



# **DRAFT DECISION**

## **Powercor Distribution Determination 2021 to 2026**

### **Attachment 13 Classification of services**

September 2020

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## Note

This attachment forms part of the AER's draft decision on the distribution determination that will apply to Powercor for the 2021–26 regulatory control period. It should be read with all other parts of the draft decision.

The draft decision includes the following attachments:

Overview

Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 3 – Rate of return

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

Attachment 8 – Efficiency benefit sharing scheme

Attachment 9 – Capital expenditure sharing scheme

Attachment 10 – Service target performance incentive scheme

Attachment 11 – Demand management incentive scheme and demand management innovation allowance mechanism

Attachment 12 – Not applicable to this distributor

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

Attachment 19 – Tariff structure statement

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## 13 Classification of 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 Powercor's distribution services in accordance with the National Electricity Rules (NER).<sup>1</sup> Services are classified as direct control services or negotiated distribution services. Direct control services are further classified as standard control services or alternative control services. The classification that we apply determines the nature of the economic regulation we will apply to those services.

The classification of distribution services must be as set out in the relevant framework and approach (F&A) paper unless we consider that a material change in circumstances justifies departing from that proposed classification.<sup>2</sup> We set out our proposed approach to the classification of distribution services for Powercor in our F&A.<sup>3</sup>

### 13.1 Draft decision

Consistent with our final F&A, our draft decision is to group Powercor's distribution services as follows:

- common distribution services (formerly 'network services')
- network ancillary services
- metering services
- connection services
- public lighting services
- unregulated distribution services.

Further, our draft decision is to retain the classification structure, and the description of services to be provided in the 2021–26 regulatory control period, along with the classification of those services, as set out in our final F&A.<sup>4</sup>

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

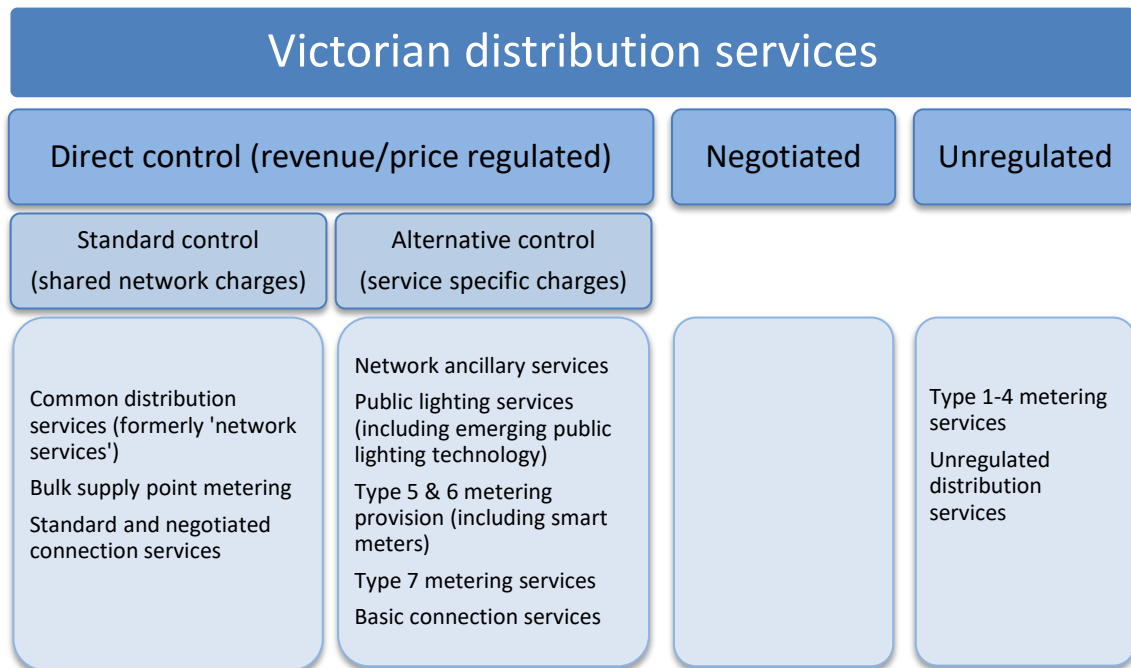
<sup>2</sup> NER, cl. 6.12.3(b).

