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17 February 2012

Mr Chris Pattas
General Manager
Networks Operations and Development
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Dear Chris

ETSA Utilities' submission – AER's Draft Connection Charging Guideline

ETSA Utilities' comments on the AER's draft connection charge guidelines for electricity retail customers dated 22 December 2011 are provided below.

ETSA Utilities' comments are provided by reference to the headings as detailed in the AER's Explanatory Statement dated 22 December 2011.

Method for determining total connection charges

ETSA Utilities supports the AER's draft position that a DNSP Connection Policy (CP) may be made up of charges for multiple connection services and will be calculated in accordance with the following formula:

Connection Charge = AS + CC + PS

Where:

- AS is the charge payable to the DNSP for all alternative control connection services.
- CC is the capital contribution payable to the DNSP for standard control connection services.
- PS is the total amount payable to the DNSP to account for any existing pioneer scheme, applying to the assets to which the customer connects.

Interaction between service classification and chapter 5A

The AER proposes that the connection charge guideline will apply to the following service classifications in the following manner:

- capital contributions for unclassified or negotiated services should be determined through good faith negotiation;
- capital contributions for alternative control services should meet the requirements in the specified form of control;

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- standard control services are generally recovered via Distribution Use of System Charges (DUoS charges). Clause 5A.E.1(c)(6) prevents a capital contribution being sought from a customer for a connection service to the extent that provision has been made for it in DUoS charges. However, to the extent that provision is not made in ongoing DUoS charges for a connection service, a capital contribution may be levied. The connection charge guideline specifies the circumstances in which a capital contribution can be required for standard control services.

ETSA Utilities' current distribution determination specifies that connections services are classified as direct control services (standard control) and negotiated services. The standard control services portion of the connection services is that for which the customer is not required to contribute towards (ie being less than or equal to the customer rebate). The negotiated service portion of the work is that which the customer funds.

ETSA Utilities' understanding of the AER's draft position on the classification of customer connection services is that the "the most efficient and technically feasible solution" for provision of a connection service may be in future classified as a direct control service but that DNSPs will be able to request a capital contribution from the customer towards their connection in accordance with the DNSP's Connection Charge Policy (CCP) by applying the cost-revenue-test.

ETSA Utilities does not have any concern with the AER's classification of services provided that connection services/works provided for customer convenience (ie works in excess of the most efficient and technically feasible solution from a DNSP's perspective) are fully funded by the customer are not subject to the cost-revenue-test.

Method of determining capital contributions for standard control services (cost-revenue-test)

Cost-revenue-test formulation

Application of cost-revenue-test

ETSA Utilities seeks clarification on the following statement:

"*The AER proposes to apply the cost-revenue-test collectively to all standard control services rather than applying it to each standard control service separately.*"

It is ETSA Utilities' understanding that this statement refers to applying the cost-revenue-test to all the standard connection services provided to a single customer that effects connection of that customer to the distribution system.

AER's draft decision on the cost-revenue-test formulation

ETSA Utilities supports that AER's draft decision to:

1. exclude the incremental costs or incremental revenue received from any service classified as alternative control services, negotiated control services or unclassified services from the cost-revenue-test;
2. apply the cost-revenue-test to all connection services classified as standard control services subject to the following conditions:
    a. Shared network augmentations will not be included in the cost-revenue-test, where the customer is not required to make a capital contribution towards the cost of augmentation because chapter 5A does not allow it, or the customer is below the shared network augmentation threshold.

i. in these cases neither the amount of ICSN nor IR(n=X) attributable to these connection services will be included in the cost-revenue-test.

b. Operational and maintenance costs will not be included in the cost revenue test.

The cost-revenue-test will apply to all standard control connections services in a collective manner.

The cost-revenue-test will be applied in the form:

CC = ICCS + ICSN – IR (n=X)

Where:

- ICCS + ICSN – IR(n=X) ≥ 0
- CC = Capital Contribution for standard control services.
- ICCS = Incremental Cost Customer Specific – The incremental costs incurred by the DNSP for premises connection assets and extensions.
- ICSN = Incremental Cost Share Network – The costs incurred by the DNSP for the shared network augmentation attributable to the new connection.
- IR(n=X) = Incremental revenue expected to be received from the new connection — This is the present value of a X year revenue stream directly attributable to the new connection.

However, ETSA Utilities support is based on the provision that the "collective manner" referred to above applies to a single customer.

Incremental cost

AER's draft decision on incremental costs

ETSA Utilities supports the AER's draft decision as outlined in the section 3.2.4 of the explanatory material on incremental cost except in regard to the following matters:

DNSP not obligated to call tenders

It should not be a mandatory requirement for the DNSP to call tenders on behalf of the customer. ETSA Utilities currently advises the customer in our connection offer that they can call tenders for the contestable portion of the connection works. We consider that that either the DNSP call tenders or the customer can call tenders, as this would satisfy the AER and the NER requirements.

Augmentation Unit rates

ETSA Utilities agrees with the AER permitting different unit rates to apply in different locations. Under our current charging regime we are permitted to charge a different unit rate where the customer is more than 15 kms (as the crow flies) from a zone substation. We consider that the Guideline provisions permit that arrangement to continue.

Incremental cost adjustment

ETSA Utilities considers that where a DNSP adjusts the customer's incremental costs to take account of the useful life of the network component, compared to the period for which the customer will be using the network, then there must be a corresponding reduction in the years of revenue included in the incremental revenue calculation used in the cost-revenue-test.

Incremental revenue

Draft decision on incremental revenue

ETSA Utilities supports the AER's draft decision on incremental revenue except as detailed below.

