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National Energy Market Branch  
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Dear Ms Brown

**RE: National Connections Framework for Electricity Distribution Networks**

CitiPower and Powercor Australia (**the Businesses**) welcome the opportunity to comment on parts two and three of the Ministerial Council on Energy (**MCE**) Network Policy Working Group's (**NPWG**) "*Electricity Distribution Network Planning and Connection – A National Framework for Electricity Distribution Networks*", December 2008 (**Draft Report**).

As a general comment the Businesses' consider that because the National Energy Customer Framework (NECF) and the connections and capital contributions framework are interrelated, they should be developed in parallel and be provided together to the Businesses for their review and comment. This would minimise the risk of any unintended inconsistencies or gaps between the two frameworks.

This submission comprises two sections:

- **Connection Contracts** – This section sets out the Businesses' position in relation to the Draft Report's recommendations on customer connection contracts; and
- **Capital contributions** – This section sets out the Businesses' position in relation to the Draft Report's recommendations on a national capital contributions framework.

**1. Overview**

***Customer Connection Contracts***

The Businesses' consider that the current Victorian connection contract arrangements work well and should be facilitated under the new framework. The Businesses' believe that it is possible to achieve this under the proposed framework.

The Businesses emphasise that:

- They do not support the Australian Energy Regulator (**AER**) having a role in approving standard connection contracts. Rather, the Businesses' consider that it is more appropriate for the AER to have a monitoring, compliance and enforcement role. This will ensure that the DNSPs standard connection contracts are consistent with the minimum terms for connections and other requirements set out in the Rules; and
- The timelines for responding to customers for both standard and negotiated connections should be increased.

### *Capital contributions*

The existing capital contributions arrangements are complex and differ significantly across jurisdictions. These differences are largely attributable to the differences in the non-economic and economic regulatory frameworks in different jurisdictions. For example:

- Contestability arrangements under the non-economic regulatory framework;
- Service classification being applied by the Australian Energy Regulator (**AER**) - Chapter 6 of the National Electricity Rules (**NER**) provides the AER with the considerable flexibility to classify services as either Standard Control Services, Alternative Control Services or Negotiated Distribution Services; and
- Control mechanisms being applied by the AER - Again Chapter 6 of NER provides the AER with flexibility to apply different control mechanisms to Standard and Alternative Control Services.

In light of these differences the Businesses' believe that the AER should be required to develop a capital contributions guideline that gives the DNSPs flexibility to propose a capital contributions policy that has regard for these differences and the practical difficulties in transitioning to a single approach at this time. The AER should establish an industry working group to ensure that the capital contributions guideline is developed in a manner that can accommodate the differences between jurisdictions.

## **2. Connection Contracts**

In summary, the current connection contract arrangements in Victoria provide for the following:

1. **An Augmentation contract:** The intent of this connection contract is to facilitate the establishment of a supply point (often for a developer) or an embedded generation point. This contract applies where augmentation or extension to the distribution system is required in order to facilitate the customer's connection. The augmentation contract details, amongst other things, the technical requirements for supply, supply configuration, the customer's financial obligations and construction commencement and completion dates; and
2. **A deemed connection contract:** Where the supply is already available and the point of supply is known, then a further separate connection contract otherwise known as a "deemed connection contract" applies to the end use customer or embedded generator. The "deemed connection contract" requires that the customer's load is within the range specified by the contract. The only work required under a deemed contract is the installation of metering and a

service cable. The cost of these connections is recovered by the DNSP through a fixed service fee. Deeming arrangements facilitate quick connection and low administration cost;

The Businesses' consider that the current connection contract arrangements work well and should be facilitated under the new framework. In particular, the Businesses' consider that a DNSP should be able to propose more than one standard connection contract and that one or more of these contracts can be a "deemed connection contract". The Businesses note that the current augmentation contract may be facilitated by either a standard and or negotiated connection contract under the new arrangements.

The Businesses further note that currently in Victoria micro-embedded generators do not require a connection contract, and generally proceed under the existing deemed connection contract. The Businesses' therefore consider that the standard "deemed connection contract" may also extend to micro-embedded generators.

In relation to the proposed new framework as set out in the Draft Report, the Businesses consider that:

- The AER should:
  - Approve connection prices and/or methodologies in a DNSP's Regulatory Determination;
  - Approve definitions of standard customer categories for the purposes of standard contracts including deeming arrangements; and
  - Monitor the ongoing compliance of contractual terms and conditions with the Rules. This means that the AER would not formally approve connection contracts but rather monitor compliance only. The NER should clarify the monitoring and compliance role of AER. This is consistent with promoting certainty and transparency of the regulatory framework;
- It may be appropriate for a DNSP to propose more than one standard connection category, with all or some of these categories covered by a deeming arrangement. There may be instances where a standard connection contract is appropriate, but deeming is not;
- A standard "deemed connection contract" should apply to micro-embedded generators. As noted above, this would facilitate current arrangements in Victoria. The Businesses emphasise that micro-embedded generators should also be required to provide, in a standard application form, all relevant technical information to enable the DNSP to assess the connection;
- The timeframe for DNSPs providing:
  - A customer with a standard connection offer should be increased from 5 to 10 days; and
  - Confirmation that a connection is a negotiated rather than standard connection should be increased from 5 to 10 days; and
  - DNSP requesting further additional information from the customer for a negotiated connection should be an additional 10 days.

