



**Draft decision**

**Endeavour Energy distribution determination**

**2015–16 to 2018–19**

**Attachment 13: Classification of distribution services**

November 2014

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## Note

This attachment forms part of the AER's draft decision on Endeavour Energy's 2015–19 distribution determination. It should be read with other parts of the draft decision.

The draft decision includes the following documents:

Overview

Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 3 – Rate of return

Attachment 4 – Value of imputation credits

Attachment 5 – Regulatory depreciation

Attachment 6 – Capital expenditure

Attachment 7 – Operating expenditure

Attachment 8 – Corporate income tax

Attachment 9 – Efficiency benefit sharing scheme

Attachment 10 – Capital expenditure sharing scheme

Attachment 11 – Service target performance incentive scheme

Attachment 12 – Demand management incentive scheme

Attachment 13 – Classification of services

Attachment 14 – Control mechanisms

Attachment 15 – Pass through events

Attachment 16 – Alternative control services

Attachment 17 – Negotiated services framework and criteria

Attachment 18 – Connection policy

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## Shortened forms

Shortened form	Extended form
AARR	aggregate annual revenue requirement
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
ASRR	aggregate service revenue requirement
augex	augmentation expenditure
capex	capital expenditure
CCP	Consumer Challenge Panel
CESS	capital expenditure sharing scheme
CPI	consumer price index
CPI-X	consumer price index minus X
DRP	debt risk premium
DMIA	demand management innovation allowance
DMIS	demand management incentive scheme
distributor	distribution network service provider
DUoS	distribution use of system
EBSS	efficiency benefit sharing scheme
ERP	equity risk premium
expenditure assessment guideline	expenditure forecast assessment guideline for electricity distribution
F&A	framework and approach
MRP	market risk premium

Shortened form	Extended form
NEL	national electricity law
NEM	national electricity market
NEO	national electricity objective
NER	national electricity rules
NSP	network service provider
opex	operating expenditure
PPI	partial performance indicators
PTRM	post-tax revenue model
RAB	regulatory asset base
RBA	Reserve Bank of Australia
repex	replacement expenditure
RFM	roll forward model
RIN	regulatory information notice
RPP	revenue pricing principles
SAIDI	system average interruption duration index
SAIFI	system average interruption frequency index
SLCAPM	Sharpe-Lintner capital asset pricing model
STPIS	service target performance incentive scheme
WACC	weighted average cost of capital

## 13 Classification of distribution services

Service classification determines the nature of economic regulation, if any, applicable to specific distribution services. Classification is important to customers as it determines which network services are included in basic electricity charges, the basis on which additional services are sold, and those services we will not regulate. Our decision reflects our assessment of a number of factors, including existing and potential competition to supply these services.

We are required to make a decision on the classification of each distributor's distribution services.<sup>1</sup> Ausgrid, Endeavour Energy and Essential Energy's proposals on classification of distribution services are consistent. As a result, our reasoning in regard to classification is the same for each of the three NSW distributors. Therefore, we refer to the NSW distributors collectively in this attachment.

The classification of distribution services must be as set out in the relevant framework and approach (F&A) paper unless we consider that unforeseen circumstances justify departing from that proposed classification.<sup>2</sup> We set out our proposed approach to the classification of distribution services for the NSW distributors in our Stage 1 F&A.<sup>3</sup> We proposed to group the NSW distribution services as follows:

- network services
- connection services
- metering services
- public lighting services
- ancillary network services.

### 13.1 Draft decision

Our draft decision is to retain the classification of the NSW distribution services according to the classifications set out in our Stage 1 F&A<sup>4</sup> subject to the following points:

- we classify the recovery of the NSW distributors' residual type 5 or 6 metering capital costs as a standard control service
- we classify the administration costs for type 5 and 6 meter transfers as an alternative control service
- we clarify some descriptions of services, as set out in the table is distribution services at appendix A. In particular, network services includes load control where this is initiated by a distributor and metering services are inclusive of load control devices where these are embedded in a meter.

Figure 13-1 shows our draft decision on service classifications for the 2015–19 regulatory control period.

