

SP AusNet Response to the AER's 'Draft connection charge guidelines for electricity retail customers'

Submitted: February 2012

SPA Response to AER's Draft – Connection Charge Guidelines

About SP AusNet

SP AusNet is a major energy network business that owns and operates key regulated electricity transmission and electricity and gas distribution assets located in Victoria, Australia. These assets include:

- A 6,574 kilometre electricity transmission network indirectly servicing all electricity consumers across Victoria;
- An electricity distribution network delivering electricity to approximately 575,000 customer connection points in an area of more than 80,000 square kilometres of eastern Victoria; and
- A gas distribution network delivering gas to approximately 504,000 customer supply points in an area of more than 60,000 square kilometres in central and western Victoria.

SP AusNet's vision and mission is to make important things in life happen today and tomorrow. The SP AusNet company values are:

- Safety: to work together safely. Protect and respect our community and our people.
- Passion: to bring energy and excitement to what we do. Be innovative by continually applying creative solutions to problems.
- Teamwork: to support, respect and trust each other. Continually learn and share ideas and knowledge.
- Integrity: to act with honesty and to practise the highest ethical standards.
- Excellence: to take pride and ownership in what we do. Deliver results and continually strive for the highest quality.

For more information visit: www.sp-ausnet.com.au

Contact

This document is the responsibility of the Regulation and Network Strategy Division, SP AusNet. Please contact the officer below with any inquiries.

Tom Hallam
Manager Economic Regulation
SP AusNet
Level 31, 2 Southbank Boulevard
Melbourne Victoria 3006
Ph: (03) 9695 6617

SPA Response to AER's Draft – Connection Charge Guidelines

Table of Contents

1	Summary of Key Points	4
1.1	Background	5
1.2	Overview of Submission.....	6
2	Method of determining charges for alternative control, negotiated and unclassified services.....	7
3	Method of determining capital contributions for standard control services (cost-revenue-test).....	7
3.1	Cost-revenue-test formulation	7
3.2	Incremental cost	8
3.3	Incremental cost	10
4	Estimating customers' consumption and demand	11
5	Shared network augmentation charge threshold.....	11
6	Pre-calculated capital contributions	12
7	Maintaining a contestable framework.....	13
8	Prepayments.....	13
9	Treatment of augmentation assets	14
10	Refund of connection charges for extension assets	14
11	Security fee scheme.....	15
12	Non-registered embedded generators	15
13	Real estate developers.....	15

SPA Response to AER's Draft – Connection Charge Guidelines

1 Summary of Key Points

The AER's revised approach represents a substantial change, relative to the AER's original position.

In particular, the AER's Draft Decision contemplates a revised service classification being proposed by DNSPs for the treatment of some connection services. In particular, the AER contemplates that DNSPs may seek to have premises connection assets and extension assets classified as either an Alternative Control Service, or as an unregulated service, depending on the extent to which competition exists in the relevant market.

Notwithstanding the non-binding nature of the AER's position, SP AusNet supports the AER's (likely) revised approach to classifying these services, and notes that its adoption would address many of the concerns that it had with the AER's original proposal. In particular, SP AusNet considers that the adoption of either service classification would facilitate the direct charging of customers for the directly attributable costs incurred in connecting them to the shared network. The absence of such an outcome was the key issue that SP AusNet identified with the AER's original methodology. Furthermore, relative to what was embedded within the AER's previous methodology, both approaches would allow for a substantial improvement in the efficiency of the price signal that is seen by new customers and reduce the inherent cross-subsidy from existing customers to new customers.

SP AusNet is generally supportive of many other aspects of the AER's draft decision, including on the issues of: security fee arrangements; provisions for the prepayment of the connection costs; the flexibility afforded to DNSPs to adopt pre-calculated charges; and the AER's proposed approach to estimating customers' consumption and demand.