<sup>3</sup> AER, *Final framework and approach, Victorian Distributors, Regulatory control period commencing 1 July 2021*, January 2019.

<sup>4</sup> AER, *Final framework and approach, Victorian distributors, Regulatory control period commencing 1 January 2021*, July 2019. Note that the date for commencement of the 2021-26 regulatory period is 1 July 2021.

Appendix A sets out our detailed classification decisions

**Figure 1 Proposed classification of Victorian distribution services**



Source: AER Final framework and approach for Victorian distributors, January 2019, p 10.

## 13.2 Powercor’s proposal

Powercor’s proposed service classification list is consistent with our final F&A. Some of the activities listed under certain groupings within Powercor’s proposal differed slightly in wording to the list published in our final F&A, but not in substance or to the structure of classifications. The Powercor classification proposal also provides clarification regarding the charging basis for alternative control services, whether fee-based or quoted services and how those services align with the final F&A. Powercor has not proposed that these distinctions be reflected in the services list.

## 13.3 Assessment approach

In conducting our assessment of distribution service classification, we commence on the basis that we:

- classify the services, rather than the asset – we can only decide on service classification if we understand the service that is being provided. That is, distribution service classification involves the classification of services distributors supply to customers rather than the classification of:
  - the assets used to provide such services
  - the inputs/delivery methods distributors use to provide such services to customers
  - services that consumers or other parties provide to distributors

- classify distribution services in groups – our general approach to service classification is to classify services in groupings rather than individually. This obviates the need to classify services one-by-one and instead defines a service cluster, that where a service is similar in nature it would require the same regulatory treatment. As a result, a new service with characteristics that are the same or essentially the same as other services within a group might simply be added to the existing group and hence be treated in the same way for regulation, including ring-fencing purposes. 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, we may:
  - classify a service so the distributor may recover related costs from all customers (direct control – standard control service)
  - classify a service so the user benefiting from the service pays (direct control - alternative control service)
  - allow customers and distributors to negotiate the provision and price of some services - with the AER able to arbitrate should negotiations stall (negotiated distribution service)
  - not classify a service – this removes regulation by the AER of the service or the prices of the service (unregulated service).

## Our classification approach

In deciding whether to classify services as either direct control or negotiated services, or to not classify them, the provisions of the NER require us to have regard to the 'form of regulation factors' set out in the National Electricity Law.<sup>5</sup> The form of regulation factors includes the presence and extent of barriers to entry by alternative providers and the extent to which any distributor market power is likely to be mitigated by any countervailing user or prospective user market power. The NER also requires us to consider the previous form of regulation applied to services, the desirability for consistency in the form of regulation for similar services and any other relevant factor.<sup>6</sup>

For services we intend to classify as direct control, the NER requires us to have regard to a further range of factors.<sup>7</sup> These include the potential to develop competition in the provision of a service and how our classification may influence that potential; whether the costs of providing the service are attributable to a specific person; and, the possible effect of the classification on administrative costs.

In the case of some distribution services, we may determine there is sufficient competition such that there is no need for us to classify the service either as a direct

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<sup>5</sup> NER, cl. 6.2.1(c); NEL, s. 2F.

<sup>6</sup> NER, cl. 6.2.1(c).

<sup>7</sup> NER, cl. 6.2.2(c).

control or negotiated distribution service. That is, the market is sufficiently competitive, allowing customers to shop around for the best price. We refer to these distribution services as 'unregulated distribution services'.

