

# **Whose Line is it Anyway?**

***A review of the connection arrangements for large customers throughout the National Electricity Market***

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***“If that is where you are trying to get, I wouldn’t have started from here”***

***Traditional.***

## ***Executive Summary***

Large customers seeking to upgrade or connect to the local network face considerable differences throughout the National Electricity Market (NEM) in:

- The amount of their contribution
- The level of contestable choice
- The process they need to follow
- The level of regulatory protection

Whilst there are positive aspects in each jurisdiction, the overall picture is extremely complex and creates barriers to economic development.

### **Contributions**

The amount of contribution is largely determined by the local regulations. Since all jurisdictions differ as to the extent to which the Distribution Use of System (DUoS) charge is used to offset connection costs, then the potential exists for large variations in the amount of customer contributions. This is summarized below:

Jurisdiction	Potential Customer Contribution*	Comments
NSW	200%	No DUoS off-set for contestable works
SA	165% to 180%**	A 3 years DUoS rebate plus a standard amount (Proposed)
Victoria	135%	DUoS off-set based on suggested 15 year discount period for businesses
QLD	100%+/-***	Costs recovered over economic asset life
ACT	100%	Discount period based on economic asset life

\*Contributions plus discounted DUoS charges expressed as a %age of the connection asset cost.

\*\* Depending on discount rate used

\*\*\*Augmentation costs are excluded from the connection cost fixed charge and DUoS unit charges exclude the cost of the “dedicated” assets.

Connection assets are assumed to have a 45-year economic life

A central argument for customer contributions is that they provide locational signals to drive economic efficiency. In practice, this argument is undermined because of:

- The weakness of the signal in relation to other costs
- A lack of transparency
- The late timing of these signals
- The economic rationale is not robust, notably in NSW and SA

In general, relevant information is not available to large customers at the start of their planning cycle. Specifically, information on connections, contributions and the associated network charges is either not published or is published but incomplete and consequently is of limited use for customer budget planning and decision making purposes.

### **Contestability**

Whilst contestability can improve economic outcomes, implementation in NSW has led to an inflexible process that has led to the discontinuation of providing indicative quotes. Further, inconsistencies have arisen between the charging and recovery of contribution depending on whether the works are deemed to be contestable and whether conducted by the LNSP or third parties.

### **Process and Service Standards**

In general regulators and LNSPs do not adequately explain the connection process, which further limits the usefulness of information.

### **Regulatory Oversight**

There is no coordinated, systematic tracking of contributions or contestability between jurisdictions, which inhibits the development of a national, customer oriented approach.

### **Conclusions**

The connection arrangements do not facilitate economic activity, particularly for large customers operating in several states.

However, there are a number of aspects within each jurisdiction that impressed us and might form the basis of a “best of breed” approach.

This includes:

- Economically rational approaches in Victoria, ACT and Queensland that recognise the offsetting effect of DUoS revenues
- The equitable application of an LNSP contribution towards connection costs, irrespective of whether the LNSP or a third party carries out the work as in Victoria and South Australia
- The proposed publication of standard zonal augmentation charges in South Australia (although we question the inclusion of augmentation in contribution calculations)
- The funding of contributions in Queensland through an annual charge

- The application of contestability to augmentation works in NSW and Victoria
- The approaches of Powercor and Country Energy in clearly communicating the connection, contestability and contribution arrangements to their customers.

## **Recommendations**

There is considerable scope for regulators and LNSPs to improve the arrangements for customer connections by:

- Increasing equity
- Increasing transparency
- Harmonising where appropriate

Specific steps to be taken by LNSPs and regulators are as follows:

- Consider recovering all augmentation costs through DUoS, rather than contributions, given the general benefits of increased reliability
- Consider extending contestability to augmentation in certain circumstances, for example where the works can be isolated safely and without undue interruption to other customers
- Ensure that contribution arrangements are consistent between LNSP- and third-party performed works throughout the NEM
- Improve communication of the connection process, regulatory rules and outcomes, using illustrated examples
- Gather consistent data sets and publish contribution, connection process and contestability performance data to highlight inconsistencies and set regulatory expectations going forward
- Remove arbitrary customer size/load thresholds from the determination and calculation of contributions
- Mitigate shocks by recovering customer contributions through itemized annuitised network charges

Footnote: Whereas we found the contribution arrangements in Queensland to be very equitable, it should be noted that a Community Service Obligation is in place in the state and some franchise customers (including large customers who have elected not to go second tier for their retail electricity) have bundled tariffs that may be less than the unbundled network tariff.