countryenergy

Ref: MK:JC:C902534

24 March 2009

Manager
MCE Secretariat
Department of Industry, Tourism and Resources
GPO Box 9839
Canberra ACT 2601

Dear Sir/Madam

Energy Market Reform Bulletin No. 138 - National Frameworks for Electricity Distribution Network Planning, Connection and Connection Charge Arrangements

Country Energy appreciates the opportunity to provide input into the development of a national framework for electricity distribution planning, connection and connection charging arrangements.

Country Energy supports the development of a framework that moves the various well established state based regulations into a nationally aligned approach that simplifies compliance for market participants, improves existing approaches and can be easily understood by users.

Part 1 - National framework for electricity distribution planning and expansion

Country Energy supports the approach taken by the Ministerial Council on Energy (MCE) to progress the national framework for electricity distribution planning and expansion through a MCE directed review by the Australian Energy Market Commission (AEMC).

Part 2 – National framework for electricity distribution connection arrangements

Proposed timeframes to apply to the standard and negotiated connection procedure

The policy response proposes five business days for a Distribution Network Service Provider (DNSP) to respond to specific connection inquiries and provide appropriate technical information once the DNSP has received a completed application to allow the determination of the type of contract (standard or negotiated) required. At this point the DNSP either provides a standard connection offer with a two month acceptance timeframe, or opts for a negotiated connection with a ten day acceptance timeframe for the DNSP to advise the customer of required technical information and a preliminary program. Once negotiations are completed the customer is provided with a negotiated connection offer with a one month timeframe to accept the offer.

There are two types of connection applications that can be received that can have dramatically differing levels of complexity and as such should have differing levels of response timing.

a. Standard connections for small loads and micro embedded generation will likely be connected under a standard form contract. For these types of connections the five day response time and two month offer acceptance period seems reasonable

for very simple connections, however should be extended to ten days for connections that require further information from the connection applicant.

b. Negotiated connections for larger loads or unique connections requiring an individualised contract for connection are much more complex in nature. The timeframe for negotiation for these more complicated connections generally take some considerable time to work through. In some instances the application and connection negotiation process can take twelve to eighteen months or longer to identify all issues associated with the proposed connection.

While the timing proposed in the MCE policy response may generally not be a problem for small loads and micro embedded generation, larger loads and generation type connections need appropriate timing allowances to address the complexities of the connection proposals. In particular the technical information, development of reasonable project terms for DNSP network capability and the applicant's service requirements are unlikely to be able to be delivered within the timing allocated in Figure 1 of the MCE policy response.

Country Energy believes the connection procedure requires some adjusting to enable realistic timeframes for processing negotiated connection enquiries. Country Energy suggests adjusting the connection procedure to align to the framework for processing connection application enquiries in the NER Chapter 5, section 5.5.3. This approach also aligns to County Energy's current procedural guideline for High Voltage Connection Requirements (CEPG8079), Sections 3.2.1 and 3.2.2 which Country Energy provides with this submission for the MCE's consideration.

Country Energy proposes that the MCE establish a working group comprising of affected participants to ensure a customer connection framework is developed that:

- involves technical expertise drawn from the distribution industry,
- considers Chapter 5 of the NER,
- provides an appropriate level of balance between efficient and expediency of connection for customers,
- at the same time is flexible enough to handle both standard and complicated connections for the various types of load and generation customers, and
- provides adequate time to fully assess the impact of connections on DNSPs existing infrastructure and customer base whilst maintaining appropriate time constraints to ensure efficient processing of connections.

The regulatory design aspect of the requirements for new connections

Country Energy currently deals with establishment costs and the ongoing supply services differently, depending on the connection type.

For small and large load customer connections the initial establishment costs are included in the connection agreement with ongoing supply services such as maintenance generally recovered through Country Energy's Distribution Use of System (DUOS) charges.

