



**ELECTRICITY INDUSTRY  
GUIDELINE No. 14  
PROVISION OF SERVICES BY  
ELECTRICITY DISTRIBUTORS**

**Issue 1**

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**ELECTRICITY INDUSTRY  
GUIDELINE No. 14**

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**AMENDMENT RECORD**

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## 1 SCOPE AND APPLICATION OF THIS GUIDELINE

### 1.1 Objective

The objective of this guideline is to facilitate efficiency in the following aspects of electricity *distribution*, by way of regulation that is flexible and encourages transparency:

- (a) the *undergrounding* of *distribution fixed assets* [see clause 2];
- (b) the determination of *customer* contributions to the capital cost of *new works and augmentation* [see clause 3];
- (c) the contestability of *connection* and *augmentation* works [see clause 4];  
and
- (d) the provision of *excluded services* [see clause 5].

### 1.2 Distributors must comply with this guideline

This guideline is a relevant *guideline* for the purposes of clauses 10.3, 10.7, 11.1 and 16 of *distributors' distribution licences*.

### 1.3 Commencement

This guideline commences with effect from 13 April 2004.

## 2 UNDERGROUNDING OF ASSETS

### 2.1 Background

- 2.1.1 Under their *distribution licences*, *distributors* are required to co-operate with proposals to *underground distribution fixed assets*. Clause 7 of the *distribution licences* provides:

*If a person requests the Licensee to participate in the development of a proposal to underground or otherwise relocate or modify any of the Licensee's distribution fixed assets, in order to:*

- (a) *avoid or minimise any threat or possible threat to the health or safety of any person or any property or the environment or an element of the environment; or*
- (b) *improve the amenity or appearance of the environment,*

*the Licensee must so participate and make an offer for such undergrounding or other relocation or modification ...*

2.1.2 Clause 10.3 of the *distribution licences* requires *distributors* to include in any such offer a price and other terms and conditions which are fair and reasonable and consistent with, among other things, any relevant *guideline*.

2.1.3 As noted in clause 1.2, this guideline is a relevant *guideline*.

## 2.2 Distributors must contribute to the cost of undergrounding projects

In making an offer to *underground distribution fixed assets*, a *distributor* must include a price that has been determined on the basis that the *distributor* is to contribute toward the costs of the *undergrounding* an amount equal to the *distributor's* avoided costs.

## 2.3 Calculating distributors' avoided costs

2.3.1 In determining the price to include in its offer, a *distributor* must calculate the amount of its avoided costs as follows:

$$AC = AM + DAR$$

where:

*AC* is the amount of the *distributor's* avoided costs;

*AM* is the present value of the maintenance and vegetation management costs the *distributor* will avoid incurring in connection with existing *distribution fixed assets* as a result of their *undergrounding*; and

*DAR* is the amount of the *distributor's* deferred asset replacement costs.

2.3.2 In making calculations under clause 2.3.1:

(a) the amount of a *distributor's* deferred asset replacement costs is to be calculated as follows:

$$DAR = RC_E - RC_N$$

where:

*DAR* is the amount of the *distributor's* deferred asset replacement costs;

*RC<sub>E</sub>* is the present value of the future capital costs the *distributor* will avoid incurring in connection with the replacement of existing *distribution fixed assets* as a result of their *undergrounding*; and

*RC<sub>N</sub>* is the present value of the future capital costs the *distributor* will incur in connection with the replacement of the new *underground distribution fixed assets*.

- (b) the future capital costs contemplated by  $RC_E$  and  $RC_N$  in clause 2.3.2(a) include the cost of materials, labour costs and a margin of up to 10% for overheads; and
- (c) where:
  - (1) the calculation is made on or before 31 December 2005, it is to be assumed that the life of any *distribution fixed asset* of a *distributor* falling within any of the classes identified in schedule 1 has a life equal to the number of years identified for that class and for that *distributor* in schedule 1; and
  - (2) the calculation is made on or after 1 January 2006, it is to be assumed that the life of any *distribution fixed asset* of a *distributor* is the life applicable in respect of that *distribution fixed asset* and that *distributor* under the *Price Determination* in force at the time of the calculation.

2.3.3 For the purposes of clause 2.3.1, each of :

- (a) the amount of the operating, maintenance and vegetation management costs the *distributor* will avoid, as contemplated by  $AM$  in clause 2.3.1;
- (b) the future capital costs the *distributor* will avoid, as contemplated by  $RC_E$  in clause 2.3.2(a); and
- (c) the future capital costs the *distributor* will incur, as contemplated by  $RC_N$  in clause 2.3.2(a),

is to be such amount as fairly and reasonably estimated by the *distributor*.

