



**UNITED ENERGY
Distribution**

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

United Energy Distribution
Level 1, Pinewood Corporate Centre
43-45 Centreway Place
Mount Waverley VICTORIA 3149



Revision Log

Rev	Revision Status	Date	Prepared by:	Checked	Authorised
A	Preliminary	03/02/2012	Rohan Harris		
B	Final	17/02/2012	Dr Jeremy Rothfield		

TABLE OF CONTENTS

REVISION LOG	ii
1. EXECUTIVE SUMMARY	4
2. BACKGROUND.....	5
3. OVERVIEW OF SUBMISSION.....	6
4. METHOD OF DETERMINING TOTAL CONNECTION CHARGES	7
5. METHOD OF DETERMINING CHARGES FOR ALTERNATIVE CONTROL, NEGOTIATED AND UNCLASSIFIED SERVICES.....	7
6. METHOD OF DETERMINING CAPITAL CONTRIBUTIONS FOR STANDARD CONTROL SERVICES (COST-REVENUE-TEST).....	8
6.1 Cost-revenue-test formulation.....	8
6.2 Incremental cost	9
6.3 Incremental revenue	13
6.4 Estimating customers' consumption and demand.....	14
7. SHARED NETWORK AUGMENTATION CHARGE THRESHOLD	15
8. PRE-CALCULATED CAPITAL CONTRIBUTIONS	15
9. MAINTAINING A CONTESTABLE FRAMEWORK	16
10. PREPAYMENTS.....	16
11. TREATMENT OF AUGMENTATION ASSETS	17
12. REFUND OF CONNECTION CHARGES FOR EXTENSION ASSETS	17
13. SECURITY FEE SCHEME	19
14. NON-REGISTERED EMBEDDED GENERATORS	19
15. REAL ESTATE DEVELOPERS	19

1. Executive Summary

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 United Energy 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.

Overall, United Energy is pleased with the AER's revised approach. It reflects a substantial change, relative to the AER's original position, and moreover, addresses many of the concerns that United Energy had with the AER's original formulation.

In particular, United Energy is pleased that the AER has provided scope for the treatment of premise connection assets and extension assets as either an Alternative Control Service, or as an unregulated service, depending on the extent to which competition exists in the relevant market. Both 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 cornerstone issue that United Energy identified with the AER's original methodology. Furthermore, relative to what was embedded within the AER's previous methodology, both approaches will 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.

On other, less substantive issues, United Energy is generally supportive. This includes the AER's proposed security fee arrangements; provisions for the prepayment of the connection costs; the flexibility afforded to DNSP's to adopt pre-calculated charges; and the AER's proposed approach to estimating customers' consumption and demand.

The only substantive issue that remains for United Energy is the AER's rationale for the imposition of a cost-revenue test for standard control services where customers develop in-sequence. United Energy still consider there to be a number of inherent inconsistencies between the broader Rules, and the formulation of the cost-revenue test for standard control services.

First and foremost, United Energy is concerned that the AER's Draft Decision could 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*". United Energy suggests that a different view could be taken to this Rule, in that it could be considered that the Rule requires that if DuoS charges seek to recover certain connection costs (e.g., certain augmentation works), then no cost-revenue test should be applied at all in those circumstances. In particular, the Rule states that '*a capital contribution may only be required*', it does not state that a

capital contribution should 'have regard for the amounts recovered in DuOS'. Given that the AER's approach applies an average unit rate * estimated demand to determine the shared network cost, it implicitly pays no regard to specific augmentations, and therefore, it cannot differentiate whether or not an augmentation asset¹ is already being funded through the regulatory submission process. In this situation, compliance with Rule 5A.E.1(c)(6) is almost impossible to prove. United Energy notes that its previously proposed position, which would lead to DNSP's 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 United Energy 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.

Further to the above, 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, United Energy questions why a cost-revenue test needs to be undertaken for in-sequence development.

Finally, United Energy 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.

2. 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 United Energy 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

¹ This assumes premise connection and extension assets are treated as Alternative Control Services

market, or unregulated, if that service is provided in a competitive market. The former approach would mean those services would be subject to the terms of the relevant determination under which those services are classified as alternative control, whilst the latter would see no regulatory oversight of prices, rather, prices would be subject to normal competitive market tensions.

- The AER's approach codifies an approach to calculating connection charges for standard control services (the cost revenue test). 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 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.

3. 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 United Energy's views on the:

- Method of determining total connection charges;
- 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.