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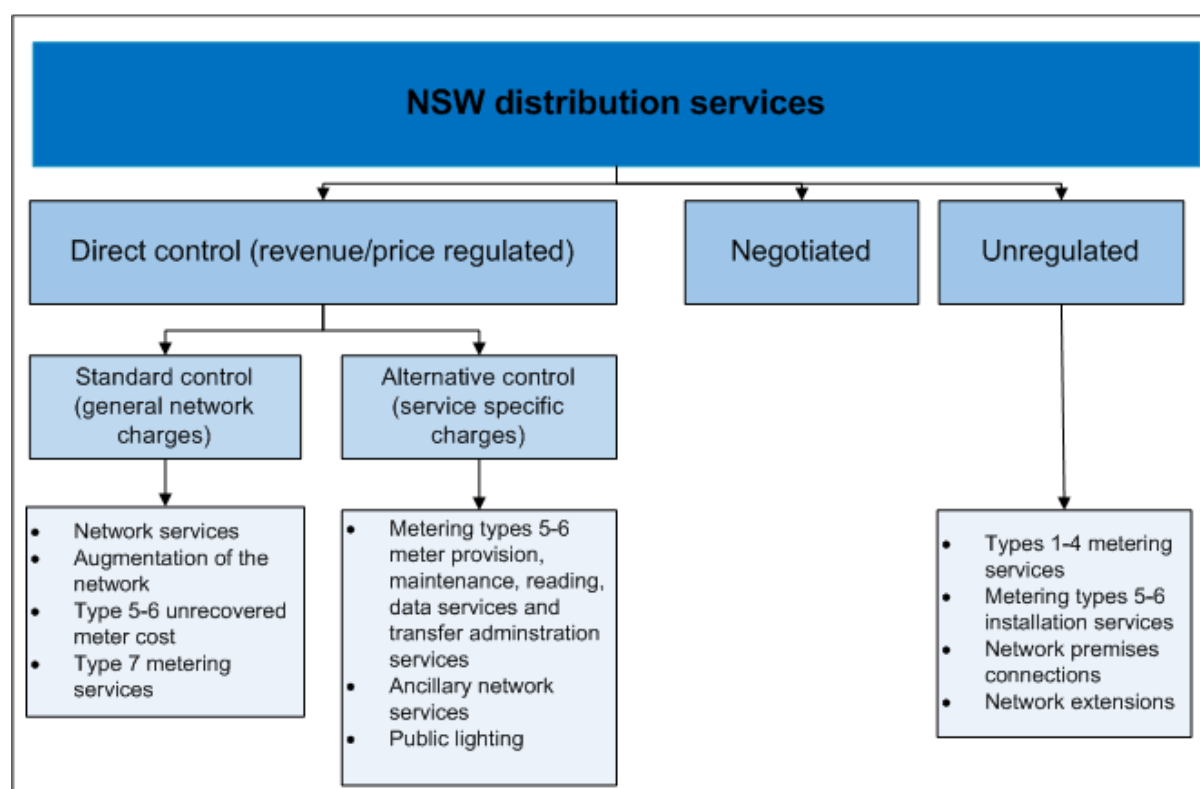
<sup>1</sup> NER, cl. 6.12.1(1).

<sup>2</sup> NER, cl. 6.12.3(b).

<sup>3</sup> AER, *Stage 1, Framework and approach paper – Ausgrid, Endeavour Energy and Essential Energy, 1 July 2014–30 June 2019*, March 2013, pp. 13–42.

<sup>4</sup> NER, cl. 6.12.1(1).

**Figure 13-1 AER draft decision on 2015–19 service classifications for the NSW distributors**



Source: AER analysis.

As indicated in Figure 13-1, our draft decision is not to classify any distribution services as negotiated distribution services for the 2015–19 regulatory control period.

Our assessment of the classification of services determines how costs associated with the services will be recovered at a very high level. That is, whether the costs of a particular service will be recovered from basic electricity charges, as an additional charge or not recovered at all, as mentioned earlier. However, the detailed prescription of how service charges are set is not determined as part of classification; instead, that detail is discussed in the control mechanism attachments.<sup>5</sup>

## 13.2 NSW distributors' proposals

Each NSW distributor's regulatory proposal adopted our classification of services as set out in the Stage 1 F&A. Further the NSW distributors have adopted our approach that none of the distribution services they provide are suited to being classified as negotiated distribution services.<sup>6</sup>

While none of the NSW distributors departed from our classification of distribution services, they have sought clarification of some issues. These are:

- specification of network augmentation as part of network services
- classification of emergency recoverable services

<sup>5</sup> See attachment 14 for standard control services and attachment 16 for alternative control services.

<sup>6</sup> Ausgrid, *Regulatory proposal, Attachment 3.01 Ausgrid Classification Proposal*, May 2014, p. 1; Endeavour Energy, *Regulatory proposal, classification proposal*, May 2014, p. 3; Essential Energy, *Regulatory proposal, Attachment 3.1 classification proposal*, May 2014, p. 4.



- minor clarification in the description of certain ancillary network services.<sup>7</sup>

The NSW distributors' also proposed to charge an 'exit fee' to recover the residual capital costs of a distributor provided type 5 and 6 meter<sup>8</sup> where a customer switches to a meter supplied by an alternative metering provider. This additional service, not envisaged at the time the Stage 1 F&A was finalised, requires us to revisit the classification of type 5 and 6 metering services. We discuss this issue below.

Following a request from the AER to provide clarification,<sup>9</sup> the NSW distributors explained that load control devices, which are used to reduce demand at peak times and help reduce network expenditure, embedded in type 5 and 6 meters would be retained in the RAB and remain standard control services.<sup>10</sup>

### 13.3 AER's assessment approach

The NER allows us to group distribution services when classifying them. This means we may classify a class of services rather than specific services. This provides distributors with flexibility to alter the exact specification (but not the nature) of a service during a regulatory control period. Where we make a single classification for a group of services, it applies to each service in the group.

In making our classification decisions, in summary we may:

- classify a service so that the distributor may recover related costs from all customers (direct control – standard control)
- classify a service so that the user benefiting from the service pays (direct control – alternative control)
- allow customers and distributors to negotiate the provision and price of some services – we will arbitrate should negotiations stall (negotiated distribution service)
- not classify a service – we have no regulatory control over this service or the prices charged by the distributor (unclassified service).

