

Timely negotiated electricity connections

Decision paper

14 October 2020

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Summary

Electricity distribution businesses must each develop a Greenfields Negotiated Electricity Connection Customer Service Standard to improve the timeliness of underground negotiated connections in new residential developments in greenfield areas.

This decision paper requires each electricity distribution business to develop a customer service standard under condition 23.1 of its licence.

Problems remain, despite many improvements made by distribution businesses over the past two years to their negotiated connections processes in new residential developments in greenfield areas¹. The remaining problems are a lack of:

- effective working relationships between distribution businesses and developers to resolve issues causing delays
- accountability and transparency from distribution businesses about the times to complete certain stages in the negotiated connections process.

A new customer service standard

To address these remaining problems, the commission requires each electricity distribution business to develop a new customer service standard that will apply to underground negotiated connections in new residential developments in greenfield areas.

The customer service standard, the Greenfields Negotiated Electricity Connection Customer Service Standard, is comprised of three elements:

- An overarching customer outcomes statement setting out what a distribution business expects to deliver over the next two years in relation to negotiated connections.
- A requirement to form a consultative committee that meets quarterly to discuss improvements in negotiated connection processes.
- A performance reporting framework that distribution businesses are to report against every six months.

¹ In this decision paper, greenfield areas refers to largely undeveloped land identified for the creation of new communities on the fringe of the city, as per Victorian Planning Authority 2020, Guidelines, for Precinct Structure Planning in Melbourne's Greenfields – Draft, September.

Each distribution business' standard is to be developed through effective engagement with developers and their contractors. Distributors are required to provide a proposed Greenfields Negotiated Electricity Connection Customer Service Standard to the commission by 4 December 2020. If we are satisfied with the engagement process and the proposed standard, we will direct each distribution business to report to us on their performance against their standard, under condition 23.2 of its licence.

The customer service standards are to take effect from March 2021.

A tailored regulatory approach

We require each distribution business to develop customer service standards as per the conditions of its licence. We consider this a more efficient approach compared to introducing new obligations in the Electricity Distribution Code, as the customer standards can be tailored to meet the needs of the distribution business and its customers.

Our regulatory approach also reinforces distribution businesses' focus on their customers, who are developers and ultimately Victorian homebuyers, particularly for new electricity connections. It will also facilitate effective management of connection processes and increase transparency on the performance of distribution businesses.

Our consultative approach

We note that we have made a decision directly following an issues paper, rather than our usual approach of a draft and subsequent final decision. However, we consider that our approach has involved extensive consultation with stakeholders.

In June 2020, we released an issues paper² setting out four approaches to improve the way distribution businesses manage negotiated electricity connections:

- A. Allowing distribution businesses to continue voluntarily reporting publicly on their performance relating to negotiated connections.
- B. Placing specific obligations on distribution businesses to publicly report their performance.
- C. Placing a general requirement on distribution businesses to regularly review and improve the way they manage the negotiated connections processes
- D. Regulating the timeframes to undertake stages of the negotiated connections process.

As part of our consultation, we held a public forum attended by 25 representatives across distribution businesses, the development industry and government.

² Essential Services Commission, Timely negotiated electricity connections: issues paper, June 2020.

We received eight written submissions in response to our issues paper from:

- AGL
- AusNet Services
- CitiPower/Powercor/United Energy
- Jemena
- Property Council of Australia
- Red Energy and Lumo Energy
- Urban Development Institute of Australia (Victoria)
- Wyndham City Council.

Stakeholders who responded to the issues paper overwhelmingly supported some form of regulatory approach to address the problems relating to negotiated electricity connections.

During September 2020, commission staff also met with stakeholders to discuss our approach to require each distribution business to develop a customer service standard.³ Stakeholders largely supported this approach, and provided further suggestions about the content of the customer service standards.

Stakeholder consultation and engagement is at the core of our decision and approach. Our decision requires distribution businesses to effectively engage with its customers to develop new standards relating to negotiated electricity connections. Upon receiving the proposed standards from distribution businesses, we will be considering the effectiveness of the stakeholder engagement undertaken by distribution businesses.

Further feedback to support the development of the new standards

To further support distribution businesses in developing its new standard, we have developed a short survey focussed on key connection processes or remaining problems. Responses can be anonymous and any comments from the survey will be shared directly with distribution businesses.

The survey can be found survey can be found on engage Victoria's website:

<https://engage.vic.gov.au/>.

The survey closes at **5.00 pm on 13 November 2020**.

³ In September, after receiving stakeholder submissions, commission staff met with representatives from the Property Council of Australia, Urban Development Institute of Australia, and Association of Land Development Engineers. Commission staff also met separately with AusNet Services, Jemena and CitiPower/Powercor/United Energy.

Key steps and timings

Key steps	Timings
Commission decision to require distributors to develop new standard (this decision)	14 October 2020
Distribution businesses consult and develops customer service standards, including draft terms of reference for their consultative committees	October to 4 December 2020
Distribution businesses submits proposed standard to commission for review.	4 December 2020
Commission directs distribution businesses to report to the commission on its performance against the proposed customer service standard (or an amended standard)	February 2021
Distribution businesses report on performance every six months and holds consultative committee meetings	2021 to 2023

Our decision

The commission requires each distribution business to develop a customer service standard under the conditions of its licence.

This section sets out our decision and how it addresses the remaining problems relating to timely electricity connections.

Problems remain in greenfields negotiated connections

Distribution businesses and developers both have incentives to gain new customers. However, a developer's relationship with a customer only lasts up to the point of land sale. In contrast, distribution businesses need to consider providing ongoing services to customers, as well as how connecting new customers affects the services received by existing customers.

The ongoing nature of distribution businesses' relationships with their customers means they need to be satisfied that assets provided meet their quality standards. Developers recognise that when they elect to construct assets, they must meet the distribution business's standards so they can get titles to the newly constructed lots and put the lots on the market.

We are aware that distribution businesses would receive revenue sooner if new connections were made faster. But the immediate financial incentives for distribution businesses are relatively lower than they are for developers to make timely connections. Delays in the process can affect developers financially, with increased costs potentially being passed onto new home buyers.

This relatively reduced incentive on distribution businesses has contributed to stakeholder concerns of a continued lack of transparency and accountability by distribution businesses on the timeliness of key parts of the negotiated connection process.

We have also observed that there continues to be less than effective working relationships between distribution businesses and developers (or their contractors) to resolve issues causing delays. This is despite noted improvements in these relationships over the past two years.

For example, CitiPower/Powercor/United Energy reported the average time of their involvement in connection processes have decreased from 66.5 days in 2019 to 23 days in 2020.⁴ AusNet Services have also reported reductions in timeframes to connect new developments.^{5,6}

While there appears to be reported improvements in overall connection timeframes, there remains persistent concerns and delays to key stages of the connections process, as follows:^{7,8,9}

- plan of subdivision certification
- design approval
- ‘as built’ drawing approval
- time between final audit and issuing statement of compliance.

When delays occur at these key stages of new developments, the costs of these delays appear to be acute. In our 2018 review, we reported that a one week delay to a 100 lot development could cost the development approximately \$49,500 per week¹⁰ and Better Regulation Victoria stated in its 2019 review of Victoria’s building system that the potential total cost of delays in Victoria could amount to \$7.6 million for every additional day of delay.¹¹ We also recognise these delays could be due to several reasons, including contractor’s work not meeting quality standards.