The only substantive issue that remains for SP AusNet is the AER's rationale for the imposition of a cost-revenue test for standard control services, particularly where customers develop in-sequence. In particular, SP AusNet is concerned that the AER's cost-revenue test for standard control services, in conjunction with the use of average shared network asset costs, may actually be in conflict with Rule 5A.E.1(c)(6). In particular, Rule 5A.E.1(c)(6) states that "*however, a capital contribution may only be required in the circumstances described in subparagraphs (1) to (5) if provision for the costs has not already been made through existing distribution use of system charges or a tariff applicable to the connection.*" The AER's stated interpretation of this Rule is that "*to address this clause, a cost revenue-test should be applied to services for which the costs are recovered through DUoS charges*". However, SP AusNet considers that the Rule actually requires that if DuoS charges '*provide for the recovery*' of certain connection costs (e.g., certain augmentation works), then no charge can be levied upon the customer at all, therefore no cost-revenue test should be applied. Further, SP AusNet notes that the Rule is not written in such a way that contemplates that a capital contribution should be calculated, 'having regard for the extent to which a cost is already provided for in DuoS tariffs', or, that 'an average capital cost can be used in lieu of a detailed review of what has been provided for in existing DuoS charges'.

In relation to the latter point, the AER's approach applies an average unit rate * estimated demand to determine the shared network cost to be included in the cost revenue test. This 'average' approach means that there will be no nexus between the capital contribution calculated under the cost revenue test, and the augmentation program that was accepted as part of the DNSPs regulatory review process. Therefore, there is no scope to determine whether the augmentations required to service the specific customer are provided for through the regulatory submission process. In this situation, compliance with Rule 5A.E.1(c)(6) is almost impossible to prove.

SPA Response to AER's Draft – Connection Charge Guidelines

SP AusNet notes that its previously proposed position, which would lead to DNSPs assessing whether their capital program has to be changed to cater for development (i.e., whether the development is out-of sequence), and only charging the bring forward costs where the program has changed, would appear to be a more accurate interpretation of Rule 5A.E.1(c)(6). This is because it explicitly considers whether an asset has been provided for (quantum, and timing) in the regulatory submission process and therefore, DuOS tariffs, and if only where it hasn't been would a connection charge for deep augmentation then be calculated and levied.

Further to the above, SP AusNet considers that charging only for out-of-sequence development is consistent with the broader Rules underpinning network pricing, as it implicitly assumes that the incremental cost of providing shared network services to cater for any in-sequence development is recovered through variable DuOS prices. This is consistent with the Rules that require variable prices take into account the LRMC of supply. The AER appears to acknowledge this on page 48 of their Explanatory Statement. Again, if this is the case, SP AusNet questions why a cost-revenue test needs to be undertaken for in-sequence development.

Finally, SP AusNet notes that a move towards charging out-sequence development improves the price signal sent to new customers, and furthermore, protects DNSP's from the impact that changes in the spatial nature of development has on its capital program during the regulatory control period.

1.1 Background

The Ministerial Council on Energy (MCE) endorsed the introduction of a new chapter 5A — Electricity connection for retail customers — to the National Electricity Rules (Rules). Under Chapter 5A, the AER is required to develop and publish connection charge guidelines to codify how Electricity Distribution Network Service Providers (DNSPs) should charge new electricity customers for connecting to their networks.

In June 2010, the AER released a Consultation paper: "*Issues and AER's preliminary positions - connection charge guideline for accessing the electricity distribution network*", which SP AusNet provided a detailed submission on.

The AER has now released a '*Draft connection charge guidelines for electricity retail customers*' ('Draft Guideline') and accompanying Explanatory Statement for further comment.