When deciding whether to classify services as either direct control or negotiated services, or to not classify them, the NER requires us to have regard to the 'form of regulation factors' set out in the NEL.<sup>11</sup> The form of regulation factors broadly include, amongst other things, the presence and extent of barriers to entry by alternative providers and where distributors possess market power in provision of the services. The NER also requires us to consider the previous form of regulation applied to services, the desirability for consistency with the previous approach and any other relevant factor.<sup>12</sup>

For services we intend to classify as direct control services, the NER requires us to have regard to a further range of factors.<sup>13</sup> Broadly, these include: the potential to develop competition in provision of a service and how our classification may influence that potential; whether the costs of providing the

<sup>7</sup> Ausgrid, *Regulatory proposal, Attachment 3.01 Ausgrid Classification Proposal*, May 2014, p. 1–2; Endeavour Energy, *Regulatory proposal, classification proposal*, May 2014, p. 3; Essential Energy, *Regulatory proposal, Attachment 3.1 classification proposal*, May 2014, p. 4.

<sup>8</sup> Ausgrid, *Regulatory proposal*, May 2014, pp. 90–95; Endeavour Energy, *Regulatory proposal*, May 2014, pp. 140–143; Essential Energy, *Regulatory proposal*, May 2014, pp. 120–122.

<sup>9</sup> AER information request of 23 July 2014, reference AER NNSW 007.

<sup>10</sup> Networks NSW response to AER information request AER NNSW 007 received on 4 August 2014.

<sup>11</sup> NER, cl. 6.2.1(c); NEL, s. 2F.

<sup>12</sup> NER, cl. 6.2.1(c).

<sup>13</sup> NER, cl. 6.2.2(c).

service are attributable to a specific person; and, the possible effect of the classification on administrative costs.

The NER also specifies that for a service regulated previously, unless a different classification is clearly more appropriate, we must:

- not depart from a previous classification (if the services have been previously classified), and
- if there has been no previous classification – the classification should be consistent with the previously applicable regulatory approach.<sup>14</sup>

### 13.3.1 Interrelationships

In assessing what services we classify, we are setting the basis for what services are included in a distributors' regulatory asset base. The size and services that make up the regulatory asset base form the starting point of a distributor and us assessing its building block, influencing nearly all revenue components directly. Our decision on classification of services also impacts total capex, opex and control mechanisms, as well as distribution costs that are subject to incentive mechanisms like the EBSS and CESS.

The largest impact of our classification decision for the 2015–19 regulatory control period is moving metering services out of the RAB and classifying them as alternative control services. By doing this, the RAB for each NSW distributor has decreased.

Classifying type 5 and 6 metering services as alternative control services also means the incentive schemes are no longer applied to these services.

## 13.4 Reasons for draft decision

We have identified unforeseen circumstances arising from the NSW distributors' regulatory proposals that we are satisfied justify us departing from the classifications proposed in the Stage 1 F&A.<sup>15</sup>

In our Stage 1 F&A we proposed unbundling type 5 and 6 metering services from standard control services.<sup>16</sup> Our position is to classify type 5 and 6 meter provision, maintenance, reading and data services as alternative control services and not classify type 5 and 6 meter installation. Our approach was and remains consistent with the Australian Energy Market Commission's (AEMC) draft and final reports for its Power of Choice review. The AEMC's recommendations included that:

- the current metering arrangements need reform to promote investment in better metering technology and promote customer choice
- metering costs should be unbundled from shared network charges.<sup>17</sup>

The AEMC also released a Power of Choice supplementary paper on metering services, exploring the arrangements necessary to implement its recommendations.<sup>18</sup> The AEMC recommended that metering provision be contestable and open to competition among approved service providers.

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<sup>14</sup> NER, cl. 6.2.1(d) and 6.2.2(d).

<sup>15</sup> In accordance with NER, cl. 6.12.3(b).

<sup>16</sup> AER, *Stage 1, Framework and approach paper – Ausgrid, Endeavour Energy and Essential Energy*, 1 July 2014–30 June 2019, March 2013, pp. 25–32.

AEMC, *Draft report, Power of choice - giving consumers options in the way they use electricity*, 6 September 2012, pp. 47-56; AEMC, *Final report, Power of choice – giving consumers options in the way they use electricity*, 30 November 2012.

However, at the time of releasing our Stage 1 F&A, it was not possible for us to foresee the NSW distributors' approach to unbundling metering assets from their respective RABs. The need to classify two additional metering services is evident from the NSW distributors' proposals. We are therefore satisfied that this constitutes an unforeseen circumstance that justifies us departing from the classification set out in our Stage 1 F&A.<sup>19</sup>

Our decision is to maintain the approach adopted in the Stage 1 F&A that separates regulated metering charges from standard control services by unbundling metering charges through an alternative control service classification. The NSW distributors adopted our proposed classification in their regulatory proposals. However, the NSW distributors also proposed an additional metering service called a metering exit fee. Our detailed consideration and approach to exit fees is set out in attachment 16. We agree that some additions to metering classification are required and the reasons for these adjustments are set out below.

In attachment 16 we explain that we do not accept the administrative charges proposed by the NSW distributors that are associated with customers switching to an alternative metering provider. However, we consider it prudent to indicate how we would classify such a service should the NSW distributors provide sufficient justification leading into our final decision. These costs, if substantiated, would be directly attributable to a customer seeking to switch meters. On this basis we are satisfied the service 'meter transfers' should be classified as an alternative control service and recovered through an exit fee.