Further, the Businesses' consider that the DNSP should have the flexibility to extend these periods by agreement with the applicant.

- The DNSPs continue to provide the customer with the customer charter, rather than the deemed connection contract, subsequent to a first time supply connection. The customer charter sets out the contractual relationship between the DNSP, end-use customers and retailers and informs the customers of relevant functions and obligations of each party. The deemed connection contract is made available on the internet. The Businesses consider that as the customer charter provides all relevant information there is no need to also forward the deemed connection contract to the customer;

### 3. *Capital contributions*

The current jurisdictional arrangements relating to capital contributions vary significantly across jurisdictions. These differences arise from differences in both the non-economic and economic regulatory frameworks. In particular:

- In some jurisdictions the design and construction of both dedicated connection and shared network assets are contestable, whereas in other jurisdictions only the design and construction of dedicated connection assets (i.e. not the shared network assets) are contestable. This is reflected in the various jurisdictional non-economic regulatory frameworks.
- In Victoria, connection services and augmentation works are made contestable under the Essential Services Commission of Victoria's (ESCV) *Electricity Industry Guideline 14 — Provision of Services by Electricity Distributors, April 2004 (Guideline 14)*. In particular the design and construction of both dedicated connection and shared network assets are contestable and the works can be undertaken by the distribution network service provider (DNSP) and other accredited service providers (ASP). If the work is undertaken by:
  - the DNSP, then the customer pays the DNSP an upfront capital contribution and on-going distribution use of system (DUOS) charges for network services; and
  - the ASP, then the customer pays the ASP an agreed price for the work, the assets are gifted to the DNSP, the customer is rebated the difference between the customer contribution they would have paid and the value of the gifted assets, and the DNSP charges on-going DUOS charges for network services.
- In other jurisdictions, such as Queensland, only the design and construction of dedicated large connection assets are contestable. This means that:
  - The DNSP and ASPs can design and construct dedicated large connections assets; but
  - Only the DNSP can design and construct small connection assets and any shared network assets.

The AER has reflected this into the Queensland "*Framework and Approach Paper – Classification of Services and Control Mechanism – Energex and Ergon Energy 2010-15*" (Framework and Approach Paper), which has classified:

- The design and construction of all new large connection services as Alternative Control Services in recognition of the contestability of the works involved. These are to be treated as quoted services and may be

charged for either up-front or over time by either the DNSP or the ASP;  
and

- The design and construction of small connection assets, and all shared network assets, as a Standard Control Service. The cost of these services will be recovered through capital contributions and DUOS charges.

Consequently, the Businesses consider that it is not possible to regulate the design and construction of shared network and dedicated connection assets in the same way across all jurisdictions, given the differences in the:

- Contestability arrangements between jurisdictions under the non-economic regulatory framework;
- Service classification being applied by the AER, including that the AER is distinguishing between small and large customers in some jurisdictions and not in others;
- Control mechanisms that apply to different services in different jurisdictions:
  - In South Australia, there is no control mechanism that will apply to non-standard connection services because they are to be classified as negotiated distribution services. The charges and terms and conditions of these service will be determined in accordance with the DNSP's approved negotiating framework; and
  - In other jurisdictions, there will be a control mechanism that will apply to connection services because they are either standard control services (i.e. small customer connection services in Queensland) or alternative control services (i.e. large customer connection services in Queensland);

The businesses therefore consider that the AER should be required to develop a capital contributions guideline that gives the DNSPs flexibility to propose a capital contributions policy that reflects:

- Any jurisdictional specific non-economic regulatory framework, for example covering what is and is not contestable; and
- The service classification and control mechanism determined by the AER in its Distribution Determination under Chapter 6 of the Rules.

The Businesses consider that it is appropriate for the AER to establish, in its capital contributions guideline, the method for calculating connection charges. The Businesses consider that capital contributions should be calculated based on the shortfall between the projected future incremental revenue and the incremental cost of the service (i.e. the "uneconomic" portion of the asset). The incremental costs should include the incremental cost of augmentation and the incremental operating and maintenance costs. The Businesses consider that this approach will best achieve the "key objective of cost-reflectivity" as required by the MCE. The Businesses consider that the "key objective of cost-reflectivity" should also be balanced with a cost - benefit assessment such that any changes to existing arrangements should deliver a net benefit.

The businesses further consider that any reimbursement scheme should have also regard for a cost benefit assessment. This is because establishing and administering such a system is onerous and costly.

Lastly, the businesses believe that the AER should establish an industry working group to ensure that its capital contributions guideline is developed in a manner that can accommodate differences between jurisdictions as well as practical difficulties. This would also assist in progressing other matters not addressed by the MCE that are important to any capital contributions policy, such as dispute resolution arrangements.

**4. *Closing***

The Businesses thank the MCE for the opportunity to comment on the Draft Report. I would be pleased to discuss this submission with the AEMC. I can be contacted on (03) 9683 – 4282 or at [rherrman@powercor.com.au](mailto:rherrman@powercor.com.au).

Yours sincerely

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