## **2.4 Distributors must provide information to customers about the cost of undergrounding projects**

2.4.1 A *distributor* must include the following information in any offer the *distributor* makes to a person to *underground distribution fixed assets*:

- (a) the price payable by the person; and
- (b) the cost to the *distributor* of the *undergrounding*, including the cost of materials and labour costs.

2.4.2 If a *distributor* has made an offer to a person to *underground distribution fixed assets* and the person requests further information about the cost to the *distributor* of the *undergrounding* beyond the information included in the offer by virtue of clause 2.4.1, the *distributor* must provide the following further information to the person:

- (a) itemised details of the materials and labour costs of the *distributor* in respect of the *undergrounding*; and

- (b) the *distributor's* calculation of the amount of its avoided costs in respect of the *undergrounding* as contemplated by clause 2.3.1, including itemised details of the amount of each of *AM*, *DAR*, *RC<sub>E</sub>* and *RC<sub>N</sub>*.

### 3 NEW WORKS AND AUGMENTATION

#### 3.1 Background

- 3.1.1 Under clause 5.7.3(h) of the *Tariff Order*, a *distributor* may levy an *excluded service* charge as follows:

... *capital contributions for new works and augmentation* ...

- 3.1.2 In clause 5 of this guideline the *Commission* regulates generally for *excluded services* and *excluded service* charges. For example, clause 5 applies to the *excluded service* charge *distributors* may levy on *customers* under clause 5.7.3(b) of the *Tariff Order*, for *connection to distributors' distribution systems*. However, clause 5 does not apply to the *excluded service charge* that *distributors* may levy for new works and *augmentation* under clause 5.7.3(h) of the *Tariff Order*. Instead, the specific regulations in this clause 3 apply to that *excluded service* charge and the related *excluded service* [see also clause 5.1.4].

- 3.1.3 *New works and augmentation* may form part of the *connection services* a *distributor* provides to a *customer* so as to allow the *supply* of electricity from the *distributor's distribution system* to an *electrical installation* of the *customer*.

- 3.1.4 Under their *distribution licences*, *distributors* are required to offer such *connection services*. Clause 5.1 of the *distribution licences* provides:

*If a retailer or a customer requests the Licensee to offer:*

- (a) *to provide connection services so as to allow the supply of electricity from the Licensee's distribution system to an electrical installation of the relevant customer; and*
- (b) *to supply electricity from the Licensee's distribution system to that electrical installation,*

*the Licensee must make such an offer ...*

- 3.1.5 Clause 10.3 of the *distribution licences* requires *distributors* to include in any such offer a price and other terms and conditions which are fair and reasonable and consistent with, among other things, any relevant *guideline*.

- 3.1.6 As noted in clause 1.2, this guideline is a relevant *guideline*.

### 3.2 Customers must contribute to the capital cost of new works and augmentation

In making a *connection offer*, a *distributor* must include a price that has been determined on the basis that:

- (a) the *customer* is not to contribute towards the capital cost of *new works and augmentation* unless the incremental cost in relation to the *connection offer* is greater than the incremental revenue; and
- (b) the amount of any such *customer* capital contribution is not to be greater than the amount of the excess of the incremental cost in relation to the *connection offer* over the incremental revenue.

### 3.3 Calculating the customer's capital contribution

3.3.1 In determining the price to include in its *connection offer*, a *distributor* must calculate the maximum amount of a *customer's* capital contribution for *new works and augmentation*, as contemplated by clause 3.2, as follows:

$$CC = [IC - IR] + SF$$

where:

*CC* is the maximum amount of the *customer's* capital contribution;

*IC* is the amount of incremental cost in relation to the *connection offer*;

*IR* is the amount of incremental revenue in relation to the *connection offer*;  
and

*SF* is the amount of any security fee under the *connection offer* as contemplated by clause 3.5.

3.3.2 For the purposes of clauses 3.2 and 3.3.1:

- (a) incremental cost, in relation to the *connection offer*, is the sum of:
  - (1) in respect of any relevant new works, the present value of the incremental capital, operating, maintenance and other costs the *distributor* will incur in providing services as a result of also providing the *connection services* offered, in respect of which services the *distributor* is remunerated by way of *distribution tariff* revenue. To avoid doubt, this excludes:
    - (A) transmission costs incurred by the *distributor*; and
    - (B) the cost of providing *excluded services*; and
  - (2) in respect of any relevant *augmentation*, the difference between:



- (A) the present value of the incremental capital costs the *distributor* will incur in undertaking that *augmentation* at an earlier date as a result of the *customer* having *connected* to the *distributor's distribution system*; and
- (B) the present value of the incremental capital costs the *distributor* would otherwise incur in undertaking that *augmentation* at a later date, if the *customer* had not *connected* to the *distributor's distribution system*.