The exit fee proposed by the NSW distributors is also designed to recover capital charges associated with metering assets made redundant when a customer switches to an alternative metering provider. As noted in attachment 16, we do not accept the approach to the NSW distributors' proposed exit fee. In classifying this service, we consider these residual metering capital costs should be recovered as a standard control service. As explained in attachment 16, these costs should be recovered from all customers because to do otherwise would create a barrier to the development of a competitive market for the provision of metering services. The NEL and NER require us to have regard to the development of competition in deciding appropriate service classification.<sup>20</sup> The potential effect of an exit fee creating a barrier to competition is made in numerous submissions.<sup>21</sup>

These additional services are reflected in appendix A which details our classification of distribution services.

Additionally, we have refined certain aspects of our service classification to address issues raised by the NSW distributors in their proposals.

The NSW distributors proposed that we specify network augmentations as part of network services. They submitted that categorising network augmentation under the 'connections' service group but not networks services is problematic. Augmentations of the network may be driven by new customers connecting to the network, but can also be driven by:

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<sup>18</sup> AEMC, *Power of choice review draft report, Supplementary paper, Principles for metering arrangements in the NEM to promote installation of DSP metering technology*, 6 September 2012 (AEMC, *Power of choice metering paper*, September 2012), pp. 4, 7–9.

<sup>19</sup> NER, cl. 6.12.3(b).

<sup>20</sup> NEL, s. 2F and NER, cl. 6.2.2(c)(1).

<sup>21</sup> For example, Vector Limited, *Submission on issues paper on NSW electricity distribution regulatory proposals*, 8 August 2014, p. 2; AGL, *NSW electricity distribution networks regulatory proposals: 2014–19*, 8 August 2014, pp. 21–24; Origin, *Submission to NSW electricity distributors' regulatory proposals*, 8 August 2014, pp. 33–36.

- the need to reinforce the network as a result of increasing demand on the network from existing users
- improving security of the network where the consequences of supply loss are high
- restoring capacity lost due to de-rating of existing assets
- addressing voltage or fault duty issues.<sup>22</sup>

The NSW distributors sought confirmation that augmentations may also relate to the above listed issues and therefore form part of network services. We accept the NSW distributors' proposals to include augmentations, as set out above, in network services. The change is detailed in appendix A, which lists our classification of NSW distributors' distribution services. The revisions are in mark up.

The NSW distributors also sought clarification on the classification of emergency recoverable works, particularly in instances where the distributor must repair damage to the network caused by a third party, whom the distributor could not identify or could not recover the costs of repairing the damage from.<sup>23</sup> Consistent with our approach in the recent final F&A for Energex and Ergon Energy in Queensland, we consider that in circumstances where the party responsible for the damage is not identifiable, related costs are not recoverable. Therefore, works to repair that damage would not be considered emergency recoverable works. Rather, they would be emergency works which are classified as standard control services.<sup>24</sup>

We have also refined the definitions of network services (standard control) and metering services (alternative control) to make clear our intended approach to the classification of load control services. Load control permits a distributor to control an appliance (load) connected at a customer's premises. Distributors use controlled load to reduce demand on the network at peak periods. By doing so, the distributors avoid the need for more expensive investment in network augmentation.

The NSW distributors proposed that load control devices remain standard control services.<sup>25</sup> While we acknowledge the distributors rely on load control to manage their networks, we do not accept that to be effective distributors need load control services to be classified as standard control or that load control devices need to be a part of the RAB. Rather, load control can be achieved through arrangements with customers, through tariff or other agreements, which give a customer an incentive or reason to allow a distributor to have control over the customer's load. Consequently, we do not agree that load control devices embedded in a meter should be exclusively classified as standard control.

There will be occasions when a distributor will need to construct load control devices on its own equipment and this should remain a standard control service. However, load control devices situated within a customer's meter are inseparable from the meter and the services the meter provides. For example, a customer can already make a controlled load redundant by switching to a different type of appliance (e.g. moving from off peak hot water to solar hot water). Ultimately, if a meter is replaced by a customer, the load control device will be removed also, so the notion that a standard control classification provides distributors with greater control over the customer's load is unfounded. We

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<sup>22</sup> Ausgrid, *Regulatory proposal, Attachment 3.01 Ausgrid Classification Proposal*, May 2014, pp. 1–2; Endeavour Energy, *Regulatory proposal, classification proposal*, May 2014, p. 3; Essential Energy, *Regulatory proposal, Attachment 3.1 classification proposal*, May 2014, p. 4.

<sup>23</sup> Ausgrid, *Regulatory proposal, Attachment 3.01 Ausgrid Classification Proposal*, May 2014, pp. 2–3; Endeavour Energy, *Regulatory proposal, classification proposal*, May 2014, p. 3; Essential Energy, *Regulatory proposal, Attachment 3.1 classification proposal*, May 2014, pp. 4–5.

<sup>24</sup> AER, *Final Framework and approach for Energex and Ergon Energy*, April 2014, pp. 27–28.

<sup>25</sup> Networks NSW response to AER information request AER NNSW 007 received on 4 August 2014.

have therefore revised the definition of metering services to make clear that load control forming part of a meter is to be classified as alternative control.

Finally, the NSW distributors have proposed some minor revisions to service descriptions set out in appendix A. The revisions are in mark up. The revisions do not impact our draft decision on the classification of services. Rather, the table revisions are changes to form only rather than the substance of the services listed.