In summary, under the current framework, distribution businesses have reduced incentives when it comes to the time it takes to complete a new negotiated connection. This has resulted in:

- less than effective working relationships between distribution businesses and developers (or their contractors) to resolve issues causing delays, and
- a lack of transparency and accountability by distribution businesses on the timelines for negotiated connections.

⁴ CitiPower/Powercor/United Energy, submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

⁵ AusNet Services, submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

⁶ CitiPower/Powercor/United Energy, submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

⁷ Property Council of Australia, submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

⁸ Urban Development Institute of Australia (Victoria), submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

⁹ Wyndham City Council, submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

¹⁰ Assuming land costs of \$240,000 with eight per cent financing costs per week plus contractor costs of \$10,000.

¹¹ Better Regulation Victoria, 2019, Planning and Building Approvals Process Review.

Our decision for a new customer service standard

Our decision requires each distribution business to develop a Greenfields Negotiated Electricity Connection Customer Service Standard in accordance with the framework specified in this paper, under condition 23.1 of its licence.

Our decision aims to increase incentives for distribution businesses to improve working relationships with developers. We also aim to improve the transparency and accountability of the performance of distribution businesses when connecting new developments.

The customer service standards also reinforce the focus of distribution businesses on their customers – who are developers and their contractors and ultimately Victorian homebuyers – particularly as it relates to new negotiated electricity connections.

The new Greenfields Negotiated Electricity Connection Customer Service Standard must contain the following:

- **A customer outcomes statement** setting out what a distribution business expects to deliver over the next two years in relation to negotiated connections.
- **Consultative committee meetings** held by a distribution business on a quarterly basis, to discuss improvements in negotiated connection processes.
- **A performance reporting framework** that a distribution business is to report against every six months.

Distribution businesses are required to develop the customer service standard as per the template set out in Appendix A of this paper.

Customer outcomes statement

We consider it important that distribution businesses and developers and their contractors clearly understand the desired outcomes of the customer service standard. It is also useful for these outcomes to be public and transparent to all stakeholders (including those who may not actively engage through future consultative committees).

Therefore, we require distribution businesses to include a customer outcomes statement in its standard, based on the engagement with peak industry bodies and developers and their contractors. The customer outcomes statement must include:

- the outcomes each distribution business aims to achieve over the next two years in relation to negotiated connections
- the principles or considerations each distribution business will commit to when interacting with developers and their contractors.

Quarterly customer consultative committee meetings

We recognise the success of the standard requires on-going and regular stakeholder engagement. The standard includes a requirement to form a customer consultative committee to meet every three months to discuss matters relating to connection processes.

Membership of that committee can be determined as distribution businesses engage with stakeholders to develop their customer service standards. At a minimum, the committee should include interested developers that operate in the distribution business' area and development industry peak bodies.

A terms of reference for the customer consultative committee should be developed with stakeholders, to clearly state the purpose and scope, governance arrangements and the process of receiving and responding to feedback.

Minutes of each meeting are to be prepared in a manner appropriate for publication, and published on a distribution business' website in an accessible location within 20 business days of the meeting.

A performance reporting framework

We require distribution businesses to develop performance measures to improve the transparency and accountability of the performance of distribution businesses when connecting new developments. Distribution businesses will be required to report their performance against these measures every six months.

Distribution businesses are to consult with developers to determine whether other steps or stages of the negotiated connections process should be included in the performance reporting framework. For example, a performance measure that evaluates the time covering multiple stages.

Based on stakeholder feedback and the remaining problems, the following stages of negotiated connections should be particularly considered when developing the performance reporting framework:

- plan of subdivision certification
- design approvals
- 'as built' drawing approvals
- time between booking and commencing a final audit
- electrical 'tie-in' and
- time between completing a final audit and approving statement of compliance.

Distribution businesses may also consider developing measures to increase transparency about audit performance, such as the number of audits undertaken, the proportion of passes and fails or

the reasons for failed audits. We also encourage distribution businesses to consider developing qualitative measures to aspects such as customer satisfaction.

Developing and implementing the customer service standards

The new customer service standard is to be developed by December 2020 and implemented from 2021 onwards. The figure below summarises the following steps to develop and implement the new standards.

Figure 1 Key steps and timings

Stage one:

Consult on and develop standard

Commission decision to require distributors to develop new standard (this decision) (14 October 2020)

Distribution businesses consult and develops customer service standards, including draft terms of reference for their consultative committees (October to 4 December 2020)

Stage two:

Report against standard and regularly consult

Distribution businesses submits proposed standard to commission for review (4 December 2020)

Commission directs distribution businesses to report to the commission on its performance against the proposed customer service standard (or an amended standard) (February 2021)

Distribution businesses report on performance every six months and holds consultative committee meetings (2021 to 2023)

Stage one: Developing Greenfield Connection Customer Service Standards

As a condition of its licence, the commission can require electricity distribution businesses to develop standards and procedures. Condition 23.1 of each distribution business' licence states the following:¹²

¹² This condition appears in all electricity distribution licences (CitiPower, AusNet, Jemena, Powercor and United) except for the licence issued to Powercor in relation to the Docklands, which is not material to this issue.

At the request of the commission the licensee must participate to the extent specified by the commission in the development issue and review of any standards and procedures specified where standards and procedures means:¹³

- customer - related standards
- overall performance standards

Based on this licence condition, the commission requires distribution businesses to develop standards and procedures for measuring and reporting their performance against elements of the negotiated connections process for connection services, associated with new residential estates developed on greenfields sites.

Distribution businesses are required to effectively engage with stakeholders to develop the customer service standard

Each distribution business must engage with relevant developers and their contractors to develop their customer service standard.

We have developed five key principles we expect distribution businesses to consider when engaging with developers and their contractors.

- **Principle 1:** The engagement program should contain clear, accessible and comprehensive information.
- **Principle 2:** The engagement program should be suitably designed to receive and consider feedback distribution businesses receive from developers and their contractors in a timely manner.
- **Principle 3:** The engagement program should be ongoing and tailored to the developers' needs and their contractors' needs. This means we expect distribution businesses to conduct (if appropriate) more than one engagement session with their developers and their contractors in a format preferred by developers and their contractors.
- **Principle 4:** The engagement program should prioritise areas of significance and identified as important to distribution businesses' developers and their contractors.
- **Principle 5:** The engagement program should inform those that distribution businesses have engaged with of the outcomes of the engagement and how they have influenced the customer service standard.

We have also developed guidance for distribution businesses with our expectations on effective stakeholder engagement when developing the new standard. Our guidance is based on well-

¹³ The definition of 'standards and procedures' is contained in electricity distribution licences.

known stakeholder engagement principles, and the effective practices of Victorian water businesses. The guidance note has been published alongside this paper.

Distribution businesses are to submit a proposed standard to commission for review

By 4 December 2020, we require distribution businesses to submit its proposed customer service standard to the commission for consideration. Distribution businesses are to also provide a written description of the process and result of its stakeholder engagement with developers, contractors, and peak development industry bodies, in developing the standard.

In reviewing the proposed customer service standard, the commission will consider the effectiveness of a distribution business' engagement with stakeholders. We will have regard to the five key principles relating to stakeholder engagement described earlier.

If the commission is satisfied with the engagement process undertaken and the contents of the proposed standard, we will direct each distribution businesses to report to us on their performance against their standard under the condition of its licence.

If we are not satisfied with the engagement process or proposed standard, the commission can direct distribution businesses to report against an amended standard. If this is the case, the commission will provide the distribution business an opportunity to make submissions to us before a final direction is made.