To avoid doubt, for the purposes of this clause 3.3.2(a) the costs a *distributor* will incur include those costs the *distributor* will incur in engaging other persons to provide services or to undertake *augmentation*, as the case may be, on behalf of the *distributor*;

- (b) incremental revenue, in relation to the *connection offer*, is the present value of the incremental *distribution tariff* revenue the *distributor* will earn in providing services as a result of also providing the *connection services* offered. To avoid doubt, this excludes any component of *distribution tariff* revenue referable to transmission costs incurred by the *distributor*; and
- (c) each of :
  - (1) the amount of the incremental cost; and
  - (2) the amount of the incremental revenue,

is to be such amount as fairly and reasonably estimated by the *distributor*.

### 3.3.3 In making calculations under clause 3.3.1:

- (a) it is to be assumed that:
  - (1) the term over which the *connection services* offered will be provided is 30 years for domestic *customers* and, unless the *distributor* fairly and reasonably determines some other term is more appropriate in any particular case, 15 years for all other *customers*;
  - (2) the *distribution tariff* earned by the *distributor* over that term is:
    - (A) for the period over which the prevailing *Price Determination* applies, the *distribution tariff* the *distributor* is entitled to earn under that *Price Determination*; and
    - (B) after then, the *distribution tariff* the *distributor* would be entitled to earn under that *Price Determination* if it were to continue to apply, with the applicable X-factor being the same X-factor that applies in the last calendar year in respect of which that *Price Determination* applies;

- (b) the amount of electricity *supplied* to the *customer* is to be fairly and reasonably estimated by the *distributor* having regard to the *customer's* load and *connection* characteristics; and
- (c) incremental costs include a margin of up to 10% for overheads. This must be the same % margin as contemplated by clause 2.3.2(b).

### 3.4 Special rules for calculating customers' capital contributions for group extensions and pioneer schemes

3.4.1 The special rules for *group extensions* and *pioneer schemes* in this clause 3.4 apply despite, and prevail over, the general rules in clauses 3.2 and 3.3 insofar as both deal with *customers* contributing to the capital cost of *new works and augmentation*.

3.4.2 If a *distributor* is to undertake *new works and augmentation* as part of the *connection services* the *distributor* is offering to provide to more than one *customer* (in this clause 3.4, a *group extension*), whether in response to a request those *customers* have collectively made or to requests each has separately made, the *distributor* must offer a price to each of the *customers* that has been determined on the basis set out in clauses 3.2 and 3.3 but adapted as the *distributor* may determine is fair and reasonable having regard to the principle that each *customer* should contribute equitably to the capital cost of the *new works and augmentation*.

3.4.3 If:

- (a) a *customer* (in this clause 3.4, a *new customer*) requests a *distributor* to provide *connection services*; and
- (b) *new works and augmentation* would have been required as part of the *connection services* to be provided by the *distributor* but for *new works and augmentation* already having been undertaken by the *distributor* as part of *connection services* provided in response to an earlier request made by another *customer* (in this clause 3.4, a *pioneer customer*); and
- (c) under the *distributor's connection* policies the *connection services* to be provided to the *new customer* and the *connection services* provided to the *pioneer customer* are to be treated as one scheme (in this clause 3.4, a *pioneer scheme*),

the *distributor* must offer a price to the *new customer* that has been determined:

- (d) as if the *new works and augmentation* formed part of the *connection services* to be provided by the *distributor* to the *new customer*; and
- (e) otherwise on the basis set out in clauses 3.2 and 3.3 but adapted as the *distributor* may determine is fair and reasonable having regard to the principle that the *new customer* and the *pioneer customer*, as well as any other *new customers*, should contribute equitably to the capital cost of the *new works and augmentation*.

3.4.4 If as contemplated by clause 3.4.3 a *new customer* contributes in any way to the capital cost of any *new works and augmentation*, the *distributor* must allow a rebate to the *pioneer customer*, as well as to any other *new customers* who have also made such a contribution, of such amount as the *distributor* determines is fair and reasonable. The rebate must be allowed at least once in each calendar year after the calendar year in which the *connection services* are provided to the *new customer*.

### 3.5 Distributors may require customers to pay a security fees

3.5.1 If a *distributor* fairly and reasonably assesses that there is a risk that, if the *customer* accepts the *distributor's connection offer*, the *distributor* may not earn the incremental revenue in relation to the *connection offer* as estimated by the *distributor* under clause 3.3.2(c), the *distributor* may under the *connection offer* require a security fee.

3.5.2 The amount of the security fee must not be greater than so much of that estimated incremental revenue for which the distributor fairly and reasonably assesses that risk as high and in no case may exceed the present value of the incremental costs the *distributor* will incur in undertaking any relevant *new works and augmentation*.

3.5.3 The *distributor* must pay to a *customer* interest on the amount of a security fee at a rate and on terms and conditions as approved by the *Commission*.

