5 August 2011

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

AERinquiry@aer.gov.au

Dear Mr Pattas

Re: Consultation Paper – Connection Charging Guidelines

ENERGEX Limited (ENERGEX) welcomes the opportunity to respond to the AER's Consultation Paper (Consultation Paper) detailing issues and preliminary positions on connection charging under the new Chapter 5A of the National Electricity Rules. These new provisions will apply to ENERGEX from 1 July 2015.

ENERGEX provides customer connection services in Queensland pursuant to its Distribution Authority and under the Electricity Act 1994 (QLD). Charges for these services are currently regulated by the 2010-15 Queensland distribution determination.

ENERGEX believes that the connection charging should act as a complement to existing network tariff structures implemented by the distribution business and approved by the AER. Over-specification will result in undue administrative costs being passed on to customers.

ENERGEX therefore considers that the Connection Charging Guideline should, to the extent possible, be confined to the establishing matters of framework and approach. Detailed scoping and implementation should be subject to business-specific consultation and assessment at the time of the distribution determination.

ENERGEX provides specific detailed comments on the Consultation Paper in the attached document. If you wish to discuss this matter further please contact Louise Dwyer, Group Manager - Regulatory Affairs on (07) 3664 4047

Yours sincerely

Kevin Kehl
Executive General Manager Strategy and Regulation

Attachment

Reference: 49-11

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Regulatory Submission

Connection Charging Guidelines

AER Consultation Paper

August 2011

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1 Summary of ENERGEX's Position

ENERGEX welcomes the opportunity to comment on the AER's Connection Charging Consultation Paper.

ENERGEX believes that the capital contributions framework should act as a complement to existing network tariff structures implemented by the distribution business and approved by the AER. Over-specification will result in undue administrative costs being passed onto customers.

Incidence of Connection Charging

ENERGEX considers that a capital contribution should only be levied where a new connection will place requirements on the DNSP which are beyond standard requirements. The DNSP should not be required to apply a complicated capital contributions formula to every new connection. For ENERGEX, this would require the application of the formula to more than 25,000 new connections every year.

'Standard' requirements may differ between networks. This threshold should be considered as part of the DNSP's regulatory reset to allow the specific circumstances of each DNSP to be fully considered. This approach is consistent with clause 5A.E.3(e) of the new Rules, which requires the AER to have regard to the differences between DNSPs when developing the Connection Charging Guideline (the Guideline).

ENERGEX also notes that other AER Guidelines, for example the Service Target Performance Incentive Scheme Guideline, provides scope for the DNSP's Distribution Determination to vary the manner in which the Guideline applies to that DNSP. This allows a degree of flexibility to both the DNSP and the AER to practically manage a DNSP's particular circumstances in a manner that is still consistent with a national regulatory framework. ENERGEX considers that the Draft Guideline should afford this flexibility in the context of connection charging.

Should the AER consider it necessary to establish a national definition of 'standard' in its Guideline, the following thresholds should be considered:

- Dedicated direct connection assets are beyond 20 metres of overhead service line or 7 metres of underground service line[1]; *and/or*

[1] Under section 14 of the Electricity Regulation 2006 (QLD), Queensland DNSPs are required to provide, at its own cost, up to 20 metres of overhead service line or 7 metres of underground service line.

- A dedicated network extension is required to connect the customer; *and/or*
- The customer's connection will require Current Transformer (CT) metering.

Calculation of Connection Charges

If a new connection falls into any one of these categories, a capital contribution would be payable subject to the application of the cost-revenue test.

The cost-revenue test requires the DNSP to establish the difference between the incremental cost (IC) and incremental revenue (IR) generated from a new connection. If IR is less than IC the connection is uneconomic and the shortfall is recovered via a capital contribution.

It can be extremely challenging to calculate the IC and IR of a new connection. The IC of a new connection will potentially reflect the provision of four distinct services by the DNSP:

- The construction of direct connection assets required to connect the customer[2] (e.g. service line, dedicated transformers);
- Extending the existing distribution network to the customer's property, if required;
- Connecting the direct connection assets to the distribution network; and
- Upstream shared network augmentation, to the extent necessary to provide for the capacity requirements of the new customer.

The present value of the IR to be recovered over the life of a new connection will require a view as to:

- The expected life of the new connection;
- The network tariff to be paid by the customer at the new connection;
- How the network tariff is expected vary over the life of the new connection (which may be 40 years or more); and
- The discount rate to calculate the present value.

