

Ergon Energy Corporation Limited

**Submission on the Draft Connection Charge
Guidelines for Electricity Retail Customers**

Australian Energy Regulator

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1. INTRODUCTION

Ergon Energy Corporation Limited (Ergon Energy), in its capacity as a Distribution Network Service Provider (DNSP) in Queensland, welcomes the opportunity to provide comment to the Australian Energy Regulator (AER) on its *Draft Connection Charge Guidelines for Electricity Retail Customers* (Guidelines) and accompanying Explanatory Statement.

Ergon Energy has structured this submission into the following sections:

- Section 2 details Ergon Energy's key issues in relation to the Guidelines and accompanying Explanatory Statement; and
- Section 3 outlines Ergon Energy's detailed comments, in tabular form, on the Guidelines.

Ergon Energy is available to discuss this submission or provide further detail regarding the issues raised, should the AER require.



2. KEY ISSUES

This section discusses Ergon Energy's key issues in relation to the Guidelines and accompanying Explanatory Statement. Ergon Energy believes these key issues require further development and consideration by the AER.

2.1 Operating and Maintenance Costs

As noted in our earlier submission,¹ Ergon Energy does not support the proposal to adjust the incremental revenue calculation by removing the operating and maintenance (O&M) costs. O&M costs are not a separate tariff component and it would be difficult and administratively burdensome to separate the costs from the Standard Asset Customer (SAC) tariff rates approved by the AER. Ergon Energy currently develops SAC tariffs after deducting an allowance for forecast capital contributions included in the Annual Revenue Requirement. This means SACs receive the benefit of lower rates due to the expected revenue from capital contributions.

If the AER considers it necessary to adjust the O&M costs, Ergon Energy prefers including the O&M cost in the incremental cost calculation. While this would be administratively burdensome and require system development, it is more appropriate than adjusting the incremental revenue calculation. Consequently, Ergon Energy considers that the Guidelines should allow DNSPs to choose which approach to adopt.

2.2 Treatment of Augmentation Assets

Ergon Energy is concerned by the AER's Draft Decision that "all customer capital contributions paid to the DNSPs should be netted off the RAB".² Ergon Energy considers that the Guidelines / Explanatory Statement should not prescribe a specific treatment. Rather, this issue should be addressed during the Regulatory Proposal and Distribution Determination process for each DNSP. Ergon Energy's current regulatory accounting treatment allows for capital contribution charges to be forecast in aggregate as part of the Regulatory Proposal, with actual charges then being offset from revenues each year via an unders and overs process. This process avoids double-counting.

We also note that the proposed clause 11.1.1 of the Guidelines requires the net cost of any connection service to be included by the DNSP in its RAB. The net cost is the gross capital cost to the DNSP of performing a connection service minus the customer connection charge. As Alternative Control Services (ACS) are to be charged in accordance with the relevant form of control approved by the AER, the actual cost of providing the connection service may be greater than the allowed fee for that service. Under the Guidelines this difference would be added to the RAB. This may result in a single asset being split across ACS and Standard Control Service (SCS) classifications. Once again, Ergon Energy considers that this issue should be addressed during the Regulatory Proposal and Distribution Determination process for each DNSP and should not be prescribed in the Guidelines.

2.3 Non-registered Embedded Generators

Ergon Energy is supportive of the AER's proposal that non-registered embedded generators (EGs) should fund the cost of removing specific network constraints, unless there is a demonstrable net benefit to other networks users. This sends a user-pays signal. However, we are concerned that DNSPs may be restricted from charging this under clause 6.1.4 of the National Electricity Rules (the Rules).

Clause 6.1.4 of the Rules states:

- (a) A *Distribution Network Service Provider* must not charge a *Distribution Network User* distribution use of system charges for the export of electricity generated by the user into the *distribution network*.
- (b) This does not, however, preclude charges for the provision of *connection services*.

¹ Ergon Energy (2011), *Submission on the Connection Charge Guidelines: for Accessing the Electricity Distribution Network*, 10 August 2011, p14.

² Refer to page 56 of the Explanatory Statement.



Ergon Energy considers that the definition of *distribution use of system*³ in the Rules includes both the shared network and connection assets due to the reference to “conveyance of electricity”. Therefore, clause 6.1.4(a) restricts charges associated with the shared network. The exception to this is if the charge is for the provision of *connection services*. *Connection services* are an *entry service* or an *exit service*. An *entry service* is a service provided to serve a *Generator/s* (which includes EGs) or a *Network Service Provider* at a single *connection point*. Ergon Energy believes the term *entry service* is ambiguous and may or may not include the removal of specific network constraints.