3.5.4 A *connection offer* must require the *distributor* to rebate to the *customer* the amount of any security fee, together with interest earned on the amount of the security fee, as the *distributor* earns the incremental revenue in relation to the *connection offer*. A rebate must be allowed at least once each calendar year beginning after the calendar year in which the *connection services* are provided.

### 3.6 Distributors must have connection policies

3.6.1 A *distributor* must adopt and observe *connection* policies.

3.6.2 A *distributor's connection* policies:

- (a) must identify the approach the *distributor* applies in calculating the amount of any capital contribution that may be required of a *customer* for any *new works and augmentation*. For the purposes of clause 3.3.2(a)(2), the policies may include a statement of what the amount of a capital contribution will be, in \$ per *connection* or in \$ per kW of new load to be *connected*;
- (b) must identify the circumstances in which, as part of a *connection offer*, the *distributor* may require a security fee. The *connection* policies must also identify:
  - (1) how the *distributor* calculates the amount of the security fee;
  - (2) the terms on which the *distributor* will rebate the amount of the security fee;

- (3) the entitlement of the *customer* to interest earned on the amount of the security fee; and
  - (4) the period over which the security fee will be progressively repaid to the *customer*. This must not be more than 15 years; and
- (c) must:
- (1) identify the approach the *distributor* applies in calculating the amount of any capital contribution that may be required of a *customer* for any *new works and augmentation* in connection with any *group extension* or any *pioneer scheme* as contemplated by clauses 3.4.2 and 3.4.3 respectively;
  - (2) identify the circumstances in which the *connection services* to be provided to a *new customer* and the *connection services* provided to a *pioneer customer* are to be treated as one *pioneer scheme*; and
  - (3) address how, in connection with such a *pioneer scheme*, the *distributor* will allow a rebate in respect of a *customer's* contribution towards the capital cost of *new works and augmentation* as required by clause 3.4.4 including the terms on which the rebate will be allowed.

### **3.7 Distributors must provide information to customers about connection**

3.7.1 A *distributor* must include the following information in any *connection offer*:

- (a) the amount of electricity the *distributor* fairly and reasonable estimates will be *supplied* to the *customer*, having regard to the *customer's* load and *connection* characteristics;
- (b) a description of the *connection* assets and of any *distribution fixed assets* to be *augmented*. This may be accompanied by a simple diagram;
- (c) the amount of the *customer's* capital contribution for *new works and augmentation*;
- (d) the amount of each of the incremental cost and the incremental revenue in relation to the *connection offer* and the amount of any security fee under the *connection offer*, as contemplated by clauses 3.3 and 3.5;
- (e) the costs the *distributor* will incur in engaging other persons to provide any relevant services or to undertake any relevant *augmentation*, as the case may be, on behalf of the *distributor*.

- 3.7.2 If a *distributor* has made a *connection* offer to a *customer* and the *customer* requests further information about the amount of the *customer's* capital contribution for *new works and augmentation* beyond the information included in the *connection* offer by virtue of clause 3.7.1, the *distributor* must provide to the *customer* the *distributor's* calculation of the maximum amount of the *customer's* capital contribution as contemplated by clause 3.3, including itemised details of the amount of each of *IC*, *IR* and *SF*.

### **3.8 Distributors must publish their connection policies**

- 3.8.1 A *distributor* must:

- (a) publish its *connection* policies and any standard *connection* agreements on its web-site. This obligation applies on and from 1 July 2004; and
- (b) provide a copy of its *connection* policies to any person, on request by that person.

- 3.8.2 If a *distributor* changes its *connection* policies, the *distributor* must notify the Commission. The notice must identify the change.

## **4 CONTESTABILITY OF CONNECTION AND AUGMENTATION WORKS**

### **4.1 Background**

- 4.1.1 *Distribution licences* regulate proposals made by *distributors* to *augment* their *distribution systems* in connection with offers they may make to provide:

- (a) *connection services* and *supply* to *customers*;
- (b) *connection services* to *embedded generators*;
- (c) *undergrounding* and similar services;
- (d) services to other *distributors* such as power transfer capability services; and
- (e) *public lighting services*.

- 4.1.2 Under their *distribution licences*, *distributors* may be required to call for tenders to perform *augmentation* works before making their offers to provide such services. Clause 10.7 of the *distribution licences* provides:

*If the Licensee proposes to augment its distribution system in connection with an offer to provide services under clause 5, 6, 7, 8 or 9 [of the distributors' distribution licences], the Licensee must call for tenders in accordance with, and comply with other aspects of, any relevant guideline.*

- 4.1.3 As noted in clause 1.2, this guideline is a relevant *guideline*.

4.1.4 The *Commission* is not requiring *distributors* to tender when they *augment* their *distribution systems* otherwise than in connection with offers they make to provide services as contemplated by clause 4.1.1 [see clause 12 of *distributors' distribution licences*].