For small and large generation customer connections the initial establishment costs and the ongoing supply services such as maintenance are included in the connection agreement. The reason behind this approach is that these generation customers generally draw negligible or no load from Country Energy, therefore recovery of the ongoing supply services through distribution use of system charges is not appropriate.

However, in both of the circumstances described above, there is only one contract covering both the connection and ongoing supply services. Country Energy does not see the need to move to a two contract approach as this would introduce unnecessary complexity and cost to the process.

The proposed national framework for connection

Country Energy supports the development of standard connection contracts for common connections and standard micro embedded generation (EG) connections, and the use of negotiated contracts for unique connections, large generation and high voltage connections. Country Energy is currently in the process of amending our Standard Form Customer Connection Contract and negotiated contracts for small embedded generation, high voltage and large generation connections to align with changes to our business practices and Chapter 6 of the NER, particularly around the inclusion of micro EG connections.

Part 3 – National framework for electricity distribution capital contribution arrangements

The proposed national framework for connection charge/capital contribution arrangements

The MCE rejected the NERA/ACG recommendation "that augmentation costs are borne by the connection user whose connection directly necessitates augmentation of the shared network." The MCE has instead proposed that "the connecting user will pay, in the same way it pays for its connection and extension assets, for any necessary augmentation to the shared network. The exceptions to this rule will be small customers as defined in the NECF (for which any costs will be recovered through the Distribution Use of System (DUOS) charges) and micro EG connections".

The MCE proposes that the AER will develop a guideline detailing the methodology associated with the calculation of the augmentation component of a connection charge. The implementation of a new capital contribution framework will be aligned with regional revenue resets. The principles for the calculation of capital contributions will include:

- Large customers (including large embedded generators) will be required to pay for costs of all network extensions and augmentations of assets required to connect the customer and for the cost of dedicated assets,
- Small customers (as defined in the NECF) and micro EG will be required to pay a capital contribution for extension and dedicated connection assets. Augmentation costs for these customers will be recovered, where appropriate, through DUOS, and.
- Customers will receive a repayment of capital contribution payments for previously dedicated assets (including augmentation assets for large customers) proportional to new customer utilisation of that asset.

Country Energy supports a user pays approach to ensure cost reflectivity for connection charge/capital contribution arrangements.

The recovery of augmentation costs through DUOS charges for small customers currently only occurs for augmentations constructed by Country Energy. Some customers, particularly in rural areas have their augmentations constructed by Accredited Service Providers (ASPs). Since, in these cases, Country Energy does not construct the assets, no augmentation costs are recoverable through DUOS charges. If Country Energy were

required to pay for all augmentation connections, the cost in both man hours and monetary terms would be considerable resulting in an overall significant burden being imposed on all customers. A compounding effect of such a policy is that ASPs and their businesses will be negatively impacted and Country Energy may not have the capacity to undertake the extra work that could occur from ASPs potentially leaving the market.

Country Energy notes that clause 6.1.4 of the NER prevents the application of DUOS charges for energy exported by embedded generators into the network, as such the proposal by the MCE to allow the recovery of augmentation costs through DUOS charges for embedded generators needs to be considered in conjunction with the NER.

The reimbursement of capital contribution payments are currently administered under the IPART Determination for capital contributions. Country Energy supports a continuation of this scheme to ensure customers receive the appropriate proportion of augmentation costs for network extensions based on the shared utilisation of the assets.

Country Energy agrees with the MCE's point of view that the charging of generators connecting to distribution networks provides encouragement for efficient location and investment decisions and as such supports the charging of generators connections for the augmentation costs associated with connecting to distribution networks.

Country Energy supports the principles suggested by the MCE and to those principles being developed into a guideline and included in the NER, whilst acknowledging that further consideration needs to occur for the application of DUOS charges for embedded generation given the conflict with the NER.

Country Energy would be pleased to discuss this matter further. Should you require further information or clarification please feel free to contact Jason Cooke on 02 6338 3685.

Yours sincerely

NLindsay

Natalie Lindsay
General Manager Regulatory Affairs and Revenue Systems