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By email: aer inquiry@ aer.gov.au

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Draft connection charge guidelines for electricity retail customers

Dear Mr Pattas

Jemena Electricity Networks (Vic) (**JEN**) appreciates the opportunity to comment on the draft connection charge guidelines for electricity retail customers made under chapter 5A of the National Energy Rules. The draft guideline and explanatory statement were issued on 22 December 2011.

JEN's response is set out in **Attachment 1**.

If you wish to discuss the submission please contact me on (03) 8544 9442 or at siva.moorthy@jemena.com.au.

Yours sincerely

Siva Moorthy
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Attachment 1:

Jemena Electricity Networks (Vic) response to AER's draft connection charge guidelines for electricity retail customers, 17 February 2012.

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1. Introduction and key messages

Jemena Electricity Networks (Vic) (**JEN**) believes most of the concerns it had with the AER's preliminary approach to connection charge in the consultation paper that preceded this draft guideline have been addressed.

The way the total connection charge is clearly set out into the three connection service components is orderly. The proposal to apply the cost-revenue-test only to connection services classified as standard control is welcomed.

JEN supports most the principles and requirements set out in the AER's draft connection charge guidelines except for those in sections 1.1.4 (b), 5.2.1 (b) and 8.1.5. JEN's issues with these sections are detailed below.

2. Total connection charge

JEN supports the connection charge formula that is set out in the draft connection charge guidelines. It provides for a distribution network service provider to incorporate multiple connection services in the connection charge. This is a neat way to set the total connection charge. The connection charge formula is:

$$\text{Connection Charge} = \text{AS} + \text{CC} + \text{PS}$$

Where:

- AS is the charge payable to the distribution network service provider for all alternative control connection services.
- 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.
- PS is the total payable to the distribution network service provider, to account for any existing pioneer scheme, applying to the assets to which the customer connects.

The connection charge formula resolves the main concerns JEN had with respect to the consultation paper that preceded this draft guideline.

Section 1.1.4 (b) of the guideline states:

(b) Calculate the charge for each component on the least cost technically acceptable standard necessary for the *connection service*, unless:

i) the *connection applicant* requests a *connection service* or part thereof be performed to a higher standard. In which case the *connection applicant* should contribute the additional cost of providing the service to the standard requested

ii) the *connection service* involves augmentation to the shared network, in which case the *connection applicant* should be charged no more for this service than the cost attributable to the *connection applicant's* electricity demand.

JEN supports principle 1.1.4 (b), however it does not agree with the way it is set out in the guideline. Subsection (i) correctly addresses the issue where a connection applicant requests a standard that is higher than the 'least cost technically acceptable' standard necessary for the connection service, then the applicant is required to contribute the additional cost attributed to the higher standard.

Subsection (ii) deals with a separate issue – that is a connection applicant, should not be charged more than the cost attributable to the connection applicant's electricity demand. Linking subsection (ii) to the 'least cost technically acceptable standard' to an electricity demand is confusing and may have unintended consequence.

In any case, the guideline in 5.2.6 requires the application of unit rates to determine the incremental cost of shared network augmentation. A prudent distribution network service provider would as a rule augment the shared network on the basis of 'least cost technically acceptable' standard.

JEN considers the issue of 'least cost technically acceptable' standard is likely to in relation to connection services involving premise connection assets and network extensions.

Examples of connection applicants requesting connection assets that are of a higher standard than a distribution network service provider's 'least cost technically acceptable standard' are:

- a) A connection applicant requests a network extension to be placed underground, when an overhead network is the standard in that part of the distribution area and is technically acceptable.
- b) A connection applicant requests a kiosk substation when a pole type substation is the least cost technically acceptable standard in the distribution area where the distribution system is predominantly overhead.
- c) A connection applicant requests an underground service in a distribution area that is predominantly overhead. In Victoria, this service is termed 'elective undergrounding' and is classified as alternative control service.

JEN proposes section 1.1.4 (b) should be set out as:

(b) Calculate the charge for each component on the least cost technically acceptable standard necessary for the *connection service*, unless the *connection applicant* requests a *connection service* or part thereof be performed to a higher standard. In which case the *connection applicant* should contribute the additional cost of providing the service to the standard requested

c) Where the *connection service* involves augmentation to the shared network, ~~in~~ ~~which case~~ the *connection applicant* should be charged no more for this service than the cost attributable to the *connection applicant's* electricity demand.

JEN notes that section 1.1.4 is repeated in section 5.2.1 of the draft guideline. The principles expressed in section 1.1.4 relate to capital contribution. Therefore, the principles are best located in section 5.2.1. JEN considers that the entire section 1.1.4 can be deleted and section 5.2.1 be amended as proposed above.

3. Shared network augmentation charge thresholds

JEN supports the principles and requirements set out in section 2 of the draft guideline.

Section 2.1.6 specifies default thresholds, if a distribution network service provider cannot satisfy the AER of the requirements of 2.1.3 and 2.1.4. Given that there are default thresholds, JEN suggests that the requirement in section 2.1.1 be modified to exempt a distribution network service provider from having to seek the AER's approval of shared network augmentation threshold, if the distribution network service provider decides to accept the default thresholds specified in section 2.1.6.

Additionally, JEN suggest the words "threshold or thresholds" be inserted as shown below in section 2.1.3. We believe the words were inadvertently left out in the draft guideline.

The Australian Energy Regulator may not approve a distribution network service provider's proposed shared network augmentation charge threshold or thresholds unless:

4. charges for negotiated distribution services and unclassified distribution services

JEN supports the principles set out in section 3.

5. Charges for alternative control services

JEN supports the principles set out in section 4.