Ergon Energy queries whether the AER has considered this clause in relation to the Guidelines and Explanatory Statement. If so, we seek confirmation from the AER that this clause does not prevent DNSPs from charging non-registered EGs the cost of removing specific network constraints. If this is not the case, the AER may need to propose a Rule change to support its Guidelines.

2.4 Prepayments

As indicated in our earlier submission,⁴ Ergon Energy does not support the introduction of limits on the maximum amount of a prepayment that a DNSP can charge as this unfairly places the risk on the DNSP instead of the customer. We are therefore concerned with the AER’s intention to limit the circumstances under which a DNSP may request prepayment of the full connection charge. That is:

- If the connection will not occur for 3 months or more after the connection offer is accepted, the DNSP can only require prepayment of sunk costs incurred when, or immediately after, the connection offer is accepted;⁵ and
- For connection services that can be easily segmented into distinct stages of construction, a DNSP should allow partial prepayment of the connection charge prior to each construction stage (providing the prepayment is reflective of the costs incurred at that stage).⁶

Ergon Energy is concerned that the proposed drafting of clause 9.1.2b restricts our current ability to charge full prepayment for connection services which are classified as ACS (presently large customer connections in Queensland). We note that the AER has previously acknowledged that as a result of its classification of large customer connections as ACS, we may provide for the option of upfront as well as over time payments by customers.⁷ The Guidelines should allow the DNSP to charge upfront unless otherwise requested by the customer and agreed upon with the DNSP (and the connection service can be easily segmented into distinct stages of construction).

With respect to real estate developers, Ergon Energy notes that the AER “considers its guideline allows DNSPs to charge for this work upfront, when classified as an alternative control service. When classified as standard control, the AER considers it appropriate for the cost-revenue-test to apply, to ensure the developer pays its connection cost in total...”.⁸ Ergon Energy believes that real estate developers should fully fund all costs associated with making an electricity supply available to the development upfront, including any applicable SCS component of the connection charge. As raised in our earlier submission, this approach means Distribution Use of System payments received from all electricity customers are not used to support developers’ costs and profits, but are instead spent on the shared electricity distribution network, benefiting all customers.⁹

Finally, Ergon Energy disagrees with the AER’s proposal to require prepayment of sunk costs if the connection will not occur for 3 months after the connection offer is accepted. Ergon Energy considers that

³ A service provided to a *Distribution Network User* for use of the *distribution network* for the conveyance of electricity that can be reasonably allocated on a locational and/or *voltage* basis.

⁴ *Ibid* 1, p16.

⁵ Proposed clauses 9.1.2a, 9.1.3 and 9.1.4.

⁶ Proposed clauses 9.1.2b and 9.1.5.

⁷ AER (2008), *Framework and Approach Paper, Classification of Services and Control Mechanisms, Ergon Energy and Ergon Energy 2010-15*, August 2008, p19.

⁸ AER (2011), *Explanatory Statement, Proposed Connection Charge Guidelines: under chapter 5A of National Electricity Rules, For retail customers accessing the electricity distribution network*, 22 December 2011, p65.

⁹ *Ibid* 1, p4.



a more appropriate timeframe is 6 months. This will reduce the likelihood of disputes arising where the connection work is delayed for reasons beyond our control. We also note that the AER uses the term “for small connections” in its Explanatory Statement in reference to this restriction.¹⁰ This is not reflected in the Guidelines. We also seek clarity on the term “small connections”.

2.5 Real Estate Developers

Ergon Energy frequently sees situations where a real estate developer requests a network connection which requires us to augment our distribution network. However, load does not connect to our network for 12 months or more (i.e. where the real estate developer requests a connection for a development of a speculative nature). It is not appropriate to apply the cost-revenue-test in these circumstances as it does not send appropriate signals to the real estate developer. The current jurisdictional arrangements in Queensland address this issue by requiring developers to fully fund all costs associated with the works they require. Ergon Energy believes that the existing jurisdictional requirements should be maintained by the AER.

The AER has stated that if there is a high risk that a DNSP will not recover the expected incremental revenue from a customer, the DNSP may seek a security fee in the form of a prepayment or financial guarantee. However, the AER requires a rebate to be paid at least once each calendar year. Ergon Energy believes that in circumstances where no load has connected to the network then a rebate should not be required to be paid.

¹⁰ Ibid 7, p55.