## 4.2 When a tender is required

4.2.1 If a *distributor* proposes to *augment* its *distribution system* in connection with an offer to provide services under clause 5, 6, 7, 8 or 9 of its *distribution licence* then the *distributor* must before making the offer, call for tenders to perform the construction works from at least two other persons who compete in performing works of that kind (or who are capable of so competing).

4.2.2 Clause 4.2.1 does not apply to the extent that the proposed *augmentation* involves design services.

4.2.3 Clause 4.2.1 also does not apply if the person to whom the offer is to be made agrees with the *distributor* that no tenders should be called for.

## 4.3 Distributors' augmentation tendering policies

4.3.1 In connection with the *augmentation* of its *distribution system*, a *distributor* must adopt and observe tendering policies.

4.3.2 The objectives of a *distributor's* tendering policies must be:

- (a) to inform *customers* of their rights and options with regard to access to the *distributor's distribution system*;
- (b) to ensure that the *distributor's* processes for the determination of the price at which it provides services are fair and reasonable and transparent; and
- (c) to achieve access outcomes that are efficient.

4.3.3 A *distributor's* tendering policies:

- (a) must identify the objectives of the *distributor's* tendering policies and how the tendering policies achieves those objectives;
- (b) must identify when the *distributor* is obliged by its *distribution licence* to call for tenders;
- (c) must identify any *augmentation* works, or services relating to *augmentation* works, that will not be tendered;
- (d) must provide for tenders to be conducted within a timeframe that allows for the *augmentation* works to be commenced in a timely fashion;
- (e) must identify any accreditation or other pre-conditions a person must satisfy if that person is to be eligible for performing any particular type of *augmentation* work;

- (f) must not unreasonably discriminate, and must not allow for unreasonable discrimination, against persons who may compete with the *distributor* in performing *augmentation* works (or who are capable of so competing);
- (g) must identify the basis on which the *distributor* may recover the costs it incurs conducting the tender (or participating in a tender a *customer* may prefer to conduct), including payment terms; and
- (h) must include a process for handling disputes.

#### **4.4 Publication of tendering policies**

##### 4.4.1 A *distributor* must:

- (a) publish its tendering policies on its web-site. This obligation applies on and from 1 July 2004; and
- (b) provide a copy of its tendering policies to any person, on request by that person.

4.4.2 If a *distributor* changes its tendering policies, the *distributor* must notify the Commission. The notice must identify the change.

### **5 EXCLUDED SERVICES AND APPROVED STATEMENTS**

#### **5.1 Background**

5.1.1 Under clauses 10.3 and 11.1 of their *distribution licences*, *distributors* must offer to provide certain services, including *excluded services*, for a *charge* and on terms and conditions which are fair and reasonable and consistent with, among other things, any relevant *guidelines*.

5.1.2 Under clause 16 of their *distribution licences*:

- (a) each *distributor* must by a date nominated by the *Commission* in a *communication* given to the *distributor* submit to the *Commission* for the *Commission's* approval a statement of the *distributor's* proposed *charge* and terms and conditions for the provision of an *excluded service*. Alternatively, the *distributor* may at any other time submit such a statement; and
- (b) *distributors* must publish or provide copies of any *approved statement* in accordance with the requirements of any relevant *guideline*.

5.1.3 As noted in clause 1.2, this guideline is a relevant *guideline*

5.1.4 In this clause 5 the *Commission* is regulating generally for *excluded services* and *excluded service* charges. However:

- (a) under clause 3 the *Commission* regulates the *excluded service* charge *distributors* may levy on *customers* by way of capital contributions for new works and *augmentation* under clause 5.7.3(h) of the *Tariff Order*. This clause 5 does not apply to that *excluded service* charge nor the related *excluded service* [see also clause 3.1.6]; and
- (b) the *Commission* regulates in a separate *guideline* the *excluded service* charge *distributors* may levy under, and the related *excluded service* contemplated by, clause 5.7.3(m) of the *Tariff Order* for *distribution* services and system *augmentation* required to receive energy from an embedded generator [see *guideline* 15].

## 5.2 Excluded services as contestable or non-contestable

- 5.2.1 The *Commission* may from time to time in its absolute discretion consider and decide whether an *excluded service* is a *contestable excluded service* or a *non-contestable excluded service*.
- 5.2.2 A *distributor* or any other person may request that the *Commission* may make such a decision.
- 5.2.3 Any question as to whether an *excluded service* is a *contestable excluded service* or a *non-contestable excluded service* shall be decided by the *Commission* on the basis of the *Commission's* opinion on the matter.