Regarding the IC calculation, ENERGEX considers that:

[2] For large customers, these costs are paid upfront.

- The cost of constructing direct connection assets, connecting these assets to the distribution network, and constructing any network extensions are relatively easy to identify;

- Upstream shared network augmentation costs are more challenging to identify and charge on an equitable basis. ENERGEX supports the threshold of 100 Ampere 3-phase low voltage supply. At this point a customer's connection is likely to require CT metering. If sufficient guidance is provided, this approach should also be reasonably straightforward to implement and apply.

Regarding the IR calculation, ENERGEX considers that the calculation requires a series of relatively tenuous assumptions to be made (e.g. the expected life of the connection, the customer's tariff, the discount rate). In these circumstances ENERGEX considers that a practical approach to calculating incremental revenue should be adopted that will minimise customer disputes.

Finally, ENERGEX considers that a capital contribution should only be levied where that charge is material. ENERGEX notes that the AER has set 'materiality' at $500 in the context of refunding extension asset costs. ENERGEX would therefore support a $500 constraint applying to upfront connection charging.

ENERGEX provides specific comments on each section of the AER's Consultation Paper in Section 2 of this submission.

2 Response to the Consultation Paper

The AER's Consultation Paper on Connection Charging sets out the AER's preliminary thinking on the optimal methodology to calculate capital contributions. This methodology will apply to ENERGEX from 1 July 2015.

The following provides ENERGEX's specific response to the Consultation Paper. In making these comments ENERGEX notes that:

- Under section 43 of the Queensland Electricity Act 1994, ENERGEX must allow, as far as technically and economically practicable, a person to connect supply to its supply network, or to take electricity from its supply network, on fair and reasonable terms; and

- Under clause 5.5(f) of the NER a DNSP and the Connection Applicant must negotiate in good faith to reach agreement as appropriate on:
    - The connection service charge to be paid by the Connection Applicant in relation to connection assets to be provided by the DNSP;
    - The use of system charge to be paid by the Connection Applicant in relation to any augmentations or extensions required to be undertaken on all affected distribution networks; and
    - The amount to be paid by the Connection Applicant to the DNSP in relation to the costs reasonably incurred by the DNSP in providing distribution network user access.

2.1 AER Design Criteria

The AER seeks comments on its design criteria for the connection charge guideline (p.7)

The AER's four design criteria are:

1. Where possible, the connection charge should be reflective of the actual cost for providing the network extension attributed to 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.

In terms of further developing the criteria, ENERGEX notes:

- Criterion 1 refers only to cost-reflectivity for network extensions and ENERGEX queries whether the scope is intended to extend to direct connection assets. The discussion of the criteria provided in section 4.1 of the Consultation Paper does not appear to limit the principle to network extensions;

- The AER might consider whether criteria 1 and 3 could be merged because attributable, cost-reflective charging should, by definition, limit cross-subsidisation;

- The "where possible" qualification to criteria 1 might be rephrased because, in theory, almost anything is 'possible'. Perhaps it should state "where practical" or "where reasonable"; and

- Regarding criteria 2, it is not clear to ENERGEX why a DNSP's charge should be regulated (such that it should be reflective of the market price) in circumstances where competition exists.

2.2 Cost-Revenue Test

> The AER seeks comments on its preliminary position to apply a cost-revenue test of the form CC = ICCS + ICSN – IR(n=x) (p. 16)

ENERGEX considers that the cost-revenue test should be transparent and straight-forward to apply.

Consistent with the broader intention of capital contributions charging, ENERGEX considers that the incremental cost-revenue test should only apply where a new connection is beyond standard requirements. This should be determined at the time of the DNSP's regulatory reset.

ENERGEX also believes that a customer should only be requested to pay a material capital contribution. ENERGEX notes that materiality is set at $500 in the context of refunding extension asset costs. ENERGEX would therefore support a CC≥$500 constraint applying to the formula.

ENERGEX provides further comments on each variable in the equation in later sections of this submission.

The AER has indicated that basic and some standard offers can incorporate a pre-calculated contribution based on a typical customer in that class. ENERGEX notes that the incremental revenue calculation will differ based on the network tariff assumed for the connecting customer. Therefore, pre-calculation opportunities will be constrained by this requirement.

2.3 Incremental Revenue

> The AER requests comments regarding whether DUoS is the appropriate measure of revenue to use in the cost-revenue test (p. 17)

Generally, ENERGEX supports the use of DUoS as the basis to measure revenue for application the cost-revenue test.