4. Method of determining total connection charges

The AER's Explanatory Statement states that:

A DNSP's connection policy may provide for connection charges to be made up of charges for multiple connection services and will be calculated in accordance with the following formula:

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

Where:

- *AS is the charge payable to the DNSP for all alternative control connection services.*
- *CC is the capital contribution payable to the DNSP for standard control connection services.*
- *PS is the total amount payable to the DNSP to account for any existing pioneer scheme, applying to the assets to which the customer connects.*

United Energy Response:

- United Energy supports the adoption of the AER's formula.

5. 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.*

United Energy Response:

- United Energy is pleased that the AER has provided scope for the treatment of premise connection assets and extension assets as either an Alternative Control Service, or as an unregulated service, depending on the extent to which competition exists in the relevant market. Both 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 cornerstone issue that United Energy identified with the AER's original methodology. Furthermore, relative to what was embedded within the AER's previous methodology, both approaches will 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.
- United Energy 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. United Energy considers that the contestability arrangements in Victoria are consistent with this, as significant competitive tension underpins the provision of most connection services.
- United Energy 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. Notwithstanding this, despite being attributable to a specific connecting customer, the costs of providing these services are likely to vary depending on the connection characteristics of that customer, for example the length or location of the extension. Therefore, the pricing arrangements need to be able to cater for this heterogeneity. United Energy's preliminary thinking is that the application of a price cap on unit costs for the quoted services grouping of alternative control services may be appropriate.

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

6.1 Cost-revenue-test formulation

The AER's draft decision is that the incremental costs or incremental revenue received from any services classified as alternative control services, negotiated control services or unclassified services will not be included in the cost-revenue-test.

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

- *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: $CC = ICCS + ICSN - IR(n=X)$ where...*
 - *$ICCS + ICSN - IR(n=X) \geq 0$*
 - *CC = Capital Contribution for standard control services.*
 - *ICCS = Incremental Cost Customer Specific – The incremental costs incurred by the DNSP for premises connection assets and extensions.*
 - *ICSN = Incremental Cost Share Network – The costs incurred by the DNSP for the shared network augmentation attributable to the new connection.*
 - *IR(n=X) = Incremental revenue expected to be received from the new connection — This is the present value of a X year revenue stream directly attributable to the new connection.*

United Energy Response:

- United Energy accepts the formula as it currently stands.
- United Energy accepts the removal of operating and maintenance costs from the cost-revenue test.

6.2 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 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.*
- *Operational and maintenance costs should be removed from the costs which are included in the cost-revenue-test.*

United Energy Response:

- United Energy considers there to be a number of inherent inconsistencies between the broader Rules and the formulation of the cost-revenue test for standard control services. In saying this, United Energy notes the following AER statements:
 - *“the DNSP would forecast areas of expected growth and then does not charge customers for augmentation if they connect in these growth areas. The reason for not charging customers connecting in these areas appears to be that a forecast of the cost of connecting these customers is included in the DNSP’s RAB and so the costs is being recovered through DUoS charges. The AER does not consider that this is an argument for not applying a cost-revenue-test to determine whether these customers should make a capital contribution”.* Firstly, the AER’s final statement appears to directly conflict with the requirements of Rule 5A.E.1(c)(6), which 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.”* Compared with the AER’s interpretation of this Rule, namely that *“to address this clause, a cost revenue-test should be applied to services for which the costs are recovered through DUoS charges”*, United Energy considers the Rule in fact requires that if DuOS charges seek to recover certain connection costs (e.g., certain augmentation works), then no cost-revenue test should be applied as no customer contribution can be levied under the Rules. In saying this, it is noted that the Rule states that *‘a capital contribution may only be required’*, it does not state that a capital contribution should *‘have regard for the amounts recovered in DuOS’*. Further, given that the AER’s approach applies an average unit rate * estimated demand to determine the shared network cost, it implicitly pays no regard to specific augmentations, therefore, it is unable to have regard for whether an augmentation asset is already being funded through the regulatory submission process. In this situation, compliance with Rule 5A.E.1(c)(6) is impossible to prove, unless no augmentation assets at all are provided for in the regulatory submission (which United Energy would strongly oppose). United Energy notes that its previously proposed position, which would lead to DNSP’s 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 United Energy 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.
 - In addition to the above, the AER’s interpretation, as written above, does not fully accord with the view presented by United Energy in its submission. In particular, it was United Energy’s view that the LRMC, which, according to the Rules, must be utilised to set variable prices, will be underpinned by the DNSP’s forecast augmentation capex to service expected growth. That is, the variable price charged to a customer reflects the incremental costs of supply. Therefore, the variable price charged to a new customer should in theory recover the incremental shared network costs over the life of an asset, *where development occurs in-sequence*. If this holds true, United Energy fails to see the rationale for applying a cost-revenue test where development is in-sequence. Again, this would appear to United Energy to be a more accurate

United Energy Response:

- *“The AER agrees that on average, in-sequence customers’ charges are recovered from DUoS. However, it is peak demand which triggers the need for augmentation whereas the amount of DUoS payable is based on consumption. Thus, for any given large customer or for large customers in general, it is not necessarily the case that they pay for the augmentation costs attributable to them via DUoS”.* United Energy notes that the first point in and of itself is tacit acceptance of United Energy’s position, and further, appears to bring into question their interpretation of Rule 5A.E.1(c)(6). Therefore, it does not understand why the AER has not explored the theoretical basis for this point in more detail, given that it manifestly impacts on the approach that should be adopted to charging new customers, and overall compliance with the Rules. In relation to the second of the AER’s points, United Energy notes that most DNSP’s charge large customers an ‘anytime’ demand based charges, not just ‘consumption’ based charges. Further, there is no technical barrier to DNSP’s levying charges to larger customers reflecting even more granular ‘peak demand’ charges – see SP AusNet’s Critical Peak Demand Tariff for evidence of this. Therefore, the AER’s rationale for rejecting this implies that DNSP’s do not set cost reflective prices, where in fact they either are, or there is no barrier to them doing so. On a related point, the AER makes no mention of the impact that the roll out of smart meters (in Victoria at least) will have on its approach. In particular, this roll out will in theory remove any technical impediment to setting cost reflective prices for residential and small commercial customers, therefore meaning that the incremental cost of providing shared network services to cater for in-sequence development should be able to be recovered via the application of a cost reflective variable DUoS charges, again negating the need for the cost-revenue test to be applied to in-sequence development.
- *“When the AER examined this issue (brought forward costs) for Victorian DNSPs, the AER found that if augmentation could occur in continuous steps, then the brought forward cost would be equivalent to the cost of adding the amount of capacity required by the customer. Therefore, the AER considered that charging customers the average cost of adding the required capacity to the network would result in similar charges to those using a brought forward cost approach”.* Whilst not having reviewed this analysis in detail, United Energy notes the AER’s results appear to imply that there are few, if any, economies of scale in constructing electricity assets. If this is truly the case, then the fundamental basis upon which electricity businesses design their assets is flawed. More specifically, if there are few economies of scale, then businesses should never upsize assets with a view to catering for future growth, as the value ascribed to the risk that future growth will not eventuate will not be offset by the economies of scale that are achieved from that upsizing (as the AER implies there are none). Alternatively, if the AER’s position is that this is a theoretical construct (*‘if augmentation could occur in continuous steps’*), rather than a practical outcome, then United Energy questions its overall relevance to the argument.
- United Energy notes that a move towards charging out-sequence development improves the price signal of new customer charges, and furthermore, partially mitigates the risk to the DNSP’s from the impact that out-of-sequence development has on its capital program during the regulatory control period.

United Energy Response continued:

- United Energy notes that the AER has provided a number of other, more subjective reasons, why the in-sequence / out of sequence issue may be impractical. Whilst United Energy does not disregard these practical issues, United Energy considers that the AER should initially conduct a first principles assessment of this issue, with the practical aspects of its possible implementation then being addressed. This does not appear to have been undertaken in the Draft Guideline.
- Except in relation to the above points, United Energy broadly accepts the AER's proposed position, although in the absence of a move to charging for out-of-sequence development, it supports significant flexibility being retained around the approach of allowing different thresholds in different areas of a network.
- United Energy supports the AER's approach to recovering the cost of tendering out negotiated connections under clause 5A.C.1 of the NER.
- Finally, whilst United Energy agrees with the 5 categories of assets proposed by the AER, it reiterates a point that it made in its original submission (which was misinterpreted by the AER) that not all categories of assets will be relevant for *all* connections. More specifically, 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 it is manifestly unfair (and inefficient) for that customer to be charged a cost associated with augmenting assets below that connection point, for example low voltage mains, of distribution substations, as that customer will never physically be able to utilise those assets, given its connection characteristics. The AER's position on this issue is unclear.

6.3 Incremental revenue

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.*

United Energy Response:

- If the AER's proposed cost-revenue test is retained, United Energy considers that 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. In saying this, United Energy postulates 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. Ceteris paribus, this lower contribution increases the capital base, which flows through to higher charges to existing customers.
- United Energy 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, United Energy considers that to truly match revenues and costs, it should be the contribution of incremental shared network costs to DuOS that is removed, not the contribution to DuOS of sunk investments in the shared network.
- United Energy supports the connection lives proposed by the AER, and moreover, the flexibility that is assigned to the application of the 15 year life.
- United Energy supports the use of the pre-tax WACC, and the application of a flat real price path after the end of the relevant distribution determination.