3. TABLE OF DETAILED COMMENTS ON THE DRAFT GUIDELINES

Clause	Description	Ergon Energy Response
Application of this Guideline	The Australian Energy Regulator may approve the proposed connection policy if it is satisfied that the proposed policy complies with the requirements of chapter 5A and this connection charge guideline.	Clause 6.12.3 of the Rules states that the AER <u>must</u> approve the proposed connection policy if it is satisfied that the proposed policy adequately complies with the requirements of Part DA of the Rules. Ergon Energy therefore suggests the following changes: "The Australian Energy Regulator may must approve the proposed connection policy if it is satisfied that the proposed policy adequately complies with the requirements of Part DA of chapter 5A 6 of the NER and this connection charge guideline. "
Interaction with the Australian Energy Regulator's service classification	Direct control services are further categorised under clause 6.2.3 of the National Electricity Rules as either standard control services or alternative control services.	Clause 6.2.3 is incorrectly referenced. This sentence should refer to "clause 6.2.2".
1.1.2	CC is the capital contribution payable to the distribution network service provider for all standard control connection services. This is calculated with reference to the cost revenue test in section 5 of this guideline.	Ergon Energy suggests hyphenating "cost revenue test" to ensure consistency throughout the Guidelines.
2.1.1	A distribution network service provider must submit to the Australian Energy Regulator for approval, a shared network augmentation charge threshold or thresholds, below which, retail customers (connection applicants other than non-registered embedded generators and real estate developers) will not be required to pay shared network augmentation charges.	Ergon Energy suggests deleting the comma after "below which".
2.1.2	A distribution network service provider may set a different augmentation charge threshold in each identifiably different area of its network.	Ergon Energy suggests inserting "shared network" in front of "augmentation charge threshold" to ensure consistency throughout the Guidelines.
2.1.5	When demonstrating that a proposed shared network augmentation charge threshold meets clause 2.1.4, a distribution network service providers may have regard to:	The term "distribution network service providers" should be in singular form.
2.1.6	If a distribution network service provider cannot satisfy the Australian Energy Regulator that the network augmentation charge threshold or	Ergon Energy suggests inserting "shared" in front of "network augmentation charge threshold" to ensure



	thresholds meet the requirements of 2.1.3 and 2.1.4, then the threshold will be set at...	consistency throughout the Guidelines.
5.2.1	In determining the total connection charge, a distribution network service provider must...	As this section relates to principles for determining incremental costs, Ergon Energy does not believe it is appropriate to refer to “total connection charge”. The total connection charge encompasses the charge payable to the DNSP for ACS, the capital contribution, and the pioneer scheme (as per page 6 of the Guidelines). Ergon Energy recommends amending this to: “In determining the total connection charge incremental cost components , a distribution network service provider must...”
5.2.4	Components of the customer specific incremental costs The customer specific incremental costs (ICCS) will be calculated as the sum of the following cost items. a. premises connection assets. b. extension costs. c. administration costs (not limited by, but including design and certification).	Ergon Energy recommends amending the heading of this section to “Calculation of the customer specific incremental costs (ICCS)”. We also suggest the following changes: “The customer specific incremental costs (ICCS) will be calculated as the sum of the following cost items:-”
5.2.11	In calculating the applicable unit rate a distribution network service provider must take account of the cost of augmenting each network component with reference to;	The semicolon (;) should be replaced with a colon (:).
5.2.12	Distribution network service providers may elect to measure a connection service’s demand as either a peak demand or a peak coincident demand.	Peak demand and peak coincident demand are defined terms in the Guidelines and should be italicised.
5.4.4c.	c. the additional charge or refund will be calculated assuming the actual demand value determined had been applied for the total connection life.	The ‘t’ in the first “the” should be capitalised.
5.4.4d.	Note: This clause is provides an alternative to referring a dispute to the Australian Energy Regulatory clause 5A.G of the NER. However, this clause does not prevent a customer from accessing notifying the Australian Energy Regulator of a dispute under clause 5A.G.	Ergon Energy recommends amending this paragraph as follows: “This clause is is provides an alternative to referring a dispute to the Australian Energy Regulatory under under clause 5A.G of the NER. However, this clause does not prevent a customer from accessing accessing notifying the Australian Energy