ENERGEX notes that calculating DUoS for a particular tariff will require assumptions for each component of the applicable tariff (e.g. for single rate energy only tariffs this would require an assumption about annual energy consumption, for inclining block tariffs, consumption in each step, for time of use tariffs daily consumption patterns).

ENERGEX believes that the DNSP should be able to manage to a set of pre-determined consumption profiles by customer type, based on its experience as a DNSP. These might be altered in a particular case if the customer provides clear and unequivocal evidence that materially different assumptions are more appropriate in their circumstances.

> The AER requests comments on the appropriate assumptions regarding the connection period for new connections (p. 17)
>
> The AER requests comments on how much flexibility DNSPs, or new business customers, should have to alter these default assumptions (p. 18)

ENERGEX notes that the incremental revenue time horizon is proposed to be reflective of the customer type because this is a proxy for the expected life of the connection.

However, ENERGEX considers that a 20 year presumption should be applied as a default to all customers. Hypothesising about the expected longevity of a particular class of connection would, in ENERGEX's opinion, result in relatively spurious assumptions being applied. It may also only serve to create disputes.

ENERGEX also notes that cash flows become less and less valuable the further into the future they are received. Revenues received beyond year 20 will have a very small Net Present Value, and would therefore not significantly impact the capital contribution calculation.

Should there be evidence that a 20 year presumption is likely to materially overstate or understate the expected life of the connection, the DNSP should be given flexibility to adopt a different life.

> The AER requests comments regarding whether the WACC is the appropriate discount rate to use in performing the net present value calculation. (p.18)
>
> The AER requests comment regarding whether it is appropriate to use a pre-tax WACC, or a post-tax WACC with a separate adjustment for taxation. (p.18)
>
> The AER requests comments regarding the appropriate assumption of future price path to use in the cost-revenue test. (p.18)

The discount rate applied to revenues should, theoretically, be specific to the risks associated with revenues. ENERGEX notes that the WACC is a discount rate that is specific to profits, not revenues. It has been argued by consultants to the Australian Competition Consumer Commission[3] that profits are generally more volatile than costs and revenue.

Therefore ENERGEX considers that there is a case for the discount rate being lower than the WACC.

Regarding the basis of the WACC, ENERGEX considers that the terms of the cash flow (nominal, real, pre-tax, post-tax) must be consistent with the discount rate applied. ENERGEX has no theoretical preference in this regard, so long as consistency is maintained. The outcomes for all parties should be the same if correctly applied.

ENERGEX believes that the future price path assumed to the end of the current regulatory period should be reflective of the CPI and X-factors assumed in the current distribution determination. Beyond this point, assumed CPI growth should

[3] NERA, Assessment of Elements of APT's DORC Calculations for RBP, A report for the ACCC, 25 July 2006.

remain at 2.5 per cent p.a. (the midpoint of the Reserve Bank of Australia's target band), and the X-factor set to zero.

ENERGEX believes that this assumption is more realistic than assuming no growth in the CPI over the next 20 years, and is therefore more defensible should it be queried by customers.

2.4 Incremental Cost – Dedicated Extensions

> The AER seeks comments on its preliminary view that an extension should be funded by the customer requiring the extension, subject to the cost-revenue-test. (p.20)
>
> The AER seeks comments on its preliminary view that:
>
> - Subject to customer agreement, DNSPs should call tenders for connection works over $3,000.
> - For works below this threshold, DNSPs should use pre-established period (standing) contract prices from qualified third party contactors as the basis for cost calculation. (p.20)

ENERGEX supports the view that an extension should be funded upfront by the customer requiring the extension, subject to the cost-revenue test.

Regarding the AER's second question[4], ENERGEX believes that the Connection Charging Guideline should not operate to 'lock in' regulation of distribution services into the future. Pursuant to clause 6.2.3 of the National Electricity Rules (NER), a classification of ENERGEX's distribution services will form part of the Distribution Determination that applies to ENERGEX from 1 July 2015. This process will involve an analysis of the degree of competition, and potential for competition, in the market for each distribution service. The result of this analysis heavily influences the degree of regulation to which each distribution service will be subject.

In this context, ENERGEX notes that the AER's proposal will see the distribution business being restricted to charging a competitive market rate for network extension work, and if above $3,000, a tender must be called. This appears to regulate the provision of this service on top of the regulatory reset process and without any assessment of the existing degree of competition, or potential for competition, in the provision of this service.