Trans Tasman Energy Group (TTEG), independently as well as on behalf of Camden Council submitted that we should classify emerging public lighting technology as a negotiated distribution service.<sup>26</sup> As set out in our Stage 1 F&A, emerging technology relates to luminaries that the NSW distributors do not provide at the time of our distribution determination. However, emerging technology may become available during the 2015–19 regulatory control period.<sup>27</sup> In our Stage 1 F&A, we proposed classifying public lighting, including emerging public lighting technology as an alternative control service.<sup>28</sup>

TTEG independently and on behalf of a number of councils in Endeavour Energy's distribution area made a similar submission<sup>29</sup> to our preliminary positions F&A.<sup>30</sup> Our reasons for not accepting TTEG's earlier submissions are set out in our Stage 1 F&A.<sup>31</sup> TTEG, in a more recent independent submission and separately on behalf of Camden Council has not provided any compelling new arguments for us to revisit our classification of emerging public lighting technology. TTEG on behalf of Camden Council has referred to our decisions for Victorian, South Australian and Tasmanian distributors where we have classified emerging public lighting technology as a negotiated distribution service.<sup>32</sup> However, the NER does not require us to classify similar services identically across NEM jurisdictions.<sup>33</sup> In Victoria, South Australia and Tasmania there was scope to classify emerging public lighting technology as negotiated services because of circumstances specific to each jurisdiction. For example, in Victoria, the public lighting code applies to each distributor under its distribution licence for public lighting assets owned by the distributor.<sup>34</sup> This is not the case in NSW, where the public lighting code is non-binding.<sup>35</sup>

In South Australia, public lighting services were classified as negotiated distribution services as South Australia transitioned from a jurisdictional regulator to join the NEM. During the recent South Australia F&A consultation process, no stakeholders raised issue with this classification. The NER provides that if there is no reason to change the existing classification, the classification should stand as it is.<sup>36</sup>

During the NSW F&A process, the Southern Sydney Regional Organisation of Councils (SSROC) submitted that its member councils are mindful of the NSW distributors' significant market power. SSROC stated that it already effectively and successfully negotiated with its distributor on a range of

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<sup>26</sup> TTEG on behalf of Camden Council, *Submission Endeavour Energy 2015–19 price proposal*, 8 August 2014, p. 7; TTEG, *Submission Endeavour Energy 2015–19 price proposal*, 8 August 2014, p. 2.

<sup>27</sup> AER, *Stage 1 Framework and approach paper – Ausgrid, Endeavour Energy and Essential Energy*, March 2013, p. 35.

<sup>28</sup> AER, *Stage 1 Framework and approach paper – Ausgrid, Endeavour Energy and Essential Energy*, March 2013, p. 35. We note that in our *Stage 2 F&A*, January 2014 at p. 15 we incorrectly stated that we proposed to classify public lighting services, excluding emerging public lighting technologies, as alternative control services.

<sup>29</sup> TTEG, *Submission the AER's preliminary positions F&A paper*, 7 September 2012; TTEG, *Endeavour Energy's Councils' submission on the AER's preliminary positions F&A paper*, August 2012.

<sup>30</sup> AER, *Preliminary positions framework and approach – Ausgrid, Endeavour Energy and Essential Energy*, June 2012.

<sup>31</sup> AER, *Stage 1 Framework and approach paper – Ausgrid, Endeavour Energy and Essential Energy*, March 2013, pp. 35–41.

<sup>32</sup> TTEG on behalf of Camden Council, *Submission Endeavour Energy 2015–19 price proposal*, 8 August 2014, p. 7.

<sup>33</sup> NER, cl. 6.2.1(c)(3).

<sup>34</sup> Essential Services Commission, *Public Lighting Code*, April 2005, p. 1.

<sup>35</sup> NSW Department of Trade and Investment (former Department of Energy, Utilities and Sustainability), *NSW Public Lighting Code*, 1 January 2006.

<sup>36</sup> NER, cl. 6.2.1(d).

public lighting technology, maintenance, information provision and other service issues. However, SSROC submitted that it has achieved suitable outcomes with the NSW distributors in the context of our direct involvement in price setting.<sup>37</sup> SSROC, in its latest submissions, states that there has been no meaningful progress to report in formalising service levels between Ausgrid and councils from limited discussions throughout 2013 and 2014.<sup>38</sup>

We have also considered 61 submissions from public lighting customers across NSW in response to the NSW distributors' regulatory proposals.<sup>39</sup> From these submissions, there is a strong sense that the NSW distributors do not adequately engage with the councils.<sup>40</sup> Overwhelming, Essential Energy's public lighting customers submitted that they were largely unaware of Essential Energy's intention to seek substantial price increases for public lighting services.<sup>41</sup> SSROC submitted that Ausgrid has made no meaningful progress in formalising service levels following limited discussions in 2013–14.<sup>42</sup>

Based on submissions received in response to our F&A and the NSW distributors' regulatory proposals we consider that customers do not have adequate countervailing market power.<sup>43</sup> Therefore, we do not support TTEG's submissions that emerging public lighting services should be negotiated.<sup>44</sup> Further, we will not classify LED lights as an emerging public lighting technology. TTEG on behalf of Camden Council submits this should be the case for a range of LED lights that already exist.<sup>45</sup> This does not align with our definition of emerging public lighting technology as stated above. LED lights may be treated differently to other lights even when classified as alternative control services as we classify public lighting services as a group rather than individual lighting services or by luminaire type.<sup>46</sup>

On the basis of the material before us, we are satisfied that an unforeseen circumstance has arisen that justifies us departing from the classification set out in our Stage 1 F&A.<sup>47</sup>

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<sup>37</sup> SSROC, *Submission on the AER's preliminary positions F&A paper*, 24 August 2012, p. 4.