The key features of this Draft Guideline are:

- That it contemplates a revision to the classification of certain connection services, which may allow, amongst other things, for direct connection costs (those that can be directly attributable to a specific customer) to be classified as an Alternative Control Service, if they are not provided in a competitive market, or unregulated, if that service is provided in a competitive market.
- The AER's approach codifies an approach (the cost revenue test) to calculating connection charges for standard control services. This approach would most likely be associated with assets that cannot easily be attributed to an individual customer. Augmentation of the shared network might generally fit this category.
- Only customers whose peak demand is above the shared network augmentation threshold will be directly charged for the costs they impose on the shared network. This charge should be based on the average cost incurred by the DNSP of adding a unit of capacity to the network and the expected demand of the customer. DNSPs will have

SPA Response to AER's Draft – Connection Charge Guidelines

discretion to set multiple thresholds. This will allow DNSPs to distinguish between areas of the network which have different characteristics or capacity. In each area, the threshold must be set so that a customer below the threshold would not be 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. The threshold should also be set such that customers above and below the threshold have identifiably different characteristics.

- DNSPs must develop a pioneer scheme to apply to extension assets that are initially constructed for the dedicated use of a particular customer. If a customer funds connection assets, which subsequently become shared, they will be entitled to a refund from the DNSP. The DNSP may recover the refund, which it paid to the initial customer, from subsequent customers who connect to the extension asset within 7 years of the initial connection.
- A real estate developer's connection charge may include the incremental costs of the connection services required and, to any further extent that a prudent service provider would consider necessary, the cost of providing efficiently for forecast load growth.
- DNSPs may include provisions for the prepayment of the connection costs in their connection policies. Full prepayment of the connection charge at the time of accepting the connection application is permissible, unless the connection work is not expected to occur within three months of the payment being made.
- The value of any assets gifted to a DNSP by a customer will not be included in the DNSP's RAB.

1.2 Overview of Submission

The remainder of this submission is structured such that it addresses the key components of the AER's Explanatory Statement. More specifically, it provides SP AusNet's views on the:

- Method of determining charges for alternative control, negotiated and unclassified services
- Method of determining capital contributions for standard control services (cost-revenue-test)
- Shared network augmentation charge threshold
- Issue of pre-calculated capital contributions
- Scope for maintaining a contestable framework
- Inclusion of prepayments
- Treatment of augmentation assets
- Inclusion of refunds of connection charges for extension assets
- Adoption of a security fee scheme
- Application to non-registered embedded generators, and
- Application to real estate developers.

SPA Response to AER's Draft – Connection Charge Guidelines

2 Method of determining charges for alternative control, negotiated and unclassified services

The AER's connection charge guideline does not pre-empt or bind the AER to apply any particular service classification as part of a distribution determination. However, the AER notes that:

- *Where a service is offered by a competitive market, the AER may determine that no regulation of that market is required and so choose not to regulate this particular service. The accredited service provider scheme, in NSW, may be an example of where these classifications might apply.*
- *If the cost of a connection service can be readily attributed to a particular customer, and the service is not contestable (or there is not a competitive market), then an alternative control service classification may be appropriate. Augmentation of premises connection assets, extensions and incidental connection services, might generally fit into this category.*
- *If the cost of the connection cannot be easily attributed to an individual customer, then a standard control service classification might be appropriate. Augmentation of the shared network might generally fit into this category.*

In response:

- SP AusNet supports the AER's preliminary allocation of services to service classifications, in particular, where the service is offered in a competitive market, no regulation should be required. SP AusNet considers that the contestability arrangements in Victoria are consistent with this, as significant competitive tension underpins the provision of most connection services.
- SP AusNet supports the use of the Alternative Control Service classification to recover the costs of services that can be readily attributed to a particular customer, where there is an absence of competitive tension in the provision of these services.
- Relative to what was embedded within the AER's previous methodology, both of the above approaches allow for a substantial improvement in the efficiency of the price signal that is seen by new customers, and both reduce the inherent cross-subsidy from existing customers to new customers.