[4] ENERGEX interprets 'connection works' and 'works' as meaning dedicated connection assets (direct connection assets and extension assets).

Further, should no competition exist, ENERGEX queries how a tender/pre-established rate requirement is to work in practice. By definition, in these circumstances there would be no 'independent suppliers'.

ENERGEX therefore submits that the tender/market rate test should not be included in the Draft Guideline. To the extent that it is included, ENERGEX believes that the requesting customer should meet the costs of the tender process.

Should a tender/market rate requirement be considered necessary and appropriate, the threshold of $3,000 is too low as connection works (particularly extensions) up to $20,000 could be considered relatively minor works. ENERGEX considers that a threshold of $20,000 would more appropriately reflect a balance between affording customer protection and creating unnecessary administrative burden and cost, which would ultimately be borne by the customer.

ENERGEX also queries how the additional time taken for a tender will be treated in the context of the timelines stipulated for the making of connection offers under the new chapter 5A. The Draft Guideline should address this matter.

2.5 Incremental Cost – Shared Network Augmentation

There are two issues that need to be addressed when determining how incremental shared network augmentation expenditure should be incorporated into the calculation of total incremental costs:

1. Where a new customer 'necessitates', or 'triggers' shared network augmentation should that customer face the costs of this augmentation? This customer can be referred to as the 'tipping point' customer;

2. Where a new customer is expected to place 'above-average' demands on the network into the future, should these additional requirements be reflected in an upfront charge?

It is important to note that the Rules state that the general intention is to exclude deep system (shared network) augmentation charges for retail customers (clause 5A.E.1(b)).

2.5.1 Tipping Point Charging

Clause 5A.E.1 can be interpreted to address the treatment of tipping point customers directly. Where a retail customer's connection necessitates a distribution system augmentation:

- A reasonable capital contribution can be levied towards these costs if the customer is a standard connection customer, negotiated connection customer or a real estate developer[5];

- However, a capital contribution cannot be levied towards these costs if:

  - The customer is a basic connection customer; or

  - A relevant 'threshold' in the DNSP's connection policy is not exceeded.

The DNSP would be empowered to charge all tipping point customers for triggered augmentations, unless the customer is a basic connection customer or a pre-determined 'threshold' is not exceeded.

The Rules state that the AER's Guideline must establish principles for setting this threshold (clause 5A.E.3(c)(4)). The threshold can be based on any measure the AER sees fit, however it must ensure that exemption operates (only) where:

- The connection is a low voltage connection; and

- The connection would not normally require augmentation of the network; and

- The connection is not expected to increase the load on the distribution network beyond a level the DNSP could reasonably be expected to cope with in the ordinary course of managing the distribution network (clause 5A.E.3(d)).

Therefore the only tipping point connections which would not receive an exemption would be high voltage connections which are of such significant size that the DNSP could not be expected to manage the load in the ordinary course of managing its network.

Therefore, on one interpretation, it could be concluded that the vast majority of tipping point customers will be exempt from charges to recover the triggered shared network augmentation. Only very large, high voltage connections would be liable for charging on this basis.

The Consultation Paper also does not seem to establish a threshold for tipping point customers. Rather, the Consultation Paper seems to discount any charging for tipping point customers.

ENERGEX considers that the Rules might, on one interpretation, provide scope to charge large, high voltage connections for triggered shared network augmentations.

[5] Subject to contrary agreement for negotiated contracts and real estate developers. These customers may also face a charge to provide efficiently for forecast load growth.

ENERGEX understands that the AER has a different interpretation of the Rules provisions which the AER considers results in a more equitable outcome. ENERGEX would support the Draft Guideline setting out the preferred interpretation to provide clarity to all stakeholders.

2.5.2 'Above-Threshold' Charging

To ensure economic pricing, a customer-specific charge may be applied to send a cost-reflective price signal to this customer.

ENERGEX is, in principle, supportive of this approach to the extent that the mechanism used to calculate this charge:

- Will result in the customer receiving a cost-reflective price signal;
- Is not unduly onerous on the DNSP or customers;
- Results in conformity with the general intention of the new Rules that retail customers are to be excluded from deep system augmentation charges.

The Consultation paper considers an approach whereby the DNSP sets a threshold above which a new connection is considered to place materially above normal demands on the network. New customers that are expected to have requirements above this threshold will face an upfront capital contribution charge proportionate to the extent they are above this threshold.