<sup>38</sup> SSROC, *Ausgrid public lighting pricing proposal 2014–19*, 8 August 2014, p. 4.

<sup>39</sup> Refer to the overview for each of the NSW distributors for the list of submissions received on public lighting.

<sup>40</sup> Only one of the 82 submissions supported Endeavour Energy's public lighting proposal. This submission was from the Wollongong Shire Council, 8 August 2014.

<sup>41</sup> Some of the submissions concerned with Essential Energy's proposal include: Central NSW Councils (CENTROC), *Public lighting proposal*, 8 August 2014; Mid North Coast Regional Organisation of Councils (MIDROC), *Public lighting proposal*, 8 August 2014; Riverina and Murray Regional Organisation of Councils (RAMROC), *Public lighting submission by Essential Energy*, 8 August 2014; Urana Shire Council, *Electricity distributors' regulatory proposals*, 8 August 2014; Kyogle Council, *Submission to Essential Energy determination 2014–19 public lighting proposal*, 8 August 2014; Leeton Shire Council, *Submissions NSW electricity distribution revenue proposals 2014–19*, 28 July 2014; Byron Shire Council, *Submission to Essential Energy determination 2014–19 public lighting proposal*, 8 August 2014; Energy and Management Services Pty Ltd, *Submission prepared for NSW Local Councils re: Essential Energy's public lighting proposal*, August 2014.

<sup>42</sup> SSROC, *Ausgrid public lighting proposal 2014–19*, 8 August 2014, p. 4.

<sup>43</sup> AER, *Stage 1 Framework and approach paper – Ausgrid, Endeavour Energy and Essential Energy*, March 2013, pp. 35–41.

<sup>44</sup> TTEG on behalf of Camden Council, *Submission Endeavour Energy 2015–19 price proposal*, 8 August 2014, p. 7; TTEG, *Submission Endeavour Energy 2015–19 price proposal*, 8 August 2014, p. 2.

<sup>45</sup> TTEG on behalf of Camden Council, *Submission Endeavour Energy 2015–19 price proposal*, 8 August 2014, p. 7.

<sup>46</sup> NER, cl. 6.2.1(b).

<sup>47</sup> NER, cl. 6.12.3(b).

## Appendix A: Classification of NSW distributors' distribution services

**Table 13-1**      **Classification of distribution services – Networks NSW<sup>48</sup>**

Service group/Activities included in service group	Further description (if any)	AER's draft decision on classification 2014–19	Current classification 2009–14
AER Service group– Network services			
Planning the network	<p>Network/asset planning (asset needs assessment, asset investment planning, asset management planning, asset delivery planning. Includes risk and feasibility assessment, estimating and cost planning)</p> <p>Regulatory planning</p> <p>Demand management planning</p> <p>Network business strategy development, strategic initiatives development and management (including business improvement/efficiency initiatives)</p> <p>Participation in industry planning</p> <p>Governance, policies, procedures, standards</p>	Standard control	Standard control
Designing the network	Design standards and designing the network	Standard control	Standard control
Constructing the network <sup>49</sup>	<p>Network construction (other than construction of connection assets provided contestably)</p> <p>Project planning and works management (works program development, procurement, vendor management, contract management, work scheduling and dispatching)</p> <p>Management of environmental issues</p> <p>Asset deployment and commissioning</p> <p>Asset relocation (other than those undertaken at a customer's request)</p> <p>Training for internal staff (e.g. safety)</p>	Standard control	Standard control

<sup>48</sup> Source: Networks NSW provided us with a consolidated list of all services provided by the NSW distributors, 13 February 2013 and 27 February 2013.

<sup>49</sup> It is assumed that an asset relocation at the customer's request will be unclassified and hence unregulated.

Maintaining the network	Operational technology supporting the network		
	Pole replacement		
Maintaining the network	Augmentations of the network may also be driven by:		
	<ul style="list-style-type: none"> <li>the need to reinforce the network as a result of increasing demand on the network from existing users</li> <li>improving security of the network where the consequences of supply loss are high</li> <li>restoring capacity lost due to de-rating of existing assets</li> <li>addressing voltage or fault duty issues</li> </ul>		
	Asset maintenance and network/asset performance management including:		
	Performance and condition monitoring		
	Asset optimisation		
	Asset maintenance/replacement/refurbishment program management		
	Asset performance reporting	Standard control	Standard control
	Network systems maintenance		
	Asset retirement		
	Vegetation management, inspection and testing		
	Works to fix damage to the network (other than emergency recoverable works)		
Operating the network for distributor purposes	Implementing Network Management Plan – Implementing the obligations under the Electricity Supply (Safety and Network Management) Regulation		
	Network/asset operations: network control and operation, outage management, load control, emergency management field operations, commissioning of assets		
	Customer interactions (including in relation to network product development, customer service management, complaints and enquiries, record management, debt collection and disconnections)	Standard control	Standard control
	Market operations: includes revenue management, network billing and disputes, processing and publication of notifications of new connections and alterations, market notifications of retailer changes		