Stage two: Reporting on performance against the standards

As a condition of its licence, an electricity distribution businesses must report to the commission on its performance against applicable standards as directed under condition 23.2 of its licence:¹⁴

The licensee must in accordance with any guideline published for this purpose, or as directed by the commission, report to the commission on its performance against applicable standards and procedures.

By February 2021, the commission will direct distribution business to report to the commission on its performance against its standard. Reporting to the commission will be required every six months as follows:

- for the period 1 January to 30 June, reporting by 31 August that year
- for the period 1 July to 31 December, reporting by 28 February the following year.

¹⁴ Clause 23.2 is in all electricity distribution licences (CitiPower, AusNet, Jemena, Powercor and United) except for the licence issued to Powercor in relation to the Docklands, which is not material to this issue.

The report must include:

- progress against commitments in the customer outcomes statement
- copy of minutes of their consultative committee meetings
- performance against the measures included in their customer service standard
- the reason why any performance measures were not achieved (where appropriate)
- what actions have been or are being taken to rectify the issue.
- any initiative the distribution business has taken to improve the service, or an update on any initiative taken.

The commission will also publicly report on distribution businesses' performance against their customer service standards. It is expected that distribution business will also publicly report on its performance.

Distribution businesses will be required to comply with their customer service standard for two years. We will use the information reported by distribution businesses to monitor improvements in the timeliness of connections, and to inform whether new or amended standards should be developed after two years.

Enforcing the customer service standards

Distribution businesses that do not comply with the commission's direction to report on their performance against the standard will be in breach of a condition of their licence.¹⁵ If this occurs the commission may consider taking compliance or enforcement action, such as issuing an enforcement order or commencing legal proceedings. Penalties for failing to report against the standard could be introduced, but this would need to be introduced by government.

Application of the customer service standards

In our 2018 review, stakeholders were particularly concerned with delays in connecting new developments in Melbourne's greenfields areas to the electricity networks.¹⁶ The findings of our review focused on solutions to make these types of negotiated connections timelier.

Further, the governance committee created in response to our 2018 review included developers, distribution businesses and the Victorian Planning Authority, who were focused on new connections in greenfields areas.

In response to our recent issues paper, stakeholders also raised reasonable concerns which support our decision to only apply to negotiated electricity connections in underground residential

¹⁵ Clause 23.2, Distribution licence

¹⁶ Essential Services Commission, Advice on electricity regulation, timely electricity connections, September 2018.

developments in greenfields areas¹⁷. This is because other types of negotiated connection can be more complex, and the commission has not engaged specifically with stakeholders undertaking other sorts of negotiated connections.

We recognise the complexity of applying regulatory solutions on other types of negotiated connections, and therefore our decision is limited to negotiated electricity connections in new residential developments in greenfield areas.

¹⁷ In this decision paper, greenfield areas refers to largely undeveloped land identified for the creation of new communities on the fringe of the city, as per Victorian Planning Authority 2020, Guidelines, for Precinct Structure Planning in Melbourne's Greenfields – Draft, September.

Developing our decision

In making our decision, we considered the remaining problems in negotiated connection processes as identified by stakeholders.

This section sets out the remaining problems in negotiated connection processes we sought to address, and how we have considered our statutory objectives in making our decision.

Improving working relationships between distribution businesses and developers

Stakeholder feedback indicated there remains concerns about the effectiveness of working relationships between distribution businesses and developers and their contractors.

Through subsequent meetings with stakeholders following their submissions, some stakeholders considered there should be a 'road map' setting out mutually beneficial outcomes the distribution businesses expected to achieve over the next two years in relation to negotiated connections. These stakeholders added that, through engagement with industry, distribution businesses should also develop principles or considerations to guide productive interactions between the parties.¹⁸

Stakeholders also noted there were not regular opportunities for developers or their contractors to raise concerns, and for distribution businesses to give updates on matters related to negotiated connections.

We also heard from stakeholders of an apparent 'us and them' attitude between parties, and at times distribution businesses are not considered 'part of the industry'. Some developers and contractors commented that they experienced more productive and mutually beneficial working relationships with metropolitan water businesses compared with Victorian electricity distribution businesses.

To inform our decision, we met with staff from City West Water, Melbourne Water and South East Water to understand how the water businesses have formed good working relationships with the development industry.

The water businesses told us building good relationships with developers requires:

¹⁸ On 21 September 2020, Commission staff met with representatives from the Urban Development of Australia, Property Council of Australia, and Association of Land Development Engineers to discuss matters related to the customer service standard.

- investing time and effort on an ongoing rather than one-off basis
- being willing to change the work culture and move from focusing on asset quality and disputes to solving problems together
- being prepared to attend or coordinate industry forums and openly discuss issues affecting connections
- having auditors work closely with contractors to improve processes and quality
- having a reliable contractor accreditation system that benefits both water businesses and developers.

City West Water staff added because the contractors and consultants used in land development are a relatively stable group, these actions help build long lasting effective working relationships.

Distribution businesses are beginning to show signs of forming good working relationships with the development industry. Following our 2018 review, distributors voluntarily agreed to a service improvement commitment to improve new connections in greenfields areas. We note that a technical standards harmonisation committee was formed under the service improvement commitment, and is one example of effective engagement by distribution businesses with developers and their contractors. We understand from stakeholders there was a positive view on the committee's processes and demonstratable outcomes.

Our reflections on why the technical standards harmonisation committee was successful are:

- there was a terms of reference that clearly set out the committee's objectives and participants roles and responsibilities
- there was a plan to guide the delivery of the committee's work
- people invited to be on the committee had the right skills and experience to be able to make a sound contribution
- good governance structures were in place to facilitate discussion and decision making
- participants were given enough time to provide meaningful feedback on matters
- participants could see how their feedback was being used to influence the outcome.

The industry's technical standards harmonisation committee is a successful example of using effective stakeholder engagement to improve working relationships and deliver fit-for-purpose solutions to complex issues. We support this type of stakeholder engagement.

Therefore, we intend for the customer service standard to help improve working relationships by requiring distribution businesses to clearly set out customer outcomes it will commit to, and to hold regular consultative meetings with key stakeholders.

Improving transparency and accountability for negotiated connections

Our issues paper proposed three regulatory approaches to improve the transparency and accountability for timeframes relating to negotiated connections.¹⁹ These were:

- relying on distribution businesses to continue voluntarily reporting publicly on their performance
- introducing specific obligations on distribution businesses to publicly report their performance
- regulating the timeframes to undertake stages of the negotiated connections process.

Stakeholders strongly supported requirements on distribution businesses to publicly report their performance in relation to negotiated connections. Stakeholders considered that, despite the reporting occurring under the service improvement, other specific steps in the negotiated connections also should be reported on.²⁰ These included plan of subdivision approval and 'as-built' drawing approvals.

We understand that over time, developers would like to see a transition to a common performance reporting framework, as this would help facilitate competition between distribution businesses and so be an incentive to improve performance. In addition to public reporting, the development industry considered regulating timeframes would further strengthen distribution businesses' incentives to complete their work in a timely way.

Our decision is to require distribution businesses to formally report to the commission on their performance in negotiated connections. This will increase the incentives for distribution businesses to improve and increases the accountability of distribution businesses' actions. We consider requiring reporting to occur on a six-monthly basis will not place an unreasonable burden on distribution businesses as under the service incentive commitment, most distribution businesses already report their performance every six months.²¹

We note regulating maximum timeframes could create even stronger incentives for distribution businesses to be accountable for meeting target times. However, the current framework under the National Electricity Rules adopted in Victoria in the National Electricity (Victoria) Act 2005 allows developers and distribution businesses to negotiate timeframes and other matters related to connections.