		Regulator of a dispute under clause 5A.G of the NER.”
5.4.5	<p>Distribution network service providers and real estate developers may enter into private agreements with similar effect to clause 5.4.4 of this guideline.</p> <p>Note: The premises, to which connection services are made at the request of real estate developer, would be likely to have changed ownership before an additional payment or refund would occur and thus the approach is unlikely to have any effect for these customers.</p>	<p>This clause should state “Distribution Network Service Providers”. We also suggest the following changes:</p> <p>“The premises, to which connection services are made at the request of real estate developer, would be likely to have changed ownership before an additional payment charge or refund would occur and thus the approach is unlikely to have any effect for these customers.”</p>
5.5.1	Note: distribution network service providers are not obliged to apply a pre-calculated capital contribution to any or all classes of basic or standard connection offers.	The ‘d’ in “Distribution” should be capitalised.
5.5.2	<p>a. The Australian Energy Regulator will approve a pre-calculated capital contribution charge if it is satisfied the charge;</p> <p>b. limits cross subsidisation within the class; and</p> <p>c. is reflective of the average or typical capital contribution that would be charged to connection applicants within the class, if the cost-revenue-test was individually applied to each connection applicants’ connection service.</p>	<p>Ergon Energy suggests altering the outlined numbering as follows:</p> <p>“a. The Australian Energy Regulator will approve a pre-calculated capital contribution charge if it is satisfied the charge;</p> <p>b- i) limits cross subsidisation within the class; and</p> <p>c- ii) is reflective of the average or typical capital contribution that would be charged to connection applicants within the class, if the cost-revenue-test was individually applied to each connection applicants’ connection service.</p>
6.1.4a.	Extension assets should be depreciated over 20 years using straight line depreciation for the purpose of the pioneer scheme.	This clause should refer to “depreciation” not “deprecation”.
7.1.1	Non-registered embedded generators are not eligible for the exemption from paying augmentation costs under clause 5A.E.3(c)(4) and so must contribute to augmentation costs regardless of their size.	Ergon Energy recommends deleting “regardless of their size” and inserting “of the NER” after the reference to clause 5A.E.3(c)(4).
7.1.2a.	Non-registered embedded generators will pay a connection charge on the cost of connecting either its generation or load capacity, whichever is the greater.	This clause is ambiguous. Ergon Energy questions whether the AER intends for non-registered EGs to pay the <i>ICCS component</i> of the cost-revenue-test on the cost of connecting either its generation or load capacity, not the connection charge. As noted above, the connection



		charge encompasses the charge payable to the DNSP for alternative control services, the capital contribution, and the pioneer scheme (as per page 6 of the Guidelines).
8.1.1	Real estate developers are not eligible for the exemption from paying augmentation costs under clause 5A.E.3(c)(4) and so must contribute to augmentation costs regardless of their size.	Ergon Energy recommends inserting “of the NER” after the reference to clause 5A.E.3(c)(4).
8.1.5	In accordance with section 5A.E.1(c)(5) of the NER, real estate developer’s incremental cost (for inclusion in the cost-revenue-test) for augmentation (both ICCS and ICSN) may include the costs of the connection services and, to any further extent that a prudent service provider would consider necessary, the cost of providing efficiently for forecast load growth.	The reference to “section 5A.E.1(c)(5)” should be replaced with “ <u>clause</u> 5A.E.1(c)(5)”.
9.1.1	A distribution network service provider may not require prepayments of connection charges unless it develops and publishes in its connection policy, a policy regarding the calculation and charging of prepayments.	The current wording of this clause is ambiguous. Ergon Energy suggests replacing this clause with the following: <p>“A distribution network service provider may require a connection applicant to pay a prepayment of connection charges.</p> <p>a. If the distribution network service provider requires prepayments it must develop and publish a policy regarding the calculation and charging of prepayments in its connection policy”.</p>
10.1.1	A distribution network service provider may not require a security fee unless it has developed and published, in its connection policy, a policy regarding the calculation and charging of security fees.	The current wording of this clause is ambiguous. Ergon Energy suggests replacing this clause with the following: <p>“A distribution network service provider may require a security fee.</p> <p>a. If the distribution network service provider requires a security fee it must develop and publish a policy regarding the calculation and charging of security fees in its connection policy”.</p>
10.1.3g.	The connection applicant should be rebated an amount greater than the security fee deposit plus interest from the distribution network service provider in total, over the security fee period.	Ergon Energy believes this clause contains a typographical error. As per the Explanatory Statement (page 61), the customer should <u>not</u> receive an amount greater than the security fee deposit plus interest from the



		DNSP in total over the security fee period.
11.1.1	The net cost (the gross capital cost to the distributing network service provider of performing a connection service <i>minus</i> the customer <i>connection charge</i>)...	This clause should refer to “distribution” network service provider, not “distributing”.
Definitions	Connection Charge —the total amount payable by the connection applicant to the DNSPs. This may consist of charges for alternative control services or a capital contribution for standard control services.	Connection charge is defined under the Rules as “a charge imposed by a Distribution Network Service Provider for a connection service”.
Definitions	Subsequent customer —A connection applicant, other than the original customer, for which connects to an extension subject to the pioneer scheme.	This definition is ambiguous and the AER should consider revising it. Further, “then” should be replaced with “than”.