## 5.3 Contestable excluded services

- 5.3.1 If the *Commission* decides that an *excluded service* is a *contestable excluded service*, the *Commission* will not require any *distributor* to submit any statement of a proposed *charge* and terms and conditions for that *excluded service* for approval under clause 16 of the *distributor's distribution licence*.
- 5.3.2 In deciding whether or not an *excluded service* is a *contestable excluded service*, the *Commission* regards the following as relevant factors:
  - (a) **Technical feasibility and safety:** whether it would be technically feasible and safe to open the market for the provision of the *excluded service* to competition by removing any barriers to entry by persons other than *distributors*;
  - (b) **Effective competition:** whether the market for the provision of the *excluded service* would be effectively competitive if barriers to entry by persons other than *distributors* were removed, taking into account:
    - (1) the technical and cost conditions of the provision of the *excluded service* including the extent of economies of scale and scope and sunk costs;
    - (2) the number and concentration of competing providers of the *excluded service* in the market;



- (3) the nature and extent of barriers to entry and the scope for entry of new providers of the *excluded service*;
  - (4) the conditions of demand for the *excluded service*, including the volume of demand and its sensitivity to variations in price and quality;
  - (5) the degree of countervailing power in the market;
  - (6) the availability of substitutes for the *excluded service*;
  - (7) the dynamic characteristics of the market, including potential for growth and innovation; and
  - (8) the nature and extent of vertical integration;
- (c) **Potential competition:** whether the market for the *excluded service* is at least potentially competitive, in that existing providers of the *excluded service* do not exercise market power, even if they hold it, because there is a credible threat of potential competition from new entrants, taking into account the same factors as outlined in clause 5.3.2(b) with particular emphasis on:
- (1) the technical and cost conditions of the provision of the *excluded service* including the extent of economies of scale and scope and sunk costs;
  - (2) the nature and extent of barriers to entry and the scope for entry of new providers of the *excluded service*;
  - (3) the availability of substitutes for the *excluded service*; and
  - (4) the dynamic characteristics of the market, including potential for growth and innovation; and
- (d) **Materiality:** whether the potential benefits to *customers* of treating the *excluded service* as a *contestable excluded service* justify the costs expected to be incurred in:
- (1) assessing and deciding upon whether the *excluded service* otherwise would be a *contestable excluded service*; and
  - (2) opening the market for the *excluded service* to competition.

## 5.4 Non-contestable excluded services

- 5.4.1 If the *Commission* decides that an *excluded service* is a *non-contestable excluded service*, the *Commission* may require any *distributor* to submit a statement of a proposed *charge* and terms and conditions for that *excluded service* for approval under clause 16 of the *distributor's distribution licence*.

5.4.2 In deciding whether or not an *excluded service* is a *non-contestable excluded service*, the *Commission* regards the factors outlined in clause 5.3.2 as relevant.

## 5.5 Submission of statements for approval

5.5.1 A *distributor* should include the following details in any statement of the *distributor's* proposed *charge* and terms and conditions for the provision of an *excluded service* submitted for the *Commission's* approval or in a document supporting the statement:

- (a) a description of the *excluded service*, including details of what is actually provided as part of that service;
- (b) an explanation for any change in the *distributor's* proposed *charge* and terms and conditions for the *excluded service* including reasons for any change in, or change in the magnitude of, costs incurred by the *distributor* in providing the *excluded service* and the effect of any such change on the *distributor's* proposed *charge* and terms and conditions for the *excluded service*;
- (c) a breakdown of each estimated cost to be incurred by the *distributor* in providing the *excluded service* reflected in the *distributor's* proposed *charge* for the *excluded service*;
- (d) details of what is required of the *distributor* in providing the *excluded service*, such as materials and labour (including labour type, hourly rates and estimated man-hours to complete the work);
- (e) if a different *charge* or different terms and conditions are proposed for providing the *excluded service* to different *customers* or classes of *customers*, the magnitude of and justification for the different costs incurred by the *distributor* in providing the *excluded service* to those different *customers* or classes of *customers*;
- (f) if there are any shared or common costs incurred by the *distributor* in providing the *excluded service* and in providing any other goods or services, whether in the conduct of the *distributor's* business as a *distributor* or any other business, a proportional breakdown and allocation of those costs;
- (g) if the proposed *charge* for the *excluded service* is a standard *charge* reflecting the average costs incurred by the *distributor* in providing the *excluded service* across the *distributor's customer* base, details of the assumptions and calculation used to derive the standard *charge*;
- (h) details of any consultations with *customers* undertaken by the *distributor* in developing the *distributor's* proposed *charge* and terms and conditions for the *excluded service*; and

- (i) any other information relevant in the context of whether the *distributor's* proposed *charge* and terms and conditions for the *excluded service* are fair and reasonable.

5.5.2 As a minimum, the details contemplated by clause 5.5.1(a), (b) and (d) should be included in the proposed statement itself.