	<p>EHS management (risk assessment, monitoring, program management, reporting and training)</p> <p>GIS (Dial Before You Dig services)</p> <p>Compliance monitoring and reporting</p> <p>External stakeholder interaction (industry, regulatory, government)</p> <p>Pricing and regulatory affairs</p> <p>Financial and commercial management and reporting</p>		
Network operation and administrative support	Includes call centres, network claim processing, network billing (including consumption data storage and analysis)	Standard control	Standard control
Emergency response	Outage management, emergency management (for example, reinstatement of network after natural disaster)	Standard control	Standard control
AER Service group— Pre-connection services			
Preliminary enquiry service	For services provided to connection applicants making a preliminary enquiry requiring site-specific or written response	Alternative control	Standard control
Connection offer service (basic or standard)	For services provided by distributors in assessing the applicant's connection application and making a basic or standard connection offer	Alternative control	Standard control
Carrying out planning studies and analysis relating to distribution (including sub-transmission and dual function assets) connection applications	This service undertakes necessary planning studies and associated technical analysis to help determine suitable/feasible connection options for further consideration by proponents.	Alternative control	Standard control
Customer interface coordination for contestable works	This service is proposed where customer connections or asset relocations may require a high level of distributor involvement in order to coordinate a range of inputs from the distributor to help establish the connection.	Alternative control	Standard control
AER Service group—Connection services			
Premises connection assets	Includes any additions or upgrades to the connection assets located on the customer's premises which are contestable (Note: excludes all metering services).		

Premises connection assets can be further described as:

A. Unclassified

A. Unregulated

A. Design and construction of premises connection assets (where these services are provided contestably)

B. Part design and construction of connection assets that are not available contestably (generally as a result of safety, reliability or security reasons). Those parts of project works that are performed and funded by the distributor.

B. Standard control

B. Standard control

Extensions	An enhancement required to connect a power line or facility outside the present boundaries of the transmission or distribution network owned or operated by a Network Service Provider that is:		
	A. undertaken by an ASP on behalf of a customer	A. Unclassified	
	B. undertaken by a customer but partly funded by a NSP (NSP contribution would be classified as a standard control service while the customer funded component of the service would be unclassified.)	B. Unclassified/ standard control based on contribution (see previous column)	Unregulated
	C. undertaken by a network service provider	C. Standard control	
Augmentations	A. Any shared network enlargement/enhancement undertaken by a distributor which is not an extension	A. Standard control	
	B. Any shared network enlargement/enhancement undertaken by a customer, but partly funded by a NSP (NSP contribution would be classified as a standard control service while the customer funded component of the service would be unclassified)	B. Unclassified/ standard control based on contribution (see previous column)	Unregulated
	C. Any shared network enlargement/enhancement undertaken by a customer	C. Unclassified	
AER Service group—Post-connection services			
Connection/relocation process facilitation	Providing connection applicants with ongoing information and advice in relation to the connection process and requirements associated with establishing a new or altered connection or a relation of existing network assets.	Alternative control	Standard control
Services to supply and connect temporary supply to one or more customers	Including equipment and related costs) in relation to planned access permits	Alternative control	Standard control

Reinspection of installation work in relation to customer assets	Reinspection by a distributor of private electrical wiring work undertaken by an electrical contractor, required where the first inspection revealed defective work.	Alternative control	Standard control
AER Service group— ASP connection services			
Authorisation of ASPs	Annual authorisation of individual employees and sub-contractors of ASPs and additional authorisations at request of ASP. Authorisation excludes training costs.	Alternative control	Standard control
ASP inspection services	Inspection and re-inspection of contestable connection and relocation works performed by Accredited Service Providers (ASPs)	Alternative control	Standard control
Investigation, review and implementation of remedial actions associated with ASPs' connection work	The investigation, review and implementation of remedial actions associated with contestable connection works leading to corrective and disciplinary action of an ASP due to unsafe practices, substandard workmanship or other serious circumstances that impact upon ongoing authorisation as an accredited service provider to NSW distributors.	Alternative control	Standard control
Administration services relating to work performed by ASPs, including processing work	Work of an administration nature (not included work an administrative nature described in service - Notice of Arrangement or Authorisation of ASPs, including the processing of Level 1 and/or Level 3 work where the customer is lawfully required to pay for the Level 1 and/or Level 3 work.	Alternative control	Standard control
AER Service group— Metering services			
Types 5 and 6 metering installation	Includes on site connection of a new meter at a customer's premises, and on site connection of an upgraded meter at a customer's premises where the upgrade is initiated by the customer. Excludes installation of replacement types 5 and 6 meters initiated by the DNSP.	Unclassified	Standard control
Types 5 and 6 metering provision, maintenance, reading and data services	Meter provision refers to the capital cost of purchasing the metering equipment (including meters with internally integrated load control devices) to be installed. Meter maintenance covers works to inspect, test, maintain, repair and replace meters. Meter reading refers to quarterly or other regular reading of a meter. Metering data services are those that involve the collection, processing, storage and delivery of metering data and the management of relevant NMI Standing Data in accordance with the Rules.	Alternative control	Standard control
Type 7 metering services	Administration and management of type 7 metering installations in accordance with the Rules and jurisdictional requirements. Includes the processing and delivery of calculated metering data for unmetered loads, and the population and maintenance of load tables, inventory tables and on/off tables.	Standard control	Standard control