### 13.3.1 Interrelationships

In assessing what services we classify, we are setting the basis for what charges can be made for those services. To allow charges to be recovered for standard control services, assets associated with delivering those services are added to the regulatory asset base (RAB). A RAB may also be constructed for the capital costs associated with an alternative control service. There will usually be operating costs associated with the provision of a service as well.

The assets that make up the RAB and operating costs that relate to any particular service, form the bulk of the costs of the distributor's proposal that need to be assessed for recovering revenues through charges for their services. Classification of services will therefore influence all revenue components of our decision.

We set the revenues the distributor may collect from customers to recover their asset financing (capital) and operating costs. That revenue is recovered through tariffs the distributor develops to charge to its customers. The regulatory regime establishes incentives such as the Efficiency Benefit Sharing Scheme and the Capital Expenditure Sharing Scheme to encourage the provision of services as efficiently as possible. It also establishes incentives for maintaining reliability (Service target performance incentive scheme) so that cost reductions are not associated with lower reliability. All of these factors interrelate with each other. We must be cognisant of these interrelationships when we make our determinations.

## 13.4 Reasons for draft decision

The NER requires our position on service classification to be as set out in our F&A unless a material change in circumstances justifies a change in our classification.<sup>8</sup> Powercor has proposed the same distribution service classification structure as in our final F&A. Powercor's proposed services list contained a number of differences to the wording of descriptions for some services, however Powercor has not requested that these changes be reflected in its services list.<sup>9</sup> We consider that the purpose of the service description is not to describe all the individual activities that a distributor might provide under a single heading, but to encompass a broad range of examples.<sup>10</sup> As a result, our draft decision is that the services list we published in our final F&A for Victorian distributors will apply to Powercor for the 2021–26 regulatory control period.

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<sup>8</sup> NER, cl. 6.12.3(b).

<sup>9</sup> For example see Powercor, *Service classification proposal 2021–26*, June 2020, p. 7. Adds – surveying and lifting overhead lines to the activity of high load escorts.

<sup>10</sup> AER, *Final framework and approach, Victorian distributors, Regulatory control period commencing 1 January 2021*, p. 40.



## Shortened forms

Shortened form	Extended form
AER	Australian Energy Regulator
Distributor	distribution network service provider
F&A	framework and approach
NER	National Electricity Rules
RAB	regulatory asset base

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## Appendix A: AER draft decision on service classification of Powercor’s distribution services 2021–26<sup>11</sup>

[No change since the final F&A]

Service group	Further description	Current classification 2016–20	AER proposed – classification 2021–26
Common distribution service - use of the distribution network for the conveyance/flow of electricity (including the services relating to network integrity)	<p>The suite of activities that includes, but is not limited to, the following:</p> <ul style="list-style-type: none"> <li>the planning, design, repair, maintenance, construction, and operation of the distribution network</li> <li>works to fix damage to the network (including recoverable works caused by a customer or third party)</li> <li>support for another network during an emergency event</li> <li>procurement and provision of network demand management activities for distribution or system reliability, efficiency or security purposes</li> </ul>	Standard control	Standard control

<sup>11</sup> The examples and activities listed in the ‘Further description’ column are not intended to be an exhaustive list and some distributors may not offer all activities listed. Rather the examples provide a sufficient indication of the types of activities captured by the service.

Service group	Further description	Current classification 2016–20	AER proposed – classification 2021–26
	<ul style="list-style-type: none"> <li>• activities related to ‘shared asset facilitation’ of distributor assets<sup>12</sup></li> <li>• emergency disconnect for safety reasons and work conducted to restore a failed component of the distribution system to an operational state upon investigating a customer outage</li> <li>• establishment and maintenance of National Metering Identifiers (NMIs) in market and/or network billing systems, and other market and regulatory obligations</li> <li>• ongoing inspection of private electrical networks (not part of the shared network) required under legislation for safety reasons<sup>13</sup></li> <li>• supply abolishment of basic connection<sup>14</sup></li> <li>• customer safety information, e.g. 'dial before you dig' services</li> <li>• Bulk supply point metering - activities relating to monitoring the flow of electricity through the distribution network.</li> <li>• Third party initiated network asset relocations/re-arrangements under</li> </ul>		

<sup>12</sup> Revenue for these services is charged to the relevant third party and is treated in accordance with the shared asset guideline. 'Shared asset facilitation' refers to administrative costs. It does not refer to the costs associated with providing the unregulated service itself.