ENERGEX supports the intention behind this approach. Ideally customers will face cost-reflective and equitable network charges. This will signal to connecting customers the economic costs their connection will impose.

It is important that the implementation of these principles is achieved through a practical and relatively simple charging mechanism. A mechanism which requires too many assumptions, estimates and subjectivity will act against the achievement of the network pricing objectives.

ENERGEX reiterates its view that the capital contributions framework should act as a complement to existing network tariff structures implemented by the distribution business. Over-specification will result in undue administrative costs being passed onto customers.

It is also necessary to acknowledge the legislative intent enshrined in the Rules that retail customers are to be excluded from deep system augmentation charges.

ENERGEX supports the threshold of 100 Ampere 3-phase low voltage supply. Larger customers (specifically those requiring CT metering) will be required to pay upfront for significant capacity requirements, to the extent the customer's requirements are not captured in their network charge. If sufficient guidance is provided, this approach should also be reasonably straightforward to implement and apply.

The Measurement Scale for the Thresholds

The AER seeks comments on its preliminary view to set a fixed demand threshold rather than a threshold dependant on local capacity. (p.33)

The AER seeks comments on its preliminary view that it will be difficult to verify and enforce a customer's peak coincident demand and therefore the threshold should be set based on peak demand. (p.34)

The measurement scales identified in the Consultation Paper are:

- Anytime maximum demand;
- Coincident peak demand (system or substation);
- Either of the above as a percentage of local feeder or substation capacity.

The AER's preliminary view is that anytime maximum demand is the preferred measurement scale because the other two scales would be more difficult to calculate against and/or administer. ENERGEX agrees that the second two measures would be more difficult to apply than the first measure.

Setting the Thresholds

The AER seeks comments on its preliminary view to set a threshold for most areas of networks on the greater of:

- 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 (based on existing customer demand information)

  Or

- 70 kVA (equivalent to 100 Ampere 3-phase low voltage supply). (p.34)

The AER seeks comments on its preliminary view to allow DSNPs to nominate less developed areas of the network where a different threshold would be more appropriate. (p.34)

The AER's preliminary position is primarily based on the South Australian precedent where only customers above 100 Ampere 3-phase low voltage supply pay for shared network augmentation. Where there is insufficient information or the DNSP cannot estimate the 10 per cent threshold, the AER expects that the 100 Ampere threshold should be adopted.

ENERGEX understands that the intention behind setting a threshold is to capture the average peak demand of customers in a particular tariff class. Customers expected to have a peak demand above this average might be considered uneconomic connections.

The 100 Ampere threshold does not appear to be related to average demand for any particular tariff class. However ENERGEX does note that it will exclude most retail customers. The Rules' intention is to exclude shared network augmentation charging for retail customers.

The Consultation Paper also raises the possibility for the DNSP to propose different thresholds for 'less developed' areas of its network. This is on the grounds that an isolated new connection may not be above the threshold, but by virtue of its location, may impact the need for shared network augmentation. ENERGEX supports providing the flexibility to the DNSP on this issue.

Setting the Rate

> The AER seeks comments on its preliminary view to charge for shared network augmentation on a per unit rate based on the calculation method outlined in the South Australian Guideline No.13. (p.25)
>
> The AER seeks comments on its preliminary view to allow DSNPs to segment their network into areas where different shared network augmentation charge rates would apply. (p.25)

Should a threshold approach be adopted, a per unit (e.g. kVA) based rate appears reasonable on theoretical grounds. The practical calculation of this rate will require a number of assumptions to be made.

Scope to allow a DNSP to propose different rates for different network segments is supported in principle.

Assessing New Customers

> The AER seeks comments on its preliminary view that the approach outlined in ESCOSA's Guideline No. 13 is a fair and practicable approach for estimating peak demand that should be adopted. (p.35)

The AER's preliminary view that the approach outlined in ESCOSA's Guideline No. 13 is a fair and practicable approach for estimating peak demand that should be adopted. It is not clear to ENERGEX that ESCOSA's Guideline No. 13 provides practical guidance to estimating the peak demand for a new customer, apart from leaving it to the DNSP's 'experience'. The Guideline focuses more on setting the above-threshold rate.

In these circumstances, to avoid customer disputes ENERGEX seeks additional guidance as to how it should estimate a customer's peak demand.