¹⁹ Our issues paper also proposed a fourth approach – a voluntary approach.

²⁰ Under the service improvement commitment, the distribution businesses report on the times to complete a range of steps in the negotiated connections process. There are differences between the businesses on what they report on reflecting different contestability models. AusNet Services and Powercor report on design approval and construction audit metrics. Powercor also report on tie-in and statement of compliance metrics. Jemena reports of time from application lodgment to time of offer.

²¹ Under the service incentive commitment, distribution businesses are required to report their performance every six months.

Distribution businesses have also suggested regulating maximum timeframes could increase connections costs, reduce flexibility to resolve challenging issues, and see greater risks shared with developers for the ongoing operation of the asset.^{22,23} Furthermore, stakeholders from the development industry commented regulating timeframes, while providing accountability, can be very restrictive and make addressing challenges more difficult. This is largely because distribution businesses may be more focused on meeting a maximum timeframe than resolving issues causing delays.²⁴

Therefore, we require distribution businesses to develop performance measures in relation to underground negotiated connections in new residential developments in greenfield areas, as part of its new customer service standard. Distribution businesses will be required to report to the commission against their performance against these measures every six months.

Addressing our statutory objectives

When considering any regulatory change, we must have regard to our objectives to promote the long-term interests of Victorian consumers, having regard to the price, quality, and reliability of essential services, as set out in the Essential Services Commission Act 2001. We must also have regard to the objectives in section 10 of the Electricity Industry Act 2000 which include promoting the development of full retail competition and protections for customers.

We have designed our reforms to help customers move into their new homes in a timely way, while being connected to a safe and reliable electricity network. In making our decision, we have had regard to our statutory objectives under the Essential Services Commission Act 2001, which includes:

- the degree of, and scope for, competition within the industry, including countervailing market power and information asymmetries²⁵
- the costs and benefits of regulation.²⁶

²² CitiPower/Powercor/United Energy, submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

²³ AusNet Services, submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

²⁴ Property Council of Australia, submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

²⁵ Section 8A(1) (c) Essential Services Commission Act 2001.

²⁶ Section 8A (1) (e) Essential Services Commission Act 2001.

As discussed previously, we consider that developers currently face a lack of clarity from distribution businesses about times they will take to complete certain steps or stages of the negotiated connections process. This lack of certainty creates frustrations, delays, and makes planning next steps challenging, all of which have the potential to add to the costs of development and reduce property values. We have considered these effects when having regard to the potential costs and benefits of our decision.

In theory, the need for connection-related reforms would be reduced if actual connection times closely matched developers' expectations. However, this does not appear to be the case. Case studies provided by Urban Development Institute of Victoria demonstrate connection delays are still occurring. For example, for one developer the design approval took 4.4 weeks, while it was expected to be approved in five to ten business days.²⁷ The potential costs to these projects can be significant, considering the potential costs of each day of delay.

In our 2018 review, we reported that a one week delay to a 100 lot development could cost the development approximately \$49,500 per week²⁸ with these costs being potentially passed on to new homebuyers. We also noted these estimates did not include all costs, particularly ones that are difficult to quantify, such as costs to hold a sales and marketing team for extended delays.²⁹

Further, Better Regulation Victoria stated in its 2019 review of Victoria's building system, that the total cost of delays in Victoria was between \$70 per dwelling per day for low rise and \$180 per dwelling per day for high rise residential developments – a potential total cost of \$7.6 million for every additional day of delay, based on the total number new dwellings in Victoria for 2017–18.³⁰ It should be noted that approximately two thirds of new dwellings are in greenfield developments.³¹ These costs could be potentially passed onto new homebuyers in some situations.

In response to our 2020 issues paper, the Urban Development Institute of Victoria commented:³²

[Delays to compliance from the electrical authorities which are pervasive and hits most developments hold up around \\$100m in lot settlement revenue generated by our industry](#)

²⁷ Urban Development Institute of Australia (Victoria), submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

²⁸ This is under the assumptions that the lot of land costs the developers \$240,000 and has an eight per cent financing costs per week plus the costs incurred by contractors (approximately \$10,000).

²⁹ Essential Services Commission, Advice on electricity regulation, timely electricity connections, September 2018

³⁰ Better Regulation Victoria, 2019, Planning and Building Approvals Process Review.

³¹ In 2017–18 the Victorian Planning Authority released a media release stating that 100 000 new lots would be released over 2 years. We have assumed it would be an even split between the years.

³² Urban Development Institute of Australia (Victoria), submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

every week. By extension, another \$100m in home building work is consequently delayed every week.³³

Similarly, the Property Council of Australia referred to the recent discussion paper from Better Regulation Victoria stating that:³⁴

Across an entire stage with 100 lots, a delay of just one week can cost an additional \$126,000. If multiplied at scale, across all of Melbourne's estimated 50,000 lots built in greenfield areas developments annually, that is an additional cost of \$63 million every year.

As noted by Better Regulation Victoria, considering the large cost for small delays, any small improvement in the process can lead to large benefits for the community.³⁵

Given the potential costs of delays to new developments in Victoria can be significant, we consider the potential benefits of more effective connection processes will not be outweighed by the direct costs to distribution businesses. Our regulatory solution would not impose significant additional costs on distribution businesses, as it recognises the existing activities, investment and resources committed to by distribution businesses under the service improvement commitment.

Furthermore, there are added benefits to distribution businesses for new developments to be connected faster, as well as the benefit of improved working relationships with their customers, who include developers and their contractors.

We also note distribution businesses allow different stages of the negotiated connections process to be contestable. Where a process is contestable, a developer or contractor is able to assign an accredited sub-contractor to carry out activities that would otherwise be done by a distributor – this means the developer (or its contractors) will have direct control of the management and time to undertake the work. We note distributors have developed a panel of accredited subcontractors available for contestable parts of the process, which also allows a competitive process in delivering various stages of connections.

We recognise distribution businesses have made different stages of the connections process contestable, and most issues raised by stakeholders are where a process has not been made contestable. Our decision also encourages distribution businesses to consider whether its

³³ Urban Development Institute of Australia (Victoria), submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020. These figures are a high-level estimation based on annual lot releases of 15,000 to 20,000 per year and the financial value of completed lots being approximately \$310,000.

³⁴ Property Council of Australia, submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

³⁵ Better Regulation Victoria, 2019, Planning and Building Approvals Process Review.

processes are the most effective for meeting customer needs while meeting quality standards, and whether this could be best achieved through contestability.

Stakeholder feedback informing our decision

Feedback received from our issues paper identified where problems remain in the negotiated connections process and stakeholders' preferences in relation to addressing these problems.

This section describes stakeholder feedback to our consultation process, which has informed our decision.

Issues paper

Our issues paper set out four approaches we considered could ensure electricity distribution businesses keep maintaining focus on improving the way they manage negotiated electricity connections. These approaches were:

- A. allowing distribution businesses to continue voluntarily reporting publicly on their performance relating to negotiated connections
- B. placing specific obligations on distribution businesses to publicly report their performance
- C. placing a general requirement on distribution businesses to regularly review and improve the way they manage the negotiated connections processes
- D. regulating the timeframes to undertake stages of the negotiated connections process.

We considered each approach would enable us to achieve our statutory objective of promoting the long-term interests of Victorian consumers in relation to price, quality, and reliability. This is by helping customers move into their homes in a timely way, while being connected to a safe and reliable network.