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Proportion of incremental revenue

The AER stated in their discussion in section 3.1.3.1 item 2 on page 27, that:

"When a customer is not required to explicitly pay for shared network augmentation (and shared network augmentation is a standard control service), then only the DUoS charges attributable to extension and premises connection assets costs will be included in the cost-revenue-test."

ETSA Utilities seeks clarification on the AER's position (detailed above) on what portion of the revenue should be included in the cost-revenue-test where a customer funds an extension to the network to effect their connection. Based on the AER's draft position the customer would be entitled to the full DUoS component of their revenue associated with that class of extension asset.

To illustrate our issue, by way of an example if a customer pays for a 400m extension of 11kV which is at the end of a 4,000m 11kV line, should the customer receive in their revenue component of the cost-revenue-test the total DUoS associated with the 11kV line assets of the distribution system. It would seem inappropriate for the customer to receive the full 11kV component of DUoS in their cost-revenue-test as their incremental cost component only includes about 10% of the incremental costs associated with the 11kV lines.

There are two practical options which are the customer:

1. pays for augmentation of the 11kV line based on their demand and receives the full 11k Line component of DUoS in their cost-revenue-test; or

2. receives a portion (ie about 10%) of the 11kV line component of DUoS in their cost-revenue-test.

ETSA Utilities considers that either option would be acceptable, but the easiest and most practical option would be option 1.

Revenue price path

ETSA Utilities supports the AER's adoption of a flat real price path however we consider that the flat real price path should apply from the time of the connection offer, not at the end of the relevant determination. This will simplify the process significantly and will either be a marginal advantage (ie where price path is less than CPI) or marginal dis-advantage (where price path is greater than CPI) to the customer.

We consider that by adopting a flat price path under these circumstances the outcome would be more transparent and easily understood by customers.

Estimating customer's consumption and demand

Draft decision on estimating customer's consumption and demand

ETSA Utilities supports the AER's decision on estimating customer's consumption and demand

Shared network augmentation threshold

ETSA Utilities agrees with the AER draft decision in that customers who are above the augmentation threshold should pay the augmentation charge on the basis of their full demand not just their demand above the threshold. This draft decision should not result in significant step change in charges for those customers immediately above the threshold because those customers will receive their full DUoS (less O&M component) in their cost-revenue-test, compared to customers just below the threshold who only receive a portion of that revenue in the cost-revenue-test.

Further, if customers pay the augmentation charge for demand above the threshold then the determination of incremental revenue included in the cost-revenue-test would become complex (ie that portion of incremental revenue associated with the network augmentation below the threshold should be excluded from the customers' revenue in the cost-revenue-test).

ETSA Utilities supports the AER draft decision on shared network augmentation threshold.

Pre-calculated capital contributions

ETSA Utilities supports the AER view that it will permit a pre-calculated capital contribution where satisfied that the charge is reflective of the typical capital contribution that would be charged to each customer within a class if the cost-revenue-test was individually applied.

Maintaining a contestable framework

ETSA Utilities understands the AER position on the contestable framework however we currently operate a contestable framework in SA where the contestable portion of the connection works is subject to the cost-revenue-test.

Where the customer elects to tender the contestable portion of the connections works and selects a third party to perform the work, ETSA Utilities will perform compliance checks of the contestable work, once completed, certify compliance and vest to ETSA Utilities. We then provide a portion of the rebate (ie less our costs) to the customer. This has resulted in a robust contestable market especially in the land development segment.

We consider that the AER's Guideline should allow this type of regime to apply to a DNSP's Connection Policy, including provisions on how a customer's connection works are classified.

Other issues

Prepayments

ETSA Utilities understands the reasons for the AER's draft decision on pre-payments, however we consider that the Guideline should permit a more practicable and more efficient regime by allowing:

- For small connections where the capital contribution is below a defined threshold (eg $1,000), DNSPs should be allowed to require full payment upfront prior to work commencing if works are to be completed within 6 months. The administrative costs associated with requiring an upfront portion and a portion prior to energisation would material increase the capital contribution required from the customer in comparison to a full payment upfront.
- For large connection permitting a fixed amount of the contribution prior to work commencing and the rest prior to energisation instead of calculating a specific payment schedule for a customers' connection (eg SA current employs a regime of 50% upfront and 50% prior to energisation).

We consider that these provide practical solutions to the AER and the NER objectives whilst minimising the costs associated with achieving those objectives.

Treatment of augmentation assets

ETSA Utilities supports the AER's draft decision in that all assets constructed (ie either by the DNSP or a third party) to connect a customer are included in the RAB and that all customer capital contributions paid to the DNSP should be netted off the RAB.

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Refund of connection charges for extension assets

ETSA Utilities supports the AER's draft decision on refunds of connection charges for extension assets but consider that the regime should not apply to real estate developers as the real estate developer has recovered all their costs from the customers who purchased part of the real estate development.

ETSA Utilities does not currently provide refunds to real estate developers in SA only to pioneering customers. Further, a real estate developer is acting as a third party on behalf of the customers who are eventually supplied by the real estate development.

Connection offers

As permitted by the AER's draft position, ETSA Utilities proposes to include in its basic connection offer fixed capital contributions for provision of customer convenience work.

Security fee scheme

ETSA Utilities supports the AER's draft decision on security fee schemes.

Non-registered embedded generators

ETSA Utilities supports the AER's draft decision.

Real estate developers

ETSA Utilities has no concerns with the AER's draft decision as it relates to real estate developers other than as outlined above in relation to refunds for extension assets.

ETSA Utilities considers that if refunds were provided to real estate developers they would effectively be "double-dipping" as they would have already recovered the costs of the extension from their customers (ie purchasers of the real estate development) who are the ultimate customers of the DNSP.

If you require any further information or have any questions regarding this submission please contact Mr Grant Cox on 08 8404 5012, or cox.grant@etsa.com.au.

Yours sincerely,

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