3 Method of determining capital contributions for standard control services (cost-revenue-test)

3.1 Cost-revenue-test formulation

The cost-revenue-test will be applied to all connection services classified as standard control, subject to the following conditions:

SPA Response to AER's Draft – Connection Charge Guidelines

- *Shared network augmentations will not be included in the cost-revenue-test, where the customer is not required to make a capital contribution towards the cost of augmentation because chapter 5A does not allow it, or the customer is below the shared network augmentation threshold. In these cases neither the amount of ICSN nor IR(n=X) attributable to these connection services will be included in the cost-revenue-test.*
- *Operational and maintenance costs will not be included in the cost revenue test.*
- *The cost-revenue-test will apply to all standard control connection services in a collective manner.*
- *The cost-revenue-test will be applied in the form: $CC = ICCS + ICSN - IR(n=X)$*

In response:

- SP AusNet accepts the formula as it currently stands, although it has broader concerns about the application of the cost-revenue test to in-sequence development. This is discussed in more detail in the next section.
- SP AusNet accepts the removal of operating and maintenance costs from the cost-revenue test.

3.2 Incremental cost

The AER has concluded that to determine the costs of standard control services DNSPs should:

- *Determine the charge for each component in a fair and reasonable manner. The cost estimate should be reflective of the efficient costs.*
- *Calculate the charge for each component on the least cost technically acceptable standard necessary for the connection service, unless:*
 - *the customer requests a connection service or part thereof be performed to a higher standard. In which case the customer should contribute the additional cost of providing the service to the standard requested*
 - *the connection service involves augmentation to the shared network, in which case the customer should be charged no more for this service than the cost attributable to its electricity demand.*
- *For negotiated connections under clause 5A.C.1 of the NER, where possible, a customer may undertake a tender. Additionally, for these services DNSPs should offer to conduct a tender process on behalf of the customer to have the connection work provided by a qualified independent service provider. Thus the AER considers:*
 - *A DNSP should notify a customer that it can seek tenders on behalf of the customer.*
 - *A DNSP may charge the customer the reasonable costs of running a tender process.*
- *To determine the incremental cost of shared network augmentations, DNSPs should apply a unit rate charge, rather than charge in accordance with one of the other methods canvassed in the issues paper. The unit rate should be applied to a customer's total*

SPA Response to AER's Draft – Connection Charge Guidelines

electricity peak demand, or peak coincident demand if the DNSP chooses, for customers above the relevant shared network augmentation charge threshold.

- *DNSPs may apply different unit rates for shared network augmentation costs, in different areas of a DNSP's network.*
- *The unit rate for shared network augmentation must be reflective of the average cost of shared network augmentation for the local area. The rates may be based on the shared network augmentation costs of: a) sub-transmission line; b) zone substation; c) high voltage feeder; d) distribution substation; and e) low voltage mains.*
- *The incremental cost should be adjusted to take into account the proportion of the assets used by a customer and the useful life of the network component compared with the period for which the customer will be using the network.*

In response:

- SP AusNet is concerned that the imposition of a cost-revenue test for standard control services may actually be in conflict with Rule 5A.E.1(c)(6). In particular, Rule 5A.E.1(c)(6) states that “*however, a capital contribution may only be required in the circumstances described in subparagraphs (1) to (5) if provision for the costs has not already been made through existing distribution use of system charges or a tariff applicable to the connection.*” The AER's interpretation of this Rule is that “*to address this clause, a cost revenue-test should be applied to services for which the costs are recovered through DUoS charges*”. However, SP AusNet considers that the Rule actually requires that if DuOS charges ‘*provide for the recovery*’ of certain connection costs (e.g., certain augmentation works), then no charge can be levied upon the customer at all for that service, therefore no cost-revenue test can be applied. Further, SP AusNet notes that the Rule it is not written in such a way that, for example, contemplates that a capital contribution should be calculated ‘*having regard for the extent to which a cost is already provided for in DuOS tariffs*’, or, that ‘*an average capital cost can be used in lieu of a detailed review of what has been provided for in existing DuOS charges*’.
- Given that the AER's approach applies an average unit rate * estimated demand to determine the shared network cost, it implicitly means that DNSPs will have no regard to whether a specific augmentation servicing a customer is provided for through the regulatory submission process. In this situation, compliance with Rule 5A.E.1(c)(6) is almost impossible to prove, unless no augmentation assets (or only the portion attributable to existing customers) are provided for in the regulatory submission in the first place (which SP AusNet would strongly oppose).
- SP AusNet notes that its previously proposed position, which would lead to DNSPs assessing whether their capital program has to be changed to cater for development (i.e., whether the development is out-of sequence), and only charging where the program has changed, would appear to be a more accurate interpretation of Rule 5A.E.1(c)(6). This is because it explicitly considers whether an asset has been provided for (quantum, and timing) in the regulatory submission process and DuOS tariffs, and if not, then a connection charge may then be calculated.
- With regards to other issues, SP AusNet:
 - Supports significant flexibility being retained around the approach of allowing different thresholds in different areas of a network, particularly in if the cost-revenue test is retained;