6. Capital contributions for standard control services

In section 3.1.2 of the Explanatory Note, the AER notes:

"Clause 5A.E.1(c) (6) prevents the imposition of connection costs to the extent that provision for those costs has already been made through existing DUoS charges or a tariff applicable to the connection. The AER considers to address this clause, a cost-revenue-test should be applied to services for which the costs are recovered through DUoS charges."

JEN supports the AER's approach of applying a cost-revenue-test to meet the requirements of clause 5.A.E.1(c) (6).

Additionally, the AER proposes to only apply to connection services which have been classified as standard control. This proposal is most welcomed as it addresses many of the concerns JEN had with respect to the AER's preliminary approach in that consultation paper that preceded this draft guideline.

Incremental cost

JEN supports the incremental cost principles and requirements set out in section 5.2 except for subsection 5.2.1 (b). Section 5.2.1 is a repeat of section 1.1.4 of the draft guideline. Please refer to the comments JEN provided in relation to section 1.1.4.

Consistent with our earlier comments, JEN proposes section 5.2.1 (b) should be modified as follows:

(b) Calculate the charge for each component on the least cost technically acceptable standard necessary for the *connection service*, unless the *connection applicant* requests a *connection service* or part thereof be performed to a higher standard. In which case the *connection applicant* should contribute the additional cost of providing the service to the standard requested

c) Where the *connection service* involves augmentation to the shared network, ~~in~~ ~~which case~~ the *connection applicant* should be charged no more for this service than the cost attributable to the *connection applicant's* electricity demand.

Incremental revenue

JEN supports the principles and requirements set out in Section 5.3.

Estimating customers' consumption and demand

JEN supports the principles and requirements set out in Section 5.4.

Note: There is a typographical error in 5.4.5.

Capital contributions for basic and standard connection offers

JEN supports the principles and requirements set out in Section 5.5.

7. Extension pioneer scheme

JEN supports the principles and requirements that set out in section 6.

On page 58, the Explanatory Statement notes:

The AER considers that for most retail customers, DNSPs should only be able to charge the lowest cost technically efficient extension to the extent needed to serve those customers.⁶⁹ However, if a retail customer requests an extension to a standard higher than the lowest cost technically efficient solution, DNSPs will be able to charge retail customers the difference, which will not be subject to a pioneer scheme. Only the value of the lowest cost technically efficient solution will be subject to a pioneer scheme.

This principle has not been reflected in this section, which sets out the pioneer scheme for extension assets. JEN suggests the AER gives consideration to including this principle in under this section of the guideline.

8. Embedded generation

JEN supports the principles that are set out in section 7.

9. Real estate developers

JEN supports the principles that are set out in section 8, except for note below 8.1.5

Section 8.1.5 states:

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.

Note: If a distribution network service provider considers that it is prudent to provide spare capacity in any extension assets used to connect a real estate developer, it should enter into a pioneer scheme with the real estate developer.

JEN believes the AER has incorrectly extended the principle of refunding the connection charges contemplated in section 5.A.E.1 (d). Section 5.A.E.1 (d) specifically relates to a retail customer – not a real estate developer. Section 5.A.E.1 (d) states:

“If:

(1) a connection asset ceases, within 7 years after its construction or installation, to be dedicated to the exclusive use of the **retail customer** occupying particular premises; and

(2) the **retail customer** is entitled, in accordance with the *connection charge guidelines*, to a refund of *connection charges*;

the *Distribution Network Service Provider* must make the refund, and may recover the amount of the refund, by way of a *connection charge*, from the new users of the asset.” [Emphasis added]

Section 5.A.A.1 definitions note:

real estate developer means a person who carries out a *real estate development*, and

retail customer includes a *non-registered embedded generator* and a *micro embedded generator*.

Moreover, section 5A.E.3(c) (6) requires the AER to develop guidelines that:

“describe the method for calculating:

(i) the amount of a refund of connection charges for a *connection asset* when an *extension asset* originally installed to connect the premises of a single **retail customer** is used, within 7 years of its installation, to connect other premises and thus comes to be used for the benefit of 2 or more **retail customers**.” [Emphasis added]

On page 58, the Explanatory Statement notes:

“Chapter 5A does not exclude developers from the refund scheme. Additionally, the AER considers DNSPs can treat developers as single customers and therefore do not consider the pioneer scheme would be more complex to administer.”

“Under clause 5A.E.1, DNSPs can charge real estate developers a reasonable capital contribution towards the cost of augmentation to the network to the extent necessary to provide the services and to any further extent that the DNSP considers necessary to provide efficiently for forecast load growth. The AER considers this cost should be borne by the developer and should be subject to a pioneer scheme.”

JEN does not agree with the above reasoning given the intention of 5.A.E.1 (d) because section specifically relates to a retail customer – not a real estate developer.

JEN contends that the requirement to make a refund as contemplated in section 5.A.E.1 (d) is designed to only apply to *retail customers* – otherwise 5.A.E.1 (d) would have included *real estate developers*. Moreover, 5A.E.3(c) (6) specifically requires the AER to provide guidelines on refunding connection charges to retail customers, which does not include *real estate developers*.

10. Prepayments

JEN supports the principles that are set out in section 9.

11. Security fees

Section 10.1.3 (g) does not make sense and we believe there is word 'not' missing in the statement. JEN proposes the following correction.

"The *connection applicant* should not 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."

With the above correction, JEN supports the principles that are set out in section 10.

12. Treatment of augmentation assets

JEN supports the principles that are set out in section 11.

13. Definitions

JEN considers the definitions are consistent with chapter 5A and sufficiently clear.