All approaches would create incentives for distribution businesses to provide developers with greater transparency, accountability, and certainty about the times to complete various stages or steps of the negotiated connections process.

Approaches A, B and C would promote accountability, transparency, and continuous improvement. They would require distribution businesses to publicly report on performance in relation to negotiated connections, collect qualitative information about why key performance measures may not have been met, and share results through consultative forums. They also included requirements performance measures and targets to be regularly reviewed.

Approach C went further than public performance reporting, and included an overarching obligation requiring good governance of negotiated connections. The overarching obligation would then be supported by non-binding guidance designed to outline practices we considered would address the

root causes of some of the issues identified as causing delays in the 2018 review and later by stakeholders. For the purposes of the issues paper we suggested using the service improvement commitment as the basis for good governance requirements.

Approach D involved setting maximum timeframes to complete stages of the negotiated connections process. We considered this would create the strongest incentives for distribution businesses to be accountable for the times to complete stages, while creating more certainty for developers and their contractors about timeframes. However, regulating timeframes is inconsistent with operating under a negotiated framework regime and may reduce flexibility for both parties.

Stakeholder feedback

Through the issues paper and stakeholder forum we asked stakeholders whether the issues they experienced two years ago still existed. We also asked stakeholders for their views on each approach and what their preferred approach or approaches would be. The responses to these questions would then guide our decisions about which approach/es would best address stakeholder concerns and help form our final decision.

Issues considered under the service improvement commitment

Through our 2018 review, stakeholders reported to us delays in negotiated connections were caused by a range of factors including:³⁶

- mismatched timing of distribution businesses' and developer's incentives³⁷
- inadequate customer focus of distribution businesses
- rapid growth in new lots constructed and resource constraints
- auditing practices of some distribution businesses
- declining quality of civil work including electrical installation
- the management of technical standards set for industry
- poor understanding of regulatory framework by developers.

We responded by developing a suite of voluntary initiatives under a service improvement commitment. Senior management from AusNet Services, CitiPower/Powercor/United Energy, and Jemena all committed in writing to us that they would implement the initiatives.

³⁶ Essential Services Commission, Advice on electricity regulation, timely electricity connections, September 2018

³⁷ A developer's relationship with a customer only lasts up to the point of land sale. While distribution businesses need to consider providing ongoing services to customers.

Distribution businesses have also been represented on a governance committee chaired by our Chief Executive Officer and also attended by representatives of the development industry.³⁸ The committee's key function is to oversee the delivery of the service improvement commitment and other initiatives.³⁹ The governance committee has met ten times to date and at this stage is expected to finish its term in October 2020. We provide the minutes of each governance committee meeting on our website.

We reported in the issues paper that many of the initiatives under the service improvement commitment had been delivered, and performance reporting had shown significant improvement. For example, the performance reporting showed significant improvement from Powercor, the distribution business we received the most complaints about during the 2018 review.

What has improved?

Through the issues paper we were keen to see if stakeholders experienced improved service delivery, and if not, where problems remained.

Stakeholders reported varying levels of improvement in the negotiated electricity connections process over the last two years.

The Urban Development Institute of Australia and Wyndham City Council wrote that the distribution businesses had improved the ways in which they interacted with customers.^{40,41} The Urban Development Institute of Australia noted electricity distribution businesses have become markedly more customer focused and that this was warmly welcomed. They noted changes in Powercor's previously problematic audit processes had led to more constructive relationships with developers and their contractors.⁴² The Property Council of Australia noted there have been some improvements, but these were not material or sustained.⁴³

³⁸ Membership: Powercor, AusNet Services, Jemena, Urban Development Institute of Australia, Property Council of Australia, Victorian Planning Authority and Essential Services Commission.

³⁹ The minutes from these committee meetings are published on our website (www.esc.vic.gov.au/electricity-and-gas/inquiries-studies-and-reviews/electricity-connections-process-review-2018).

⁴⁰ Urban Development Institute of Australia (Victoria), submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

⁴¹ Wyndham City Council, submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

⁴² Urban Development Institute of Australia (Victoria), submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

⁴³ Property Council of Australia, submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

CitiPower/Powercor/United Energy wrote they had received positive feedback from developers about their timeframes and performance in relation to connecting residential developments in greenfields areas. They felt this meant they were on the 'right track'.⁴⁴

AusNet Services wrote they have also taken steps to improve customer service in relation to connections such as:

- consolidating oversight of medium density housing projects through a centralised office and increasing resourcing
- reviewing the audit process
- implementing an online portal that enables customers' visibility of the status of their projects
- implementing an automated process to manage designs that increases the focus on design approval times.⁴⁵

CitiPower/Powercor/United Energy wrote they have undertaken a range of investments to deliver the service improvement commitment, including:

- upgrading and expanding its online portal allowing developers greater visibility about the progress of and timeframes to complete their negotiated connection
- participating in the Victorian Electricity Supply Industry technical standards harmonisation committee
- reviewing auditing process, including stopping the 'walk-off' policy and allowing for real time rectification of audit non-conformances
- developing reporting performance measures and reporting results publicly
- increasing resourcing to facilitate more timely responses at key stages in the negotiated connections process.⁴⁶

AusNet Services and CitiPower/Powercor/United Energy also reported they have seen reductions in the timeframes to connect new developments to their networks.^{47, 48}

⁴⁴ CitiPower/Powercor/United Energy, submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

⁴⁵ AusNet Services, submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

⁴⁶ CitiPower/Powercor/United Energy, submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

⁴⁷ AusNet Services, submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

⁴⁸ CitiPower/Powercor/United Energy, submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

CitiPower/Powercor/United Energy wrote as part of the service improvement commitment, Powercor undertook a review of the times taken to complete negotiated connections. In 2019, it took on average 364 days for a project to be completed from the time an application was lodged until the statement of compliance was issued. During that time Powercor was directly involved in the process for 66.5 days on average.

In 2020, a project takes 193 days on average, and Powercor is now only involved for 23 days. Much of the reduction in Powercor's involvement is due to the master planning stage being made contestable and able to be performed by suitably qualified consultants, and other design work being able to be done in parallel with other activities.⁴⁹

CitiPower/Powercor/United Energy added that for the current year to date, targets have been met for four of the five key performance indicators they report on. They explained the times to review master plans on average did not meet the target timeframe because the coronavirus pandemic required engineers to transition to working from home.^{50, 51}

What has not improved?

The Property Council of Australia and the Urban Development Institute of Australia stated that despite some improvements, delays in the negotiated connections process still occurred. Both identified similar stages and issues resulting in routine delays. These were:

- design approval timeframes
- 'as built' drawing approval timeframes
- plan of subdivision certification
- poorly communicated changes to technical standards
- inefficient on-site auditing practices.^{52,53}

The Property Council of Australia made specific comments about technical standards and audit practices, noting they are still a source of frustration for developers and their contractors.⁵⁴ The

⁴⁹ Ibid.

⁵⁰ Ibid.

⁵¹ Powercor's performance reporting framework includes master plan review, design review, construction audit, practical completion and electrical 'tie-in'

⁵² Property Council of Australia, submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

⁵³ Urban Development Institute of Australia (Victoria), submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

⁵⁴ Property Council of Australia, submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

Property Council of Australia commented it often is difficult to construct a high quality network when existing technical standards are not understood by industry, and are ambiguous or communicated poorly by distribution businesses. It added the commission should increase its focus on audits and facilitate involvement by developers and distribution businesses to address audit practices.

