocation methodology (CaM).

Augmentation threshold – 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.

ETSA Utilities' position

ETSA Utilities recognises 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 ETSA Utilities agrees with the AER's preliminary position with an amendment, in that the augmentation threshold should:

- be fixed for customers not connecting to the SWER network, at 70kVA. This relates to residential and business customer's who generally do not require augmentation of the shared network to facilitate their connections;
- be fixed for customers connecting to SWER, the threshold should be 25kVA; and
- not be based on only charging 10% of new customers an augmentation charge.

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.

ETSA Utilities' position

ETSA Utilities supports the AER's initial position which would involve customers (embedded generators) contributing to the cost of augmenting the shared network.

ETSA Utilities proposes that the embedded generators be charged based on a per kW charge where their name plate rating exceeds a certain threshold e.g. 100kW. This would address fault level issues (i.e. output constraints) arising due to increased demand for connecting embedded generators.

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 Regulatory Asset Base (**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.

ETSA Utilities' position

ETSA Utilities' supports the AER's preliminary position on the basis that this is consistent with the treatment of assets under Chapter 6 of the NER.

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.

ETSA Utilities' position

ETSA Utilities supports the AER's preliminary position and considers that our current arrangement of requiring 50% prior to construction and the remainder prior to connection appropriate.

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 weighted average costs of capital (**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.
    - 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.

ETSA Utilities' position

ETSA Utilities supports the AER's preliminary position that a DNSP can require a security fee subject o certain conditions.

ETSA Utilities holds a bank guarantee from a land developer in certain circumstances to ensure works are completed, this ensures that purchasers are not disadvantaged if the works are not completed. We consider that this arrangement should be able to be continued.

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.

ETSA Utilities' position

ETSA Utilities supports the AER's preliminary position as detailed in dot points 1, 3 and 4. However we disagree with dot point 2 (ie depreciating the extension asset's value over 20 years). Further, we consider that any refund scheme should be simple as possible and not extend to developers.

In order to keep the refund scheme simple, we consider that the refund should be based on the extension asset's initial cost with no adjustment for CPI increases or depreciation.