Ancillary metering services	For example, special meter reading for types 5 and 6 meters; customer or retailer requested meter accuracy testing for type 5 or 6 meters; franchise CT meter install; request for customer energy consumption data, tariff or distribution information; replacement or removal of a type 5 or 6 meter instigated by a customer switching to a non-type 5 or 6 meter that is not covered by any other fee; emergency maintenance of failed metering equipment not owned by the network.	Alternative control	Standard control
Move in move out meter reads	B2B service orders from retailers to obtain a final read for customer move-outs or to obtain a start read where property has been vacant. This includes customer or retailer requests for a final or start read when a customer movement occurs.	Alternative control	Standard control
AER Service group— Ancillary network services			
Design related services	Provision of design information, design re-certification services in relation to connection and relocation works provided contestably	Alternative control	Standard control
Vacant property reconnect/disconnect	At the request of the retailer, a site visit to a customer's premises to disconnect or reconnect the supply of electricity due to: - a vacant premises; or - a site where the power is on.  This includes meter read as required by the B2B process.	Alternative control	Standard control
Reconnections/Disconnections	Disconnection or reconnection visits (site visits only); Disconnection or reconnection (disconnection completed); Disconnections or reconnections (disconnection completed - technical); Disconnections or reconnections (pole top or pillar box); Disconnection or reconnection (site visit only - pole top or pillar box); Disconnections or reconnections outside of business hours. This includes meter read as required by the B2B process	Alternative control	Standard control
Contestable substation commissioning	Includes Contestable substation commissioning (complex) and Contestable substation commissioning (basic). Involves the process of connecting the substation to the network. Complex involves kiosk and chamber substations that may involve protection settings. Basic is generally pole mounted substations.	Alternative control	Standard control
Access permits	The provision of an access permit by a distributor to a person authorised to work on or near distribution systems including high voltage.	Alternative control	Standard control

Clearance to work	The provision of a clearance to work by a distributor to a person authorised to work on or near the system generally at a low voltage.	Alternative control	Standard control
Access (standby person)	The provision of access to switch rooms, substations and the like to an ASP who is accompanied by a distributor's staff member, but does not include the circumstance where an ASP is provided with keys for the purpose of securing access and is not accompanied by a distributor's staff member,.	Alternative control	Standard control
Notices of arrangement	Work of an administrative nature performed by a distributor where a local council requires evidence in writing from the distributor that all necessary arrangements have been made to supply electricity to a development. This may include receiving and checking linen plans and 88 B instruments, copying linen plans, checking and recording easement details, preparing files for conveyancing officers, liaising with developers if errors or charges are required, checking and receiving duct declarations and any amended linen plans and 88B instruments approved by a conveyancing officer and preparing notifications of arrangement.	Alternative control	Standard control
Conveyancing information	Supply of conveyancing information – desk inquiry; Supply of conveyancing information – field visit	Alternative control	Standard control
Site establishment fee services	Site establishment services, including issuing of meters (where applicable) and liaising with the Australian Energy Market Operator (AEMO) or market participants for the purpose of establishing NMIs in market systems, for new premises or for any existing premises for which AEMO requires a new NMI and for validation of and updating network load data.	Alternative control	Standard control
Off-peak conversion	The alteration of the off-peak metering equipment at a customer's premises for the purpose of changing the hours of the metering equipment's operation.	Alternative control	Standard control
Rectification works	Includes rectification of illegal connections, provision of service crew/additional crew, fitting of tiger tails, high load escorts	Alternative control	Standard control
Services involved in obtaining deeds of agreement in relation to property rights associated with contestable connection works	Services related to the acquisition of tenure over and access to distributor assets associated with contestable connection works.	Alternative control	Standard control
Network tariff change request	When a retailer's customer or retailer requests an alteration to an existing network tariff (for example, a change from an Inclining Block Tariff to a Time of Use tariff), the NSW distributors conduct tariff and load analysis to determine whether the customer meets the relevant tariff criteria. The NSW distributors also process changes in their IT systems to reflect the tariff change.	Alternative control	Standard control

Recovery of debt collection costs – dishonoured transactions	The incurrence of costs, including bank fees by a NSW distributor resulting from the dishonour of a customer or ASP's cheques tendered in payment of network related services.	Alternative control	Standard control
Services provided in relation to a Retailer of Last Resort (ROLR) event	<p>The NSW distributors may be required to perform a number of services as a distributor when a ROLR event occurs. These include:</p> <p>Preparing lists of affected sites, and reconciling data with AEMO listings; handling in-flight transfers; identifying open service orders raised by the failed retailer and determining actions to be taken in relation to those service orders; arranging estimate reads for the date of the ROLR event and providing data for final NUOS bills in relation to affected customers; preparing final invoices for NUOS and miscellaneous charges for affected customers; preparing final debt statements; extracting customer data, providing it to the ROLR and handling subsequent enquiries; handling adjustments that arise from the use of estimate reads; assisting the retailer with the provision of network tariffs to be applied and the customer move in process; administration of any 'ROLR cost recovery scheme distributor payment determination'.</p>	Alternative control	Standard control
Attendance at customers' premises to perform a statutory right where access is prevented.	A follow up attendance at a customer's premises to perform a statutory right where access was prevented or declined by the customer on the initial visit.	Alternative control	Standard control
AER Service group— Public lighting services			
Provision, construction and maintenance of public lighting and emerging public lighting technology		Alternative control	Alternative control
Unclassified distribution services			
Emergency recoverable works	Work to repair damage to the distribution network cause by a third party	<p>Unclassified</p> <p>For instances where costs are not recoverable from a third party, these are not emergency recoverable</p>	Standard control.

works but rather form  
part of standard control  
services