

17 February 2012

Mr Chris Pattas
General Manager
Australian Energy Regulator
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Dear Sir

Draft connection charge guidelines for electricity retail customers

Essential Energy appreciates the opportunity to respond to the Australian Energy Regulator's (AER's) draft connection charge guidelines and accompanying explanatory statement for electricity retail customers ('the guidelines'). Essential Energy acknowledges the AER's attempt to broaden the guidelines to better facilitate the NSW contestability framework, for example, by promoting default rather than mandatory shared augmentation thresholds.

However, Essential Energy believes the guidelines will still create confusion for NSW customers, retailers, distribution network service providers (DNSPs) and Accredited Service Providers (ASPs) in trying to interpret their applicability to a competitive market. For example, from Essential Energy's reading of the guidelines, the calculation of the incremental revenue in the cost-revenue-test formula seems complex and will be hard to explain to customers. It is not clear how the relevant amounts of revenue relating to non-standard control services, operating and maintenance costs or shared network augmentation are estimated for a particular distribution use of system tariff and its components.

Essential Energy remains concerned that the AER seems to have based its starting point for drafting the guidelines on jurisdictional frameworks where contestability is currently limited or does not exist. Essential Energy believes that it would be desirable to move all jurisdictions to contestability in the future for the benefit of all customers, and so the starting point could be a working competitive model such as that already in existence in NSW. The principles, policies and practices used in NSW can be applied across all jurisdictions now, regardless of the current levels of contestability or service classification, aiding in a smooth transition for jurisdictions to full contestability for connection services. Essential Energy is of the view that the NSW connection charge framework would satisfy the stated purpose of the guidelines under Chapter 5A of the National Electricity Rules (NER).

Essential Energy notes the recent release by the AER of its consultation paper on the classification of electricity distribution services in the ACT and NSW ('the consultation paper'). The consultation paper has a close and important link to the guidelines. In both instances, the AER has acknowledged its intention to observe the existing contestability framework in NSW. However, the AER's solution to this in the guidelines seems to be to shift responsibility for solving the issue to the consultation paper, in anticipation that services will be classified in accordance with the positions put forward in the guidelines. This is not a satisfactory outcome for Essential Energy, as an adverse classification may not achieve the outcome of maintaining contestability in NSW, and could arguably be inconsistent with Chapter 5A of the NER.

Some other minor suggested amendments that could be made to the guidelines are as follows:

- Clause 2.1.3 – should read ".....proposed shared network augmentation charge threshold....."
- Clause 5.4.4 – delete the word "accessing" from the note to this clause
- Clause 6 – the definition of a connection applicant does not include an embedded generator. This is relevant because the definition of an original customer or subsequent customer refers back to a connection applicant, therefore the definitions do not cater for an embedded generator being an original customer or subsequent customer
- Clause 6.1.6 – reference to pioneer customer should be amended to refer to original customer, as this is the defined term used in the guidelines
- Clause 9.1.3b. – design and administration costs should be expanded to include network performance studies
- Clause 10.1.3d. – it is understood the reference to calendar year may have come from Victorian guideline 14 consistent with their regulatory control periods, however most other jurisdictions operate in financial years and therefore both should be catered for in this clause

The contestability framework is unique to NSW, and is designed to ensure greater customer choice and efficiency in the market for contestable services due to increased competition. The framework has been operating successfully in NSW for many years and is well understood by all participants. Essential Energy strongly believes that the current contestability framework in NSW needs to be protected and maintained. However, Essential Energy is not confident that the guidelines in their current form will achieve this objective.

Essential Energy would be pleased to discuss this matter further with the AER. Should you require further information please feel free to contact Jason Cooke on 02 6338 3685.

Yours sincerely



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