<sup>13</sup> The Victorian Electricity Safety Act 1998, clause 113F, requires Vic DNSPs to inspect overhead private electric lines.

<sup>14</sup> This service is classified as Standard Control Services under the 2016-20 Determination for public safety reasons. Victorian DNSPs wish to continue with the classification.

Service group	Further description	Current classification 2016–20	AER proposed – classification 2021–26
	ESCV Guideline 14. <sup>15</sup> <ul style="list-style-type: none"> <li>Transmission network support</li> </ul>		

Network ancillary services – customer and third party initiated services related to common distribution services

Access permits, oversight and facilitation	Activities include: <ul style="list-style-type: none"> <li>a distributor issuing access permits or clearances to work to a person authorised to work on or near distribution systems including high and low voltage</li> <li>a distributor issuing confined space entry permits and associated safe entry equipment to a person authorised to enter a confined space</li> <li>a distributor providing access to switch rooms, substations and other network equipment to a non-Local Network Service Provider party who is accompanied and supervised by a distributor's staff member. May also include a distributor providing safe entry equipment (fall-arrest) to enter difficult access areas.</li> </ul>	Not classified	Alternative control
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<sup>15</sup> This classification applies where a customer contribution is calculated and applied in accordance with Essential Services Commission (ESCV) Guideline 14 or where a customer contribution is calculated and applied in accordance with any other relevant Victorian legislation or regulation, including regulations made under the National Electricity (Victoria) Act, 2005. The party requesting such works under this classification must pay the net cost of the works, subject to any rebates specified in Guideline 14 or by any other relevant Victorian legislation or regulation.

Service group	Further description	Current classification 2016–20	AER proposed – classification 2021–26
	<ul style="list-style-type: none"> <li>specialist services (which may involve design related activities and oversight/inspections of works) where the design or construction is non-standard, technically complex or environmentally sensitive and any enquiries related to distributor assets</li> <li>facilitation of generator connection and operation of the network</li> <li>facilitation of activities within clearances of distributor’s assets, including physical and electrical isolation of assets.</li> </ul>		
Sale of approved materials or equipment	Includes the sale of approved materials/equipment to third parties for connection assets that are gifted back to become part of the shared distribution network.	Not classified	Alternative control
Notices of arrangement and completion notices	<p>Examples include:</p> <ul style="list-style-type: none"> <li>Work of an administrative nature 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 includes: receiving and checking subdivision plans, copying subdivision plans, checking and recording easement details, assessing supply availability, liaising with developers if errors or changes are required, and preparing notifications of arrangement.</li> <li>Provision of a completion notice (other than a notice of arrangement). This applies where the real estate developer requests the distributor to provide documentation confirming progress of work. Usually associated with discharging contractual arrangements (e.g. progress payments) to</li> </ul>	Not classified	Alternative control

