

4 August 2011

Mr Chris Pattas
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Dear Mr Pattas

AER CONSULTATION PAPER

CONNECTION CHARGE GUIDELINES: FOR ACCESSING THE ELECTRICITY DISTRIBUTION NETWORK

Endeavour Energy welcomes the opportunity to comment on the Consultation Paper of the Australian Energy Regulator (AER) titled "*Issues and AER's preliminary positions; Connection charge guidelines: for accessing the electricity distribution network*" dated 10 June 2011 (the 'Consultation paper').

Endeavour Energy notes that the purpose of the Consultation paper is to seek submissions in response to several issues and alternate options for calculating connection charges identified by the AER. These submissions will assist the AER to develop a 'draft' guideline for setting the method that must be followed by Electricity Distribution Network Service Providers (DNSPs) in determining the capital contribution for most new customers for connecting to distribution networks.

Background

In March 2011, the South Australian Parliament enacted the *National Electricity (Retail Connection) Amendment Rules 2010*. This Rule enables the introduction of a new Chapter 5A (relating to electricity connection for retail customers) in the *National Electricity Rules* (the Rules).

Purpose and scope

Under Chapter 5A of the Rules, the AER must develop and publish Connection Charge Guidelines (Guidelines) for the development of connection policies by DNSPs. The purpose of the Guidelines is to ensure that connection charges are:

- reasonable;
- provide, without undue administrative cost, a user pays signal to reflect the efficient cost of providing the connection services;

- limit cross-subsidisation; and
- be competitively neutral.¹

Endeavour Energy considers the existing contestability regime for customer connections in NSW meets the legislative purpose of the Guidelines. Under the NSW arrangements, NSW DNSPs do not undertake network extensions. These works are performed by Accredited Service Providers (ASPs) in a competitive market. Connection customers choose and directly engage an ASP to undertake a network extension and meet the actual costs of service provision. Accordingly, it is clearly demonstrated that these connection charges in NSW meet the purposes of the Guidelines in that they are reasonable, provide a user pays signal to reflect the efficient costs of providing the connection services (being the market price), limit cross-subsidies and are competitively neutral.

Clause 5A.E.3(e) of the Rules provides that in developing the Guidelines, the AER must have regard to:

*“(1) historical and geographical differences between networks; and
(2) inter-jurisdictional differences related to regulatory control mechanisms, classification of services and other relevant matters; and
(3) the circumstances in which connection services may be provided by persons other than Distribution Network Service Providers (and are therefore contestable).”*

The connection contestability regime in NSW is codified, and has been in place since 1995. Under NSW legislation, where a connection customer makes a capital contribution to an augmentation (including an extension), they may elect the person to undertake the work.

The connection contestability regime in NSW has facilitated the creation of a secondary market and has operated successfully, providing timely and cost effective delivery of services to connection customers and benefiting the broader economy. To be required to adopt a regime in which DNSPs would potentially crowd out ASPs and shut down a secondary market or unnecessarily increase administrative costs and introduce inefficiencies through the project management of ASPs would be a retrograde measure, inconsistent with the national electricity objective. Accordingly, NSW DNSPs submit that they should be exempt from the requirement of meeting the Guidelines.

Proposed definitions

The AER has created several definitions for the development of the Guidelines to specify components of a distribution system. It states that these definitions are largely taken from definitions in the *National Electricity Law* (NEL), the Rules and existing jurisdictional guidelines (particularly NSW).

It is therefore, a matter of concern to Endeavour Energy that the definitions created by the AER are inconsistent between the NEL, the Rules and the *Electricity Supply Act 1995 (NSW)*. For example, the AER provides the definition for a Connection Point as:

¹ Clause 5A.E.3(b)

“Connection Point – the agreed point of supply established between Network Service Provider(s) and another Registered Participant, Non-Registered Customer or franchise customer. The AER considers that this would generally refer to the point at which the service connects to the distribution system. Refer to figures 1.1 and 1.2.”

This definition generally follows the definition of “Connection Point” in the Rules, being *“the agreed point of supply established between Network Service Provider(s) and another Registered Participant, Non-Registered Customer or franchise customer”*.

However, the statement that *“the AER considers that this would generally refer to the point at which the service connects to the distribution system. Refer to Figures 1.1 and 1.2”* is inconsistent and evidently contradictory to the Rules definition of “Connection Point”. This is not merely because the diagram in Figures 1.1 and 1.2 in the Definitions attachment clearly show the Connection Points being at different locations from the Points of Supply. The inconsistencies stem from a confusion of the definitions in the Rules with definitions in the *Electricity Supply Act 1995*.

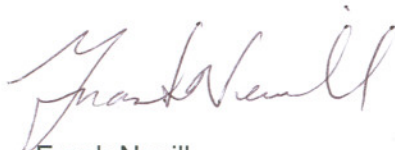
Further confusion arises from the application of NEL definitions. For example, the AER proposes the definition of a “Shared Network Augmentation” as being:

“Shared Network Augmentation (in some jurisdictions this was historically referred to as deep connection) – Augmentation of a transmission or distribution system to increase its capacity to transmit or distribute electricity. This is all augmentation other than extensions to the transmission or distribution system.”

Under the NEL, a “shared network” relates to transmission only. For example, a network may be a “declared shared network” of an adoptive jurisdiction, meaning *“the adoptive jurisdiction’s declared transmission system excluding any part of it that is a connection asset within the meaning of the Rules”* and have “shared network capability”.

Endeavour Energy submits that existing definitions in the NEL and Rules be used to inform the development of the Guidelines. The creation and introduction of inconsistent definitions between and within jurisdictions does not assist in clarifying connection charging and has the potential to result in perverse and extremely costly outcomes. It would be preferable for the Guidelines to be based on and utilise specific NEL and Rules definitions, rather than create and utilise inconsistent definitions and terminology in Guidelines founded in the Rules. As the AEMC is the Rule maker in the NEM, Endeavour Energy submits that the AEMC would be best placed to determine nationally consistent definitions for application in NEM.

If you have any questions relating to this submission, please contact Mr Erik Beerden, Regulatory Affairs Manager, on telephone number (02) 9853 6904.



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