## 5.6 Excluded service principles

5.6.1 The *Commission* will not approve a statement of a *distributor's* proposed *charge* and terms and conditions for an *excluded service* unless the *Commission* decides the proposed *charge* and terms and conditions are fair and reasonable.

5.6.2 The *Commission* will assess the fairness and reasonableness of a *distributor's* proposed *charge* and terms and conditions for an *excluded service* on the basis of the following principles:

- (a) **Costs of service provision:** a *distributor's charge* and terms and conditions for an *excluded service* must be based on the costs incurred by the *distributor* in providing the *excluded service*;
- (b) **Cost allocation:** in respect of the costs incurred by a *distributor* in providing an *excluded service*:
  - (1) those costs must not include costs in respect of which the *distributor* is remunerated under the *distributor's distribution tariff*; and
  - (2) those costs must only include an appropriate allocation of any shared or common costs incurred by the *distributor* in providing the *excluded service* and in providing any other goods or services, whether in the conduct of the *distributor's* business as a *distributor* or any other business;
- (c) **Cost differentials:** a *distributor's charge* and terms and conditions for an *excluded service* must be the same for all *customers* unless there is material difference in the costs of providing the *excluded service* to different *customers* or classes of *customers*. Different *charges* and terms and conditions for different *customers* or classes of *customers* must only be attributable to differences in:
  - (1) the volume or quantity of the *excluded service* provided;
  - (2) the places to or from which the *excluded service* is provided;
  - (3) the time of day at which the *excluded service* is provided;
  - (4) the performance characteristics at which the *excluded service* is provided; or

- (5) any other difference in the costs of providing the *excluded service*; and
- (d) **Simplicity:** *charges* and terms and conditions for *excluded services* should be simple and easily comprehensible.

## 5.7 The Commission's decision

As soon as practicable after it has decided whether to approve a statement of the *charge* and terms and conditions for an *excluded service* proposed by a *distributor*, the *Commission* will notify the *distributor* and give the *distributor* reasons for the *Commission's* decision.

## 5.8 Publication of approved statements

5.8.1 The *Commission* will publish all *distributors' approved statements* on its web-site.

5.8.2 A *distributor* must:

- (a) publish its *approved statements* on its web-site; and
- (b) provide a copy of its *approved statements* to any person, on request by that person.

## 6 PRESENT VALUE CALCULATIONS

Any present value calculation required under this guideline is to be made using a discount rate equal to the pre tax weighted average cost of capital (i.e., WACC) applying in respect of the relevant *distributor's distribution tariffs* under the then prevailing *Price Determination*.

## 7 FAIRNESS AND REASONABLENESS

Any question as to the fairness and reasonableness of a *distributor's* estimate, determination or assessment in respect of a matter, as contemplated by clause 2.3.3, 3.3.2(c), 3.3.3(a)(i), 3.3.3(b), 3.4.3, 3.4.4, 3.5.1, 3.5.2 or 3.7.1(a) of this guideline, is to be determined by the *Commission* on the basis of the *Commission's* opinion of what is fair and reasonable in the circumstances.

## 8 DEFINITIONS

In this guideline, unless the context otherwise requires:

- (a) terms which appear *like this* and which are not otherwise defined in this guideline have the same meaning as in each *distributor's distribution licence*; and
- (b) *Act* means the *Electricity Industry Act 2000*;  
*charge* includes price;

**connection offer** means an offer to provide **connection services** as contemplated by clause 5.1 of the **distribution licences**, with part of the **connection services** being the undertaking of **new works and augmentation**;

**contestable excluded service** means an **excluded service** the market for which is characterised by effective or potential competition and which the **Commission** decides is a **contestable excluded service** as contemplated by clause 5.3; and

**customer**, in relation to a **distributor** and any service, means a person to whom a **distributor** provides or may provide that service. To avoid doubt, the property developer in respect of a new sub-division is a **customer** in respect of new **connections** at that sub-division;

**distribution licence** means a licence to **distribute** and **supply** electricity granted under the **Act**;

**distribution tariff** in respect of a **distributor** means the tariff which reflects the costs related to the **connection** to or use of the **distributor's distribution system**;

**distributor** means a person who holds a **distribution licence** under the **Act**;

**group extension** is defined in clause 3.4.2;

**new customer** is defined in clause 3.4.3;

**new works and augmentation** means new works and **augmentation** as contemplated by clause 5.7.3(h) of the **Tariff Order**;

**non-contestable excluded service** means an **excluded service** the market for which is not characterised by effective or potential competition and which the **Commission** decides is a **non-contestable excluded service** as contemplated by clause 5.4;

**pioneer customer** is defined in clause 3.4.3;

**pioneer scheme** is defined in clause 3.4.3;

**Tariff Order** means the 'Victorian Electricity Supply Industry Tariff Order' dated July 1995 and as amended from time to time, under section 158A of the **Electricity Industry Act 1993**; and

**underground** means to underground or otherwise relocate or modify any of a **distributor's distribution fixed assets** in order to:

- (1) avoid or minimise any threat or possible threat to the health or safety of any person or any property or the environment or an element of the environment; or

- (2) improve the amenity or appearance of the environment.