SPA Response to AER's Draft – Connection Charge Guidelines

- Supports the AER's approach to recovering the cost of tendering out negotiated connections under clause 5A.C.1 of the NER; and
- Agrees with the 5 categories of assets proposed by the AER, although it notes that not all categories of assets will be relevant for all connections, rather, customers should only be charged for the asset classes that they can theoretically use, given their connection characteristics. For example, where a connection occurs at the sub-transmission level, then that customer should not be charged a cost associated with augmenting assets below that connection point, for example low voltage mains, of distribution substations.

3.3 Incremental cost

The key aspects of the AER's Draft Decision are:

- *The relevant revenue to use in the cost-revenue-test is the DUoS attributable to the capital costs for standard control services. An estimate of operational and maintenance costs should be removed from this revenue.*
- *The revenue estimate will use a 30 year connection life for residential customers and a 15 year connection life for business customers unless a 15 year connection period does not reflect a reasonable estimate of the time that a business customer would be connected to the network, in which case the DNSP will set an appropriate connection life for that business customer. The DNSP should negotiate with the customers in good faith when determining an alternative connection life.*
- *A DNSP's real pre-tax WACC is the appropriate rate to discount the incremental revenue stream.*
- *DNSPs will use a flat real price path after the end of the relevant distribution determination, for the remaining life of the connection, when estimating the incremental revenue.*

In response, SP AusNet:

- Questions whether only the variable component of the DUoS should be included in the test. That is, the revenue derived from fixed charges – which primarily allows for the recovery of the sunk asset base - should be removed from the calculation.
- Notes that the inclusion of the fixed charge in the test may mean that if a customer's cost-revenue test is at a level where the NPV is positive (i.e., they are not required to pay a contribution), but that NPV is below the NPV of the stream of revenue derived from the fixed charge itself, then the existing customer base may receive no benefit at all from connecting that customer in that circumstance. The reason being is that the new customer's expected contribution to the recovery of sunk costs (the fixed charge) actually just reduces their overall customer contribution, which, ceteris paribus, leads to a higher increase the regulatory asset base, which in turn flows through to higher charges to all customers.
- Agrees that for customers below the threshold, the shared network augmentation costs must be removed from the DuOS, as these customers do not explicitly pay for future shared network augmentations. However, SP AusNet considers that to truly match revenues and costs, it should be the contribution of forecast shared network costs to

SPA Response to AER's Draft – Connection Charge Guidelines

DuOS that is removed, not the contribution to DuOS of sunk investments in the shared network.

- Supports the: connection lives proposed by the AER; the use of the pre-tax WACC; and the application of a flat real price path after the end of the relevant distribution determination.

4 Estimating customers' consumption and demand

The key aspects of the AER's Draft Decision are:

- *DNSPs' may provide an estimate of a customer's demand and consumption for use in the cost-revenue-test.*
- *When customers and DNSPs cannot agree on demand or consumption estimates:*
 - *the DNSP may make provisional demand and consumption estimates*
 - *after three years, the actual and forecast demand or consumption value should be reconciled and there would be a corresponding refund or additional charge based on the difference between actual and forecast costs and revenue.*
 - *no additional charge or refund will be made if the customer is no longer at the premise after three years.*
- *When a real estate developer and a DNSP cannot agree on demand or consumption estimates, the parties may choose to enter into a private agreement to use provisional estimates, so that additional costs or revenues could be settled between the DNSP and the developer directly.*

In response:

- SP AusNet supports the AER's Draft Decision in relation to this issue, in particular, it supports the AER's position that DNSP's may make a provisional demand and consumption estimate, with, after three years, actual and forecast demand or consumption being reconciled.
- In saying the above, for the purposes of clarity, SP AusNet notes that this reconciliation process should only occur where agreement has been unable to be reached – it should not occur in all cases.