Service group	Further description	Current classification 2016–20	AER proposed – classification 2021–26
	meet contractual undertakings.		
Network related property services	<p>Activities include:</p> <ul style="list-style-type: none"> <li>• Network related property services such as property tenure services relating to providing advice on, or obtaining: deeds of agreement, deeds of indemnity, leases, easements or other property tenure in relation to property rights associated with a connection or relocation.</li> <li>• Conveyancing inquiry services relating to the provision of property conveyancing information at the request of a customer.</li> </ul>	Not classified	Alternative control
Network safety services	<p>Examples include:</p> <ul style="list-style-type: none"> <li>• provision of traffic control and safety observer services by the distributor where required</li> <li>• fitting of tiger tails, possum guards, and aerial markers</li> <li>• high load escorts.</li> <li>• site visit relating to location of underground cables/assets</li> <li>• Third party request for de-energising wires for safe approach</li> </ul>	Alternative control	Alternative control
Planned Interruption – customer requested amendment	<p>Examples include:</p> <ul style="list-style-type: none"> <li>• where the customer requests to move a distributor planned interruption and agrees to fund the additional cost of performing this distribution</li> </ul>	Not classified	Alternative control

Service group	Further description	Current classification 2016–20	AER proposed – classification 2021–26
	service outside of normal business hours		
Customer requested supply outage	<p>Examples include:</p> <ul style="list-style-type: none"> <li>customer initiated network outage (e.g. to allow customer and/or contractor to perform maintenance on the customer’s assets, work close to or for safe approach, which impacts other networks users).</li> </ul>	Not classified	Alternative control
Inspection and auditing services	<p>Activities include:</p> <ul style="list-style-type: none"> <li>inspection and reinspection by a distributor, of gifted assets or assets that have been installed or relocated by a third party</li> <li>investigation, review and implementation of remedial actions that may lead to corrective and disciplinary action of a third party service provider due to unsafe practices or substandard workmanship</li> <li>auditing of a third party service provider’s work practices in the field</li> <li>re-test at a customer’s installation, where the installation fails the initial test and cannot be connected.</li> </ul>	Alternative control	Alternative control
Provision of training to third parties for network related access	<p>Training services provided to third parties that result in a set of learning outcomes that are required to obtain a distribution network access authorisation specific to a distributor’s network. Such learning outcomes may include those necessary to demonstrate competency in the distributor’s electrical safety rules, to hold an access authority on the distributor’s network and to carry out switching on the distributor’s network. Examples of training</p>	Not classified	Alternative control

Service group	Further description	Current classification 2016–20	AER proposed – classification 2021–26
	might include high voltage training, protection training or working near power lines training.		
Authorisation and approval of third party service providers design, work and materials	<p>Activities include:</p> <ul style="list-style-type: none"> <li>• authorisation or re-authorisation of individual employees and subcontractors of third party service providers and additional authorisations at the request of the third party service providers (excludes training services)</li> <li>• acceptance of third party designs and works</li> <li>• assessing an application from a third party to consider approval of alternative material and equipment items that are not specified in the distributor's approved materials list</li> </ul>	Alternative control	Alternative control
Security lights	<p>Provision, installation, operation, and maintenance of equipment mounted on distribution equipment used for security services, e.g. nightwatchman lights.</p> <p>Note: excludes connection services.</p>	Not classified	Alternative control
Customer requested provision of electricity network data	Data requests by customers or third parties including requests for the provision of electricity network data or consumption data outside of legislative obligations.	Not classified	Alternative control
Third party funded network alterations or other improvements	Alterations or other improvements to the shared distribution network to enable third party infrastructure (e.g. NBN Co telecommunications assets) to be installed on the shared distribution network. This does not relate to	Alternative control	Alternative control



Service group	Further description	Current classification 2016–20	AER proposed – classification 2021–26
	upstream distribution network augmentation.		
Customer initiated network asset relocations/re-arrangements	Relocation of assets that form part of the distribution network in circumstances where the relocation was initiated by a third party (including a customer), not provided under ESCV Guideline 14.	Alternative control	Alternative control
Community network upgrades	Collective customer requested network enhancement. Activities related to community requests to augment the network to enable higher PV exports.	Not Classified	Alternative Control
Metering services - activities relating to the measurement of electricity supplied to and from customers through the distribution system (excluding network meters)			
Type 1 to 4 metering services	Type 1 to 4 metering installations <sup>16</sup> and supporting services are competitively available.	Unregulated	Unregulated
Type