The Property Council of Australia suggested the commission should review distribution businesses audit practices at trial sites in greenfields developments. It also suggested the Victorian Electricity Distribution Networks committee should perform regular refresher training to participants under commission guidance to ensure consistent and ongoing clarity about technical standards.⁵⁵

Wyndham City Council added it had experienced delays energising community infrastructure and that this was a concern to council.⁵⁶ Council reported delays were due to lack of consistency amongst auditors in the way they interpret standards, problems in the way changes to designs and construction are managed and poor quality work by Powercor accredited consultants and contractors.

AusNet Services and CitiPower/Powercor/United Energy wrote work quality was still a concern and cause of delays.^{57,58} AusNet Services reported over the last two years, 20 per cent of pre-commissioning and final audits are failing. CitiPower/Powercor/United Energy stated developers had not improved their audit pass rates since 2018. Further, poor quality electrical designs, civil work and electrical installations leads to audit failures which has the effect of increasing connections timeframes.

Retailers AGL and Red and Lumo Energy remarked they become involved later in the connections process, when either builders need electricity to build new homes or homebuyers want to move into their new homes.^{59,60} Both retailers observed greater transparency and accountability by

⁵⁵ The Victorian Electrical Distribution Networks (VEDN) is a committee of the Victorian Electricity Supply Industry (VESI) which is responsible for accrediting contractors who are involved in the civil aspects of underground electrical infrastructure.

⁵⁶ Wyndham City Council, submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

⁵⁷ AusNet Services, submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

⁵⁸ CitiPower/Powercor/United Energy, submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

⁵⁹ AGL, submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

⁶⁰ Red Energy and Lumo Energy, submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

distribution businesses for the earlier negotiated connections process would enable them to provide more certainty about connection timeframes for their customers.

Views on our approaches

We asked stakeholders for their views on what the best approach would be to address the issues identified above.

Overwhelmingly, stakeholders preferred a regulated approach to address the issues described above and best ensure distribution businesses continued their focus on improving the way underground negotiated connections in residential areas in greenfield areas are managed.

Table 1 shows stakeholders' preferred approaches.

Table 1: Stakeholder preferences for approaches proposed in our June 2020 issues paper

Approach	A	B	Hybrid B and C	C	Hybrid C and D	D	Hybrid A, B, C, D
AGL		✓				✓	
AusNet Services	✓	✓					
CitiPower/Powercor/United Energy			✓				
Jemena			✓				
Property Council of Australia					✓		
Red Energy and Lumo Energy							✓
Urban Development Institute of Australia						✓	
Wyndham City Council		✓					

Preference for a hybrid approach means a preference for elements of two or more approaches

Approach A

AusNet Services and CitiPower/Powercor/United Energy considered there was merit in continuing with a voluntary approach.^{61,62} AusNet Services commented a voluntary arrangement would be more flexible and so would allow better transitions to 'new energy' solutions in housing estates and impose less onerous compliance obligations and hence be less costly to implement.

⁶¹ AusNet Services, submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

⁶² CitiPower/Powercor/United Energy, submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

CitiPower/Powercor/United Energy wrote as they have achieved significant improvements under the service improvement commitment, it is unclear why anything beyond that was required.

The Property Council of Australia and the Urban Development Institute of Australia raised concerns with a voluntary approach.^{63,64} The Property Council of Australia commented a voluntary approach relied on the distribution businesses being prepared to disclose their results.

The Urban Development Institute of Australia added that currently under the voluntary arrangements, reporting was inconsistent, ad hoc and requires a consistent approach to be meaningful. At our stakeholder forum in July, some stakeholders commented without a formal requirement for public reporting, gains made maybe lost.⁶⁵

Approach B

All stakeholders considered there is a need to require distribution businesses to publicly report on their performance in relation to negotiated connections. AusNet Services wrote regulated performance reporting would give stakeholders greater certainty of the lasting focus of distribution businesses in relation to negotiated connections.⁶⁶

CitiPower/Powercor/United Energy and Jemena wrote that including requirements to publicly report performance would give stakeholders greater transparency about distribution businesses performance. They added the performance measures and targets should be established through consultation and collaboration with the development industry.^{67,68}

The Property Council of Australia stated performance reporting would drive accountability amongst the distribution businesses to complete certain stages within a timeframe.⁶⁹ They added performance measures should be developed for design approval, 'as built' drawing approval, audit

⁶³ Property Council of Australia, submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

⁶⁴ Urban Development Institute of Australia (Victoria), submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

⁶⁵ Commission staff facilitated a public forum on 30 July 2020 to discuss matters related to the issues paper with interested stakeholders.

⁶⁶ AusNet Services, submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

⁶⁷ CitiPower/Powercor/United Energy, submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

⁶⁸ Jemena, submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

⁶⁹ Property Council of Australia, submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

performance and electrical 'tie-in'.⁷⁰ Wyndham City Council added approach B would most likely provide better information on timeframes and expectations.⁷¹

Approach C

CitiPower/Powercor/United Energy and Jemena supported adopting approach C, placing a general requirement on distribution businesses to regularly review and improve the way they manage the negotiated connections processes.

CitiPower/Powercor/United Energy stated in addition to performance reporting, mandating on-going meetings between developers and distribution businesses would foster further collaboration and allow all industry participants to work towards more timely connections for greenfield residential developments.⁷²

Jemena wrote combining approaches B and C would ensure performance reporting and focus on improving and better managing the negotiated connections processes continues without undue compliance costs.⁷³

The Property Council of Australia supported combining approach C with approach D, regulating the timeframes to undertake stages of the negotiated connections process. It wrote approach C would ensure the industry monitors, records, and implements measures to improve its performance and keeps all stakeholders accountable. It suggested we should mandate quarterly consultative committee meetings for each distribution business, as members found these meetings beneficial as they gave stakeholders a way to raise issues and for distribution businesses to provide updates.⁷⁴

Approach D

The Property Council of Australia also supported approach D. This was because it would provide industry with certainty and transparency and make distribution businesses accountable for the times to complete certain stages. However, it noted mandated timeframes could restrict stakeholder's ability to deal with challenges.⁷⁵ Wyndham City Council noted regulated timeframes

⁷⁰ *ibid*

⁷¹ Wyndham City Council, submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

⁷² CitiPower/Powercor/United Energy, submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

⁷³ Jemena, submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

⁷⁴ Property Council of Australia, submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

⁷⁵ *ibid*

may complicate the process and could result in parties laying the blame on each other for delays rather than having more open and transparent communication to deliver mutual outcomes.⁷⁶

The Urban Development Institute of Australia preferred approach D, as it considered this approach would create the strongest incentives for distribution businesses to be accountable and address poor performance.⁷⁷ Later commission staff met with Urban Development Institute of Australia members and it became apparent developers are also seeking better relationships with distribution businesses to achieve mutual outcomes.⁷⁸

AusNet Services, CitiPower/Powercor/United Energy and Jemena wrote adopting approach D would raise concerns for them. AusNet Services stated approach D would be more costly to implement, especially if target timeframes are set too low and do not allow a contingency for unforeseen events. To mitigate the risk of not meeting timeframes AusNet Services suggested it would need to 'over resource' and the costs of connection would increase.⁷⁹

Jemena also claimed approach D would be costly to implement because of the need to invest in compliance monitoring and reporting systems. Jemena added it would be difficult to set timeframes for each stage of the connections process and even so may not lead to an optimal outcome.⁸⁰

Concerns raised by CitiPower/Powercor/United Energy in relation to approach D were that it:

- is inconsistent with the purpose of negotiated arrangements, as it does not recognise the different needs of different developments
- inhibits innovation and discourages further engagement between distribution businesses and developers
- may mean a greater share of the risks associated with new connections are shared with developers.⁸¹

⁷⁶ Wyndham City Council, submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

⁷⁷ Urban Development Institute of Australia (Victoria), submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

⁷⁸ Commission staff met with members of the Urban Development Institute of Australia (Victoria) on 18 August 2020 to discuss their submission to the issues paper.