6.4 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.*

United Energy Response:

- United Energy supports the AER's Draft Decision in relation to this issue, in particular, it supports the AER's position that DNSP's may make 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, United Energy notes that this reconciliation process should only occur where agreement has been unable to be reached – it should not occur in all cases.

7. 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.*
- *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.*

United Energy Response:

- Assuming the retention of the AER's current approach to charging for shared network costs via the application of a cost-revenue test, United Energy 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*'.

8. 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*'.

United Energy Response:

- Whilst United Energy 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 United Energy's average revenue per customer. It is known, from previous analysis that energy consumption varies significantly by geographic region.
- Therefore, United Energy 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 allowing the pre-calculated contribution to reflect the incremental revenue side of the cost-revenue test, as opposed to just the cost side.

9. 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'*.

United Energy Response:

- United Energy 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, United Energy'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.

10. 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.*

United Energy Response:

- *United Energy accepts the AER's position in relation to prepayment of connection charges.*

11. Treatment of augmentation assets

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

United Energy Response:

- *United Energy accepts the intent of this, although it queries the AER's specific reference to augmentation assets. Rather, United Energy would have thought that any asset that is directly linked to the provision of a Standard Control service should be subject to the same treatment. This allows for the inclusion of premises connection assets and extension assets, if the DNSP does not seek alternative service classification for these services (e.g., Alternative Control Service)*

12. Refund of connection charges for extension assets

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

- *DNSPs should develop a pioneer scheme that has regard to the length (extent) of an extension and capacity of the assets used by subsequent customers.*
- *DNSPs 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, DNSPs 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, DNSPs should charge the amount they would have charged a pioneer customer to perform the works, had an ASP not undertaken the works.*

United Energy Response:

- United Energy does not accept the application of a pioneer scheme to real estate developers, as it does not consider that this is 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 of developments will occur over a rolling 7 year period will lead to an overly complex and costly scheme, with few, if any efficiency benefits.
- Otherwise, United Energy accepts the AER's position, however, again, it notes few requests have been made under its existing Pioneer Scheme over the past ten years. This indicates that the scheme is of little relevance to United Energy's customers.
- Further, United Energy notes that the adoption of a more complex Pioneer Scheme relative to what is currently adopted by United Energy is likely to lead to higher administrative costs. These costs would be included as a Step Change as part of its next pricing submission, and therefore, lead to increased prices to existing customers.
- United Energy 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. On a related point, United Energy notes that '*lowest cost technically efficient solution*' must have regard to the relevant levels of service required of it under relevant regulations. Further, United Energy seeks clarification with regards to the cost associated with it constructing extension assets to a higher capacity than a pioneer retail customers' requirements. United Energy assumes that the cost of this increased capacity would need to be treated as 'Shared Network Assets', and therefore, it would be assumed to be implicitly covered off under the cost-revenue test applicable to shared network assets, if that customer is under the shared network threshold. Therefore, if the pioneer customer is below the shared network augmentation threshold, it would appear to United Energy that it (and by proxy, its existing customers) would have to fund the upsizing of an extension asset to cater for future growth.

13. 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.'

The AER also outlined a number of high level principles, over and above those that underpin the current Victorian guideline 14, which should guide businesses in the development of their Security Fee scheme. These include:

- *The interest rate paid to the customer on the security fee should be commensurate to the manner in which the security fee is treated by the DNSP. That is, if the security fee is invested in the business then interest should be paid at the weighted average cost of capital. However, if it is held in trust then it may be appropriate to pay at an interest rate similar to commercial deposit rates.*
- *Over the entire security fee period, a DNSP should not receive—through DUoS and security fee—an amount more than the original estimated revenue, unless above estimated incremental revenue was realised in total over the period. In such a case, the amount should not be more than the estimated revenue plus the actual above estimated revenue.*
- *The customer should not receive an amount greater than the security fee deposit plus interest from the DNSP in total over the security fee period.*

United Energy Response:

- United Energy supports the AER's proposed approach to allow for Security Fees to be levied upon customers in certain circumstances, and generally, has no substantive issues with the principles highlighted by the AER.

14. 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'. The AER also state that 'to facilitate connection, the AER considers that distribution DNSPs should propose constraint reduction services, such as a fault level mitigation service, which relate to augmenting the shared network to reduce network constraints. DNSPs should also propose an appropriate form of control for these services. If a DNSP proposes such a service, the AER will examine the appropriate service classification and form of control in accordance with section 6.2 of the NER'.

United Energy Response:

- United Energy accepts the AER's position.

15. 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.*

United Energy Response:

- United Energy agrees with all of the points made by the AER, however, it notes that for the purposes of clarity, it interprets the AER's position as being that United Energy can include, as part of its Alternative Control Service fee (if classified this way), the cost of upsizing extension assets or premise connection assets to service growth beyond that specifically associated with that development.