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Connection charge guideline forum

Overview and discussion of the AER's consultation and preliminary positions paper

11 July 2011

Overview

- Purpose of this forum
- AER's design criteria
- Cost revenue test - incremental revenue and cost
- Augmentation charge threshold
- Treatment of embedded generation.

Purpose of this forum

- Explain the approach proposed by the AER and related issues identified in the consultation paper

- Provide an opportunity for stakeholders to outline concerns and ask questions about the consultation paper

AER's design criteria

- The AER developed design criteria on matters where chapter 5A only sets the general principles rather than specific conditions

- Designed to inform the AER on the appropriate charging approach to meet chapter 5A objectives

AER design criteria 1

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

- This is reflective of the user pay principle of chapter 5A

- Hence, the guideline will be setting actual charges.

AER design criteria 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.

- Reflective of the 'reasonable, taking into account the efficient costs of providing the connection services arising from the new connection' principle

- Also the need to take account of contestability requirements, where relevant

- Hence, DNSPs should either seek tender prices, or set up a typical charge rates based on pre-established independent supplier rates.

AER design criteria 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.

- This is reflective of the 'limit cross-subsidisation of connection costs between different classes' principle
- Therefore, a cost-revenue-test is appropriate.
- but for basic connections, average cost and revenue assumptions can apply.

AER design criteria 4

Customers should not experience a large step change in capital contributions if they fall above or below the threshold for charging for augmentation.

- This is also reflective of the 'reasonable, taking into account the efficient costs of providing the connection services arising from the new connection' principle
- This would also address the straw that broke the camel's back threshold boundary situation.

Other design criteria of ch.5A

The AER has not developed a specific design criteria about ensuring charges are competitively neutral if the service is contestable under chapter 5A. This purpose is clearly expressed in the Rules.

This is different from criteria 2, which applies where the service is not FULLY contestable.

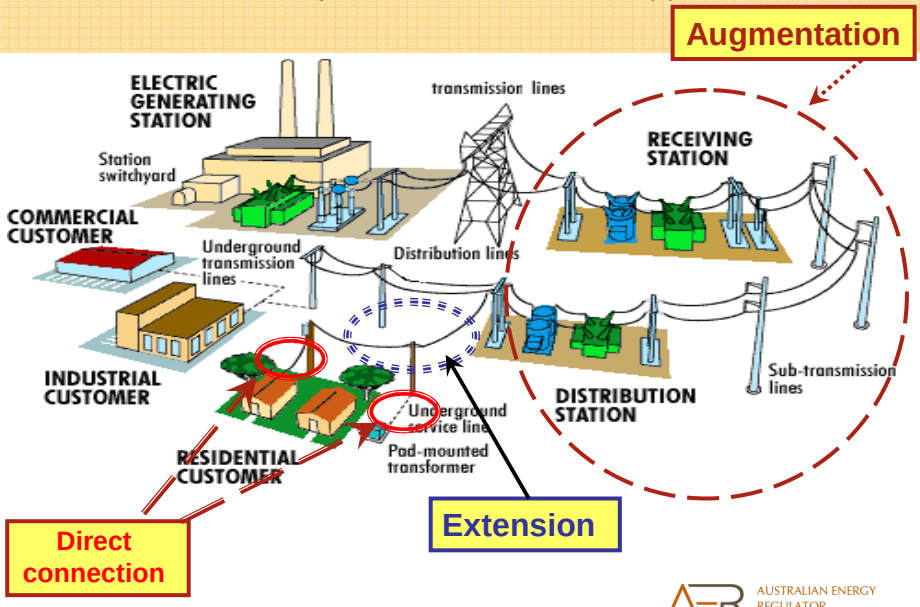
Categories of connection assets (1)

Connection assets can be separated into 3 categories:

- direct connection
- network extension
- shared network augmentation (augmentation).

The next slide shows graphically what they are

Categories of connection assets (2)



Cost revenue test

The guideline will implement a cost-revenue-test where customers will be charged capital contributions if the connection's incremental cost exceeds the incremental revenue over the connection life.

- For basic and some standard connection offers, the capital contribution could be pre-calculated based on a typical customer within the class

- Larger customers, or customers with specific requirements would require the cost-revenue-test to be applied individually.

Cost revenue test – incremental revenue

- The revenue used in the cost-revenue-test should be consistent with the costs that it will offset
  - DUoS compensates DNSPs for all costs included in the cost side of the test
- The default connection life for residential and business customers is 30 years and 15 years respectively
  - Business customers can vary this assumption.

Cost revenue test – incremental revenue calculation

- The NPV of future revenue will be calculated using the real WACC
- The price path will be assumed to vary in accordance with approved X factors until the end of the Regulatory period and will thereafter remain flat for the rest of the connection period

Cost revenue test – incremental cost (2)

- Customers must pay the full cost to extend the network due to their connection (offset by incremental revenue)
- Extensions will be subject to a rebate/ pioneer scheme
- The AER proposes to straight line depreciate extension asset over 20 years.

Cost revenue test – incremental cost (3)

- A unit rate charge should be adopted to calculate augmentation charges, applied to peak demand above the augmentation threshold (discussed later)
- The rate will be based on average recent project augmentation costs.
- O&M costs will be included in the costs to net off the revenue attributable to O&M contained in DUoS.

Cost revenue test – incremental cost (4)

- DNSPs must call for tenders subject to customer agreement before performing works over $3000
- For works below $3000, DNSPs will use pre-established period (standing) contract prices from qualified third party contractors.

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Augmentation charge threshold

- The paper proposes setting an augmentation charge threshold at 100A 3-phase low voltage supply. Based on:
  - A 100 Ampere 3-phase supply is the largest connection possible without the need of current transformer metering
  - The South Australian approach
  - Average demand figures indicate this threshold will exclude most retail customers
- In rural areas, DNSPs may propose lower thresholds
- A default threshold of 25 kVA on SWER lines
  - This will provide some locational signal.

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Augmentation charge threshold (2)

- A customer must have peak demand over 100 Ampere (~70 kVA) to be required to pay for augmentation
- Customers only pay for augmentation on their demand above the threshold
  - Reduces step changes in cost between customers below and above the threshold.

Fully contestable market (NSW)

Contestability can be maintained by the following:

•In a contestable and competitive market, construction work costs will be outside DNSPs' connection offers

- the cost-revenue-test will not include construction costs
- parties will compete on equal terms

•Where contestability is not compulsory, DNSPs must obtain market prices through independent contractors. Customers obtain connection offers (and pay) through DNSPs.

Embedded generation

- Some generators are also load customers
  - Costs associated with the load portion and costs associated with generated load need to be considered separately
- Generators should pay for the cost of removing constraints on their outputs
  - Unless there is a demonstrable net benefit to other network users.