⁷⁹ AusNet Services, submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

⁸⁰ Jemena, submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

⁸¹ CitiPower/Powercor/United Energy, submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

Other issues

AusNet Services and CitiPower/Powercor/United Energy stated regardless of the approach adopted, any new obligations should only apply to negotiated connections in underground residential distribution estates in greenfields areas. This is because other types of negotiated connections such multi warehouse developments, moving powerlines or rail infrastructure upgrades for example are more complex. Further, not all stakeholders affected by other sorts of negotiated connections would have been reached in the consultation on the issues paper.^{82,83}

⁸² AusNet Services, submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

⁸³ CitiPower/Powercor/United Energy, submission to Essential Services Commission issues paper, Timely negotiated electricity connections: issues paper, June 2020.

Appendix A: Customer service standard template

[*Distributor name*] Greenfields Negotiated Electricity Connection Customer Service Standard

Performance against this standard is reported to the Essential Services Commission in accordance with a direction made on [date] pursuant to cl 23.2 of our distribution licence

1. Our customer outcomes statement

[Each distribution business must develop a customer outcomes statement through engagement with stakeholders. The customer outcomes statement will comprise the following:

- i. a statement outlining what outcomes the distribution businesses expects to deliver in relation to underground negotiated connections in new residential developments in greenfield areas over the next two years*
- ii. the principles or considerations that the distribution business will use to guide interactions with developers and their consultants in relation to underground negotiated connections in new residential developments in greenfield areas]*

2. Ongoing customer consultation

- A) A consultative committee will meet at least once every three months for the purpose of discussing improvements to negotiated connections timeframes.
- B) Membership of the consultative committee will include:
[to be identified in consultation between each distribution business stakeholders, but at a minimum will include interested developers and their contractors and development industry peak bodies].
- C) The terms of reference for the consultative committee are:
[to be developed in consultation between each distribution business and relevant stakeholders and aligned with the commission's decision and guidance].
- D) Minutes of each meeting will be prepared in a manner that is appropriate for public publication and published on our website in an accessible location within 20 business days of the meeting.
[Other matters that might be addressed here include a commitment to develop sub-committees to resolve specific issues and the reporting of minutes from those sub-committee meetings, see the guidance']

3. Performance reporting

- A) We will report to the commission, as directed, on the matters addressed in 3B.
- B) Our performance measures:
[These will be determined through engagement with stakeholders and will address the following stages of the negotiated connections process for new residential developments in greenfield areas: plan of subdivision certification, design approvals, 'as built' drawing approvals, audit, electrical 'tie-in' and approving statement of compliance]

4. This standard will be published on our website in an easily accessible location.
[Distribution businesses may also consider committing to self-publish their performance against the measures, noting the commission proposes to publish this information].

Appendix B: Guidance note: Greenfields Negotiated Electricity Connection Customer Service Standard

This guidance document outlines the Essential Services Commission (the commission)'s expectations in relation to the elements under the Greenfields Negotiated Electricity Connection Customer Service Standard.

The guidance note applies to electricity distribution businesses that undertake underground negotiated connections in new residential developments in greenfield areas. For this paper greenfield means largely undeveloped land identified for the creation of new communities on the fringe of the city.

1.1. Greenfields Negotiated Electricity Connection Customer Service Standard

The Greenfields Negotiated Electricity Connection Customer Service Standard comprises the following elements:

- an overarching customer outcomes statement that will set the outcomes the distribution businesses expect to deliver over the next two years in relation to negotiated connections. And the principles that the distribution businesses will adopt when undertaking underground negotiated connections in new residential developments in greenfield areas
- a consultative committee that meets quarterly to resolve issues causing delays in relation to underground negotiated connections in new residential developments in greenfield areas
- a performance reporting framework that distribution businesses will be required to report their performance to the commission every six months.

Distribution businesses are free to propose additional elements to their customer service standard.

1.2. Purpose

The purpose of this guidance note is to set out our expectations in relation to:

- developing the customer outcomes statement
- developing terms of reference for customer consultative committee meetings and ongoing meetings with developers and contractors on a range of matters to improve the timeliness of underground negotiated connections in new residential developments in greenfield areas
- developing performance reporting measures that are meaningful for developers and their contractors.

1.3. Objectives

The objectives of the Greenfields Negotiated Electricity Connection Customer Service Standard are promoting:

- continuous improvement and building effective business relationships between distribution businesses and developers and their contractors to resolve issues that cause delays in the negotiated electricity connections process
- accountability and transparency about the time it takes distribution businesses to complete certain stages or steps of the negotiated electricity connections process.

1.4. Key engagement principles

These principles will guide us when assessing whether a distribution business has successfully engaged with developers when proposing their customer service standard. We expect these principles will also help guide distribution businesses in any other consultation they undertake in developing their customer service standards.

Each distribution business is best positioned to determine the most appropriate approach to engaging with developers and their contractors.

We have developed five key principles that we expect distribution businesses to consider when planning to engage, and engaging with, developers and their contractors. At a minimum, the distribution businesses engagement on the customer service standard should meet our key engagement principles.

- **Principle 1:** The engagement program should contain clear, accessible and comprehensive information.
- **Principle 2:** The engagement program should be suitably designed to receive and consider feedback distribution businesses receive from developers and their contractors in a timely manner.
- **Principle 3:** The engagement program should be ongoing and tailored to the developers' needs and their contractors' needs. This means we expect distribution businesses to conduct (if appropriate) more than one engagement session with their developers and their contractors in a format preferred by developers and their contractors.
- **Principle 4:** The engagement program should prioritise areas of significance and identified as important to distribution businesses' developers and their contractors.
- **Principle 5:** The engagement program should inform those that distribution businesses have engaged with of the outcomes of the engagement and how they have influenced the customer service standard.

1.4.1. Results of the engagement program

The content of the Greenfields Negotiated Electricity Connection Customer Service Standard will be determined through engagement between distribution businesses, developers and their contractors. The results of the engagement, in the form of a proposed standard, will be provided to the commission as a written submission by 4 December 2020.

At a minimum, each distribution business must present the results of its engagement to the commission on:

- the customer outcomes statement
- the draft terms of reference for its customer consultative committee
- negotiated connections performance measures.

1.4.2. What we want to see

Each distribution business will submit its proposed customer service standard to the commission and demonstrate how it has engaged with developers and their contractors and how the proposed standard addresses the issues identified by developers and their contractors. When engaging with stakeholders, distribution businesses should be clear about the parts of the negotiated connections process they can influence and only seek feedback on those elements.

Each distribution business must explain how they engaged with developers and their contractors, why an approach was chosen, what information was provided and how this was provided. Each distribution business's written submission should also explain what the business learnt about the views of developers and their contractors, and how the distribution business took these views into account when developing the proposal.

Specifically, we expect each distribution business to provide documentation describing:

- what they did to engage with developers and their contractors (outlining who was approached and in what way, when and where) and why the selected engagement methods were chosen
- how the issues affecting the greenfield negotiated connections process were identified
- what information the distribution business provided developers and their contractors about the issues
- what the outcomes of the engagement program were (documentation and analysis of the responses from developers and their contractors)
- how the distribution business considered the views of developers and their contractors in developing the performance reporting framework and explain why it was not possible to include particular measures in the performance reporting framework.