5 Shared network augmentation charge threshold

The key aspects of the AER's Draft Decision are that DNSP policies should comply with the following guidelines:

- *There should be a fixed shared network augmentation threshold.*
- *The shared network augmentation threshold will be set on a customer's demand.*
- *DNSPs can apply different threshold in identifiably different areas of its network.*

SPA Response to AER's Draft – Connection Charge Guidelines

- *In adopting different thresholds, DNSPs must consider the ability for each region to cope with additional demand.*
- *Customers above and below the threshold should have identifiably different characteristics. Where there is no clear break point, the AER will have regard to the principles in chapter 5A, when approving a DNSP's connection policies.*
- *A default threshold of 100 Ampere 3 phase low voltage supply will generally apply. A default threshold of 25kVA will apply on SWER lines.*
- *A new customer will pay shared network augmentation on all of its demand if that customer is above the relevant shared network augmentation charge threshold.*

In response:

- SP AusNet accepts the AER's proposed position outlined in the Draft Decision, in particular the proposal '*for customers to pay shared network augmentation on all of their demand if that customer is above the relevant shared network augmentation charge threshold*' and the need to, in adopting different thresholds, '*consider the ability for each region to cope with additional demand*'.

6 Pre-calculated capital contributions

The key aspect of the AER's Draft Decision is that the AER proposes that '*where the group of customers receiving a particular basic or standard connection offer have substantially the same connection characteristics, the DNSP may choose to levy a pre-determined capital contribution*'.

This would be '*subjected to a cost-revenue-test, and could then add customer specific charges relating to alternative control services, where applicable*'.

The AER further states that '*it would accept a policy that includes a pre-calculated charge if satisfied the charge is reflective of the typical capital contribution that would be charged to each customer within the class if the cost-revenue-test was individually applied to customers within the class*'.

In response:

- Whilst SP AusNet broadly supports the AER's proposed approach, it reiterates the position made in its original submission that even if the cost of connection is considered to be similar across a 'customer class', this does not take into account the varying levels of revenue that might be expected to be received from a particular customer, given its location/characteristics, relative to the SP AusNet's average revenue per customer. It is known, from previous analysis that energy consumption varies significantly by geographic region.
- Therefore, SP AusNet considers that the AER should, for the purposes of clarity, also explicitly reference '*average/expected usage characteristics*', as well as the '*class of customer*' and the '*same connection characteristics*'. This provides a firmer basis for DNSP's to adopt pre-calculated contributions that reflect the incremental revenue side of the cost-revenue test, as opposed to just the cost side.

SPA Response to AER's Draft – Connection Charge Guidelines

7 Maintaining a contestable framework

The key aspect of the AER's Draft Decision is that they consider that *'contestable markets can be maintained, or promoted, by adopting a suitable service classification and form of control'*. The AER further state that it has *'sought to ensure its guideline complements the AER's role in service classification. Service classifications and forms of control are decided in the distribution price control determination process and the AER will consider issues related to contestability in deciding upon an appropriate form of control'*.

In response,

- SP AusNet agrees with the AER that *'contestable markets can be maintained, or promoted, by adopting a suitable service classification and form of control'*. As stated previously, SP AusNet's preliminary position is that it considers that there is sufficient competitive tension in the provision of certain connection services to warrant the removal of the regulation of those services.