The Consultation Paper proposes that where agreement on the customer's maximum demand cannot be achieved, a provisional value is to be used. After 3 years the appropriate demand value will be reconsidered and there would be a corresponding refund or additional charge based on it and the actual DUoS charges.

Based on the description provided, ENERGEX is concerned that this reconciliation process would be difficult to implement. Further guidance on this process should be included in the Draft Guideline. For example, ENERGEX seeks guidance from the AER as to how it should reconcile a payment where the originating customer no longer resides at the premises. This is an important practical issue that should be resolved in the Draft Guideline.

Embedded Generators

> The AER seeks comments on its proposal that embedded generators should fund specific shared network augmentation to remove constraints on their outputs due to limits of the existing network. (p.36)

Like load customers, the output of embedded generators places capacity requirements on the network. However, embedded generators do not face any network charges.

Ideally customers should face a cost-reflective charge commensurate with the demands that they place on the network. However clause 5A.E.1 states that there is a general intention that shared network augmentation charges should not be levied

on retail customers. Retail customers are defined by clause 5A.A.1 as including non-registered embedded generators and micro embedded generators.

ENERGEX considers that this is ultimately a policy issue that should be resolved in consultation with Federal and State Governments, prior to a charging regime being implemented.

2.6 Operation and Maintenance Cost (O&M) Cost

The AER requests comments on:

- The most appropriate manner to calculate the operation and maintenance costs imposed by a new customer;
- Whether the O&M should be excluded from the incremental cost calculation;
- Whether the incremental revenue calculation should be adjusted, based on the equivalent network tariff with the O&M component removed. (pp25-26)

Excluding O&M costs from the calculation of incremental costs is akin to accepting that there is no relationship between customer numbers and O&M costs. However, quite clearly, more customers will generally mean more substations, feeders, and poles. These assets must be operated and maintained. Excluding this cost will result in the total incremental cost imposed by a new customer being understated. The challenge is to isolate and calculate the incremental operating costs imposed by a single new customer.

To address this challenge, an alternative approach could be implemented whereby the O&M component of the network tariff is removed from that tariff used to calculate incremental revenue. In this way both the incremental revenue and incremental cost calculation solely relates to capital. This requires an implicit assumption that each customer in a specific tariff class imposes similar O&M requirements on the DNSP. This is a reasonable assumption.

Therefore ENERGEX supports the removal of O&M from the tariffs used to calculate incremental revenue.

2.7 Other Issues

2.7.1 Treatment of Augmentation Assets

The AER considers that each DNSP should net capital contributions off the RAB.

Ongoing DUoS charges and upfront connection charges are revenue streams received by ENERGEX for the ongoing construction, operation and maintenance of the shared network. It is important that the same cost is not recovered twice, in both DUoS charges and upfront connection charges. The importance of this segregation is recognised by new clause 5A.E.1(c)(6), which stipulates that a capital contribution may only be required if the provision for the costs has not already been made through existing DUoS charges or a tariff applicable to the connection.

Under a transitional Rule applicable to ENERGEX, this demarcation is currently implemented through the control mechanism applicable to ENERGEX's Standard Control Services, which ensures that the Annual Revenue Requirements used to calculate DUoS charges have been adjusted by a forecast of capital contribution revenue.

An alternative approach, which is adopted in other jurisdictions and is preferred by the AER, is that shared network assets funded via a capital contribution are not included in the RAB (from which DUoS charges are partially derived).

ENERGEX queries how this approach can be implemented under the shared network augmentation charging regime proposed by the AER. The AER's proposal de-links shared network augmentation capital contributions and the actual construction of assets. Customers are charged if their connection is above a threshold amount. It is possible that no assets will actually be constructed.

Therefore should the AER implement its preferred approach, guidance should be provided as to how the DNSP is to attribute assets to capital contributions levied for shared network augmentation, such that those assets can be excluded from the RAB.

ENERGEX also notes that the AER's proposed approach would also require a forecast of capital contributions by asset class. The new connection charging methodology will not apply to ENERGEX until 1 July 2015. ENERGEX and the AER will have no historical capital contribution data applying this new methodology upon which to base a forecast of capital contributions (by asset class) at the next regulatory reset.