The distribution business should provide evidence to commission staff on how it has met our engagement principles. This could be demonstrated through:

- an engagement plan
- agendas, material and information provided during the engagement processes
- documents that capture and analyse the views expressed during the engagement processes
- analysis of developers and their contractor's views
- meeting reports, minutes or records of discussions where the distribution business considered the views of developers and their contractors
- material provided to developers and their contractors reporting back and explaining how the proposed customer service standard will address the issues raised by developers and their contractors.

Our assessment

We will assess each distribution business' engagement approach in the development of the customer service standard and the proposed customer service standard itself. If we are satisfied with the engagement process and the proposed customer service standard, we will direct distribution businesses to report to the commission on their performance against the standard in accordance with licence condition 23.2.

1.5. Customer outcomes statement

As a part of the Greenfields Negotiated Electricity Connection Customer Service Standard, each distribution business is required to develop a customer outcomes statement. The customer outcomes statement comprises two parts:

- the outcomes each distribution businesses will achieve over the next two years in relation to negotiated connections
- the principles or considerations each distribution business will commit to use when interacting with developers and their contractors.

The customer outcomes statement should demonstrate a commitment to meaningful and productive working relationships that aim to deliver sustainable improvements in relation to the greenfield negotiated connections processes.

Distribution businesses are required to engage with developers and their contractors about what outcomes should be achieved or worked toward over the next two years. An example could be 'excellent customer service'. In their submission and in their customer service standard, distribution businesses should explain what initiatives they intend to undertake to deliver the outcome.

Distribution businesses are also required to engage with developers and their contractors about the principles they will adopt in their day-to-day interactions in relation to the underground negotiated connections in new residential developments in greenfield areas.

Example principles could include:

We commit to refining our processes to connect new developments in a timely way, while ensuring the reliability and safety of new assets.

We commit to publish the results of our performance reporting and minutes from our consultative committee meetings on our website in an accessible manner.

We expect distribution businesses to include these principles in their customer service standards. The customer outcome statement will form part of the customer service standard. Distribution businesses will be required to publish the standard to their websites so that they are accessible to stakeholders.

1.6. Customer consultative committees

Each distribution business will be required to hold customer consultative committee meetings on a three-monthly basis with interested developers and their contractors. The purpose of the meetings is to discuss matters that will improve the timeliness of negotiated electricity connections.

Each distribution business is also required to develop a terms of reference for its customer consultative committee, which will form part of the customer service standard, and invite a cross section of interested stakeholders to become members (see below).

The customer consultative committee should provide time for interested stakeholders to discuss matters including but not limited to:

- performance reporting results
- new development that distribution businesses should be aware of to assist with their resource planning
- initiatives designed to improve the timeliness of underground negotiated connections in new residential developments in greenfield areas. For example, whether:
 - contestability is appropriate for stages of the negotiated connections process
 - efficiency can be improved by allowing two or more stages to be completed at the same time
 - improvements can be made to make audit processes more effective and efficient
 - improvements can be made to the management of technical standards.

Once the consultative committee has begun operating, we require minutes to be published on the distribution businesses' websites in an accessible manner no later than 20 business days after the meeting is held.

1.6.1. Subcommittees

Where appropriate, consideration might be given to including in the customer service standard a commitment to form appropriate sub-committees to deal with particular issues of relevance. We expect where issues are quite complex and require more focused discussions, sub committees should be utilised. Depending on the issue and where different parties are affected, other distribution businesses and developers and their contractors could attend. We consider that these issues will become more apparent once the customer consultative committees begin to meet. If such a commitment is included, we would expect the standard to also reflect that minutes of these subcommittee meetings are published on distribution businesses' website in an accessible manner no later than 20 business days after any meetings are held.

1.6.2. Draft terms of reference

We require distribution businesses to develop draft terms of reference for their customer consultative committees following engagement with developers and their contractors. These terms of reference will form part of the customer service standard. These should be presented to the commission as part of their written submissions on engagement on the Greenfields Negotiated Electricity Connection Customer Service Standard. The draft terms of reference should clearly state the purpose and scope, governance arrangements and the process of receiving and responding to feedback.

We will also be conducting an anonymous survey asking developers and their contractors if there are any areas of concern they wish to be included for these committees. The findings will be provided to the relevant distribution businesses to help them develop the draft terms of reference. We expect to provide the results to distribution businesses in early November 2020.

We expect the draft terms of reference will be presented at the first customer consultative committee meeting and later finalised following feedback from committee members.

1.7. Developing a performance reporting framework

The third element of our Greenfields Negotiated Electricity Connection Customer Service Standard is to develop a performance reporting framework. We expect that distribution businesses will develop a performance reporting framework that measures performance at each step or stage of the negotiated connections process that are important to developers and their contractors. This means that distribution businesses will need to engage with developers and their contractors to understand their concerns and to develop a performance reporting framework accordingly.

We require distribution businesses to develop a performance reporting framework following engagement with developers and their contractors that will form part of the customer service standard. This should be presented to the commission as part of their submissions on engagement on the Greenfields Negotiated Electricity Connection Customer Service Standard.

1.7.1. Developing performance measures

The performance reporting framework should comprise performance measures for the stages or steps of the negotiated connections process that distribution businesses – or contractors under their direct control – perform.

Well defined performance measures are critical for meaningful performance reporting. It should be clearly explained what preconditions must be completed before measurement can take place and what completion of the measure looks like.

Form of performance measures

We consider there are two ways to set performance measures. They are described in the box below.

Indicative examples of performance measures

Method (a) – measuring timeframes

A distribution business measures the time to complete a final construction audit from the time of request to do so by a developer or their contractor.

Method (b) – proportion of all cases completed within a timeframe

A distribution business measures (in percentage terms) the number of events completed within a timeframe

For example:

The distribution business completed 90 per cent of construction audits within 10 business days of the request to do so.

Setting targets

Performance reporting relies on appropriate performance targets. There are several ways to set targets. However, the key point is that the target should reflect stakeholders' reasonable expectations. These expectations should be established during the engagement process and reflected in the proposed performance measure.

Stages of the negotiated connections process

The following stages of negotiated connections should be considered in the engagement process used to develop the performance reporting framework:

- plan of subdivision certification
- design approvals
- 'as built' drawing approvals
- audit
- electrical 'tie-in', and
- approving statement of compliance
- time between completing a final audit and approving statement of compliance.

Distribution businesses should also consult with developers and their contractors to determine whether other steps or stages of the negotiation connections process should be included in the performance reporting framework.

Where practical, some of the performance measures may be common across the different distribution businesses. However, we also understand that additional tailored measures may be more appropriate for some stages due to the differences in the connection process between distribution businesses.

In addition to setting measures for stages, distribution businesses should also consider developing a performance measure that gives an indication of the overall time taken for the connection process. For example, from completion of works to issuing the statement of compliance.

Audit performance

We also expect the performance reporting framework will include measures on the number of audits requested and completed (design and construction), the number of audits passed or failed, the number of re-audits and the reasons audit failures. This will form part of the performance reporting framework.

Qualitative measures

We encourage distribution businesses to also consider developing qualitative measures to supplement the performance measures. An example could be developing a satisfaction survey to highlight developers' and their contractors' experiences and areas for improvement in negotiated connections processes. We consider that this would complement the quantitative measures of performance.