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energex
positive energy

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

Dear Mr Pattas

AER Draft Connection Charging Guidelines

ENERGEX Limited (ENERGEX) welcomes the opportunity to respond to the Australian Energy Regulator's (AER) Draft Connection Charging Guidelines (Guidelines) and associated Explanatory Statement.

ENERGEX is supportive of the intent to minimise cross-subsidies in network charges. However, ENERGEX believes that the requirements of the Draft Guidelines impose a disproportionate administrative burden on Distribution Network Service Providers (DNSPs), which will result in increased costs which are ultimately borne by customers. Accordingly ENERGEX suggests some amendments which it believes will deliver the intent of the Guidelines, in a more cost effective manner.

Non-Registered Embedded Generators

The Guidelines state that non-registered embedded generators should pay for the cost of removing specific network constraints, unless there is a demonstrable net benefit to other network users as determined by the DNSP.

ENERGEX notes that clause 6.1.4 of the National Electricity Rules (Rules) provides that a DNSP must not charge Distribution Use of System charges for the export of electricity generated by the user into the distribution network. This prohibition does not apply for the provision of connection services.

ENERGEX believes that the Guidelines and Explanatory Statement should indicate whether the AER has considered this clause of the Rules and confirm that it does not preclude the embedded generation charging proposal set out in the Guidelines.

Prepayment and Security Fees

On ENERGEX's reading, there are inconsistencies between the Guidelines and Explanatory Statement regarding the scope for pre-payments:

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- The Guidelines indicate that prepayment of *sunk costs* is acceptable if the *connection service* will not occur within 3 months of the *connection offer being accepted*;

- The Explanatory Statement (p.18) indicates the *full* prepayment is acceptable if the *connection work* will occur within 3 months of the *pre-payment being made*; and

- The Explanatory Statement (p.55) also indicates that, *for small connections*, prepayment of *sunk costs* is acceptable if construction *work is scheduled* to occur within 3 months of the *connection offer being accepted*.

The Explanatory Statement and Final Guidelines should be completely consistent to avoid confusion and disputes. In addition, ENERGEX believes that a 3 month restriction is an unnecessary constraint on the prepayment policy. If a timing restriction is considered necessary, ENERGEX considers that:

- A more appropriate limitation would be 12 months, and at minimum 6 months. The shorter the timing restriction, the more likely that disputes will arise where connection work is scheduled to occur, but is delayed for reasons outside the DNSP's control; and

- Any restriction should be limited to connection services classified as standard control services. The ability to charge full prepayment for connection services which are contestable and classified as an alternative control service (presently large customer connections in Queensland) should be retained.

ENERGEX also seeks confirmation that the connection applicant should *not* be rebated a security fee amount greater than the initial security fee deposit plus interest over the security fee period. The Draft Guidelines states that the applicant should be rebated a greater amount, which may simply be a typographical error.

<u>Shared Network Augmentation</u>

Clause 2.1.7 of the Guidelines states that shared network augmentation charging threshold must be based on a measure of demand. However, clause 2.1.3b contemplates thresholds based on the nature of the connection services provided, rather than a measure of demand. ENERGEX queries whether clause 2.1.7 should be retained in the Final Guidelines.

Under the proposed framework, the DNSP is to charge customers for shared network augmentation even where assets may not have been constructed. This has the potential to create a number of interrelated accounting, financial systems and process issues for the DNSP which will introduce significant complexity and cost, and possible compliance issues around accounting standards. For example:

- Capital contributions for shared network augmentation where assets have not been constructed would be recognised as unearned revenue and reported in the balance sheet. If the capital contributions are to be offset against capital in the year they are received, there will be a divergence in the treatment between statutory and regulatory accounting for capital contributions. For statutory accounting purposes, substantiating an appropriate timeframe over which to recognise the revenue would also be difficult as the above threshold charge does not necessarily relate to specific assets or when they are constructed;

- Capital contributions can not be netted off the RAB at an aggregate level (as indicated by the Explanatory Statement) because different assets have different lives. Capital contributions need to be offset against the relevant asset categories because of depreciation and return on asset implications;

- In Table 2.1 of the current annual reporting Regulatory Information Notice (RIN), ENERGEX is required to report capital contributions for standard control services by asset categories. The AER should be mindful of how capital contributions revenue for assets yet to be constructed are expected to be reported in the future.

ENERGEX has identified two potential accounting treatments for the above threshold shared augmentation charges which may mitigate some of these concerns. Both would involve no adjustments to either asset base (regulatory or contributed).

The first option involves applying the current regulatory accounting treatment applicable to ENERGEX. Above-threshold charges would be forecast in aggregate as part of the regulatory proposal and then actual charges would be offset from revenue each year via an overs and unders process.

An alternate option, where above-threshold charges recovered each year could be offset against the next regulatory periods shared network augmentation forecast, may avoid having to forecast above-threshold charges, which would be extremely difficult particularly for the first regulatory period for which the new Guidelines apply. This would be:

- Consistent with a view that these above-threshold charges are paid as a contribution for future augmentation requirements; and

- More administratively simple for all stakeholders.

ENERGEX believes that these options are worthy of consideration. If it is considered inflexible to prescribe a specific treatment in the Guideline, the Guideline could perhaps defer to the treatment approved by the AER as part of the regulatory determination. These sorts of options could then be examined and discussed as part of the determination process.

ENERGEX also notes the Guidelines provide that if a service is classified as an alternative control service, and the form of control can result in the actual cost of providing the connection being greater than the allowed fee for that service (e.g. under a pricing formula), then it may be inappropriate for the difference to be added to RAB (as required by the Guidelines). The Guidelines should reflect a proper and realistic regulatory accounting treatment of connection charges.

<u>Pre-calculation of connection charges</u>

The Guidelines provides scope for the pre-calculation of connection charges for connection services so long as the service is classified as a standard control service. ENERGEX believes that pre-calculation opportunities should be extended to connection services classified as alternative control services. ENERGEX notes that the AER currently allows the charging of a pre-calculated fixed fee for some alternative control services, in recognition that certain alternative control services can be 'standardised' and charged as a pre-determined fee.

Price Path

On one reading, section 5.3.5(c) of the Guidelines may indicate that the X-factor applicable for the outer years of the price path is that applicable in the last year of the prevailing determination. ENERGEX seeks confirmation that the price path to be assumed subsequent to the expiry of the prevailing determination essentially applies an X-factor of zero. If this is the case, for the avoidance of doubt, ENERGEX requests that section 5.3.5(c) of the Guidelines be removed.

Procedural Issues

Finally, the corporate and customer demand-driven capital expenditure forecasts set out in a DNSP's Regulatory Proposal (and which generally comprises the majority of the total system capital expenditure forecast) will rely upon the connection charging policy (unless the second accounting treatment mentioned above is adopted by the Final Guidelines). There are benefits to both ENERGEX and the AER if the connection charging policy is approved well before the Regulatory Proposal expenditure forecasts are to be finalised and submitted. To the extent possible, ENERGEX would prefer this approval process be incorporated in the framework and approach stage of the regulatory reset.

Should you wish to discuss this matter please contact Louise Dwyer,
Group Manager Regulatory Affairs on 07 3664 4047.

Yours sincerely

Kevin Kehl
Executive General Manager Strategy and Regulation

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