8 Prepayments

The key aspect of the AER's Draft Decision is that *'DNSP's connection policy can, in most circumstances, recover the full connection charge, upfront from the customer as a prepayment'*. The AER clarify that:

- *for small connections, if the construction work is scheduled to occur greater than 3 months after the connection offer is accepted, then a DNSP may only require a prepayment up to the value of the sunk costs the DNSP has incurred, or will incur immediately after accepting the connection offer. This may include:*
 - *Administration and design costs*
 - *Specialised, non-standard equipment or equipment purchased on demand by the DNSP, which is required for the connection and which cannot generally be used for another connection.*
 - *The balance of the connection charge can be required up to one month prior to the work commencing.*
- *DNSPs' connections policies should allow for staged payment of large connections where construction work is expected to occur in multiple stages.*

In response:

- SP AusNet accepts the AER's position in relation to prepayment of connection charges.

SPA Response to AER's Draft – Connection Charge Guidelines

9 Treatment of augmentation assets

The key aspect of the AER's Draft Decision is that a '*DNISP funded augmentation asset will be included by the DNISP in its RAB and all customer capital contributions paid to the DNSPs should be netted off the RAB*'.

In response:

- SP AusNet accepts the intent of this, although it queries the AER's specific reference to augmentation assets, given that some DNSPs may also seek to have other services (e.g., premises connection and extension) classified as Standard Control services.

10 Refund of connection charges for extension assets

The key aspects of the AER's Draft Decision are that:

- *DNISPs should develop a pioneer scheme that has regard to the length (extent) of an extension and capacity of the assets used by subsequent customers.*
- *DNISPs should notify all customers requiring, or connecting to an extension, of the scheme's existence and purpose.*
- *For the purpose of calculating the refund under the pioneer scheme, the assets subjected to the pioneer scheme will be assumed to depreciate in a straight line manner over 20 years.*
- *The pioneer scheme should not be applied for payments under \$500.*
- *If a retail customer requests an extension greater than the lowest cost technically efficient solution, DNISPs will be able to charge retail customers the difference, which will not be subject to a pioneer scheme.*
- *The pioneer scheme should apply to real estate developers.*
- *Developers should be entitled to a pioneer scheme for extensions built to a higher capacity than their requirements.*
- *When extensions are contestable and undertaken by an ASP, DNISPs should charge the amount they would have charged a pioneer customer to perform the works, had an ASP not undertaken the works.*

In response:

- SP AusNet does not accept the application of a pioneer scheme to real estate developers, as it does not consider this a fundamental requirement of the Rule (Rule 5A.E.1(d) requires a scheme for 'retail customers'). Further, the application of the scheme to the myriad number of real estate developments that will occur over a rolling 7 year period will lead to an overly complex and costly scheme, with few, if any efficiency benefits.
- SP AusNet supports the non-application of a Pioneer Scheme to the component of an extension that is greater than the lowest cost technically efficient solution, although it notes that this increases the administrative costs and complexity of the scheme overall.

SPA Response to AER's Draft – Connection Charge Guidelines

11 Security fee scheme

The key aspect of the AER's Draft Decision is that it will *'allow the option to collect a security fee from customers in certain circumstances in accordance with an approved connection policy. Security in the form of a bank guarantee will be available to DNSPs—removing the need to pay interest on the amount of a cash security held on deposit.'*

In response:

- SP AusNet supports the AER's proposed approach to allow for Security Fees to be levied upon customers in certain circumstances.

12 Non-registered embedded generators

The key aspects of the AER's Draft Decision are that *'non-registered embedded generators should pay for the cost of removing specific output constraints, unless there is a demonstrable net benefit to other network users'*.

In response:

- SP AusNet accepts the AER's position.

13 Real estate developers

The key aspects of the AER's Draft Decision are that:

- *As outlined in clause 5A.E.3(c)(4), the shared network augmentation charge threshold will not apply to real estate developers.*
- *Subject to a contrary agreement with the developer, DNSPs are able to include costs for connection services that a prudent service provider would consider necessary to provide efficiently for forecast load growth in the cost-revenue-test.*
- *A real estate developer will be treated as a single customer for the purposes of a connection application.*

In response:

- SP AusNet agrees with all of the points made by the AER.