2.7.2 Prepayments

The AER seeks comments on:

- Should the AER place limits on the maximum amount of prepayment that a DNSP can charge the connecting customer?
- If so, should the AER specifically limit the amount of a prepayment to the actual upfront costs incurred by the DNSP, or should it set a maximum percentage? (p.38)

The AER considers that any prepayment is largely a commercial matter for agreement between the two parties. As such, the AER proposes that its connection charge guideline will provide DNSPs with a degree of discretion in deciding whether to require the prepayment of a capital contribution and amount of any prepayment.

ENERGEX supports these views. Regarding any restriction on prepayment amounts, ENERGEX considers that a prepayment could be limited to any sunk costs incurred by the DNSP prior to the connection offer being accepted. This would include design costs and specific equipment purchases.

2.7.3 Security fee (financial guarantee) scheme

The AER seeks comments on where its connection guideline should have an option for DNSPs to implement a security fee scheme. (p.38)

The AER seeks comments on its proposed principles for a security fee scheme. (p.39)

Capital contributions are calculated on the basis that a customer will provide a certain revenue stream to the DNSP over time. Should that assumed revenue stream not materially differ from the incremental costs of the new connection, the customer will not face a capital contribution.

However, if the actual revenue received from the customer over time falls significantly short of the revenue assumed to be received, existing customers will have subsidised this connection.

A security fee scheme attempts to protect existing customers, whereby if a DNSP considers that there is a reasonable risk that the customer will not provide the assumed revenue stream, they could be charged a security fee to account for this risk. This fee would be refunded after a period of time.

The AER proposes that a fee could only be requested where the DNSP fairly and reasonably assesses that there is a "high risk" that the distributor may not earn the incremental revenue estimated.

ENERGEX supports the inclusion of a security fee scheme in principle as the scheme operates to limit the instances of existing network users subsidising uneconomic connections. The process for rebating the fee to the customer should be subject to commercial agreement between the DNSP and the customer. This would allow the arrangement to vary depending on the reasons for the high risk assessment.

2.7.4 Refund of connection charges for extension assets

> The AER seeks comments on its preliminary view that the assets subject to a rebate scheme should be depreciated over a 20 year term.
>
> The AER seeks comments on its preliminary view that a rebate scheme should have regard to the length of an extension and the capacity of the assets used by subsequent customers.
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> The AER seeks comments on its preliminary view that a $500 refund threshold strikes an appropriate balance between a DNSPs' administrative costs and the materiality of a refund.
>
> The AER seeks comments on its preliminary view on customer payments when the network is built to a greater standard than a customer or group of customers would otherwise require, if the DNSP did not consider it more efficient to build the network to a greater standard based on forecast load growth.
>
> The AER seeks comments and alternative approaches to deal with the costs allocation issues where a DNSP provides a network extension on request of a single customer, to a standard greater than that customer requires due to the DNSP's network planning process. (p.41)

A refund scheme provides balanced protection to customers who have paid a capital contribution for dedicated extension assets which are subsequently used by another customer. The AER's preliminary position is that the DNSPs should have a high degree of flexibility in developing their own rebate scheme.

ENERGEX makes the following comments on the AER's specific issues:

- ENERGEX currently has a 7 year refund period for such circumstances;

- ENERGEX supports a 20 year depreciation schedule for the purposes of calculating extension asset rebates. This depreciation schedule will apply within the 7 year refund period;

- ENERGEX considers that the specific requirements of the subsequent customer should be taken into account when determining the extent of any rebate payable. This may take into account the length and capacity of the extension utilised;

- ENERGEX supports a $500 rebate threshold;

- ENERGEX considers that the requesting customer should only face the cost of dedicated extension assets necessary to provide distribution services to that customer, based on the expected future requirements of that customer. Any additional costs incurred to provide for forecast load growth would generally be seen as shared network costs.

2.7.5 Applicable Definitions

> The AER requests feedback on the completeness, consistency and adequacy of the proposed definitions. (p.44)
>
> The AER seeks comment on whether stakeholders require clarification of any additional terms. (p.44)

The Consultation Paper seeks to apply network definitions derived from the NSW Service and Installation Rules, the NER and NEL.

ENERGEX considers that these definitions are not in alignment which may cause internal inconsistency in the Guideline, and confusion in its application.

For example, the NSW Service and Installation Rules establish the connection point at the point where the distribution mains meet the service line. These Rules appear to lead the Consultation Paper to define direct connection assets as those which run from the connection point to the point of supply.

However, the NER defines the connection point as the point of supply (NER Chapter 10).

ENERGEX believes that the NER should prevail and considers that the definitions in the Draft Guideline should be amended to reflect the definitions in the NER.