**Schedule 1**  
**Life of distribution fixed assets by class**

Class of distribution fixed asset	Life in years				
	AGL Electricity Limited	Citipower Pty	TXU Electricity Limited	Powercor Australia Limited	United Energy Limited
66kV/HV Transformers	50.0	60.0	50.0	50.0	55.0
66kV Circuit Breakers	60.0	60.0	45.0	45.0	50.0
66kV Isolators	55.0	60.0	45.0	50.0	50.0
66kV OHL Conductor	60.0	65.0	60.0	60.0	60.0
66kV Cable	70.0	70.3			
22kV Cable (Subtransmission)		65.0			
66kV Surge Diverters		60.0			
Station Service Transformer	45.0		45.0		
Batteries & Charger (Zone Sub)	20.1	15.0		20.0	12.6
Batteries & Charger (Dist. Sub)		20.0			
HV Circuit Breakers	60.0	60.0	45.0	46.8	56.4
HV Capacitor Banks (Line)	30.0				40.0
HV/LV PM Substation (small)	45.0		40.0	50.0	60.0
HV/LV PM Substation (medium)	45.0		40.0		
HV/LV PM Substation (large)	45.0	45.0	40.0	50.0	55.0
Kiosk Substation (small)	45.0		45.0		
Kiosk Substation (large)	45.0		45.0	45.0	
Ground / Indoor Sub (<500kVA)	45.0	50.0	45.0		
Ground / Indoor Sub (500-1000kVA)	49.1		45.0		54.3
Ground / Indoor Sub (>1000kVA)	48.6		45.0		
SWER Transformer (Isolating)	45.0		40.0	50.0	
SWER Transformer (Distribution)			45.0	50.0	
HV Regulator	45.0		45.0		
HV GM Switchgear	42.4		45.0	46.8	50.0
HV PM Switchgear	45.0	45.0	45.0		45.0
HV Isolators / Fuses	60.0				45.0
Autoreclosers	30.0		45.0	40.0	45.0
HV OHL Conductor	60.0	60.0	60.0	60.0	60.0
HV Cable (XLPE)	40.0				34.6
HV Cable (Other)	70.0	67.9	70.0	70.0	70.0
LV PM Switchgear	30.0				
LV Fuses				30.6	
LV Distribution Board		50.0			
LV Link Boxes	40.0	50.0		40.0	

**ELECTRICITY INDUSTRY GUIDELINE No. 14**  
**PROVISION OF SERVICES BY ELECTRICITY DISTRIBUTORS**

Class of distribution fixed asset	Life in years				
	AGL Electricity Limited	Citipower Pty	TXU Electricity Limited	Powercor Australia Limited	United Energy Limited
LV OHL Conductor	70.0	60.0	60.0	58.9	60.0
LV Cable	60.0	70.0	80.0	70.0	70.0
LV Services (Overhead)	42.0	45.0	40.0	45.0	50.0
LV Services (Underground)		70.0	80.0	70.0	
Street Lighting	20.0	25.0	16.2	25.0	21.0
Street Lighting Cable		65.0			
Poles Class 1	65.0	60.0	52.7	60.0	55.6
Poles Class 1 Staked	80.0		66.7	80.0	
Poles Class 2	50.0		41.1		50.0
Poles Class 2 Staked	65.0		56.1		
Poles Class 3	40.0		35.0		
Poles Class 3 Staked	55.0		45.0		
Poles Concrete	70.0		60.0	60.0	60.0
Poles Steel	40.0	60.0	60.0	25.0	
Wood Crossarms	45.0	40.0	45.0	45.0	45.0
Concrete Crossarms					60.0
Steel Crossarms	70.0		60.0		
Supervisory Cable	66.9	70.0		40.0	40.0
Neutral Earthing Resistor	50.0	50.0	45.0	45.0	
66kV Reactor	50.0				
HV Reactor	50.0				
66kV CTs	50.0	60.0	45.0		45.0
HV CTs	50.0		45.0		
66kV VTs	50.0		45.0		
HV VTs	50.0		45.0		
Protection Schemes	38.9			50.0	
Protection Relays		40.0			40.0
Fault Indicators	15.0				
SCADA/Telecontrol Outstation	15.0		15.0		15.0
Time Switches		30.0			40.0
Fire Systems		40.0			
HV Metering	32.0	40.0	40.0		
LV Metering	39.9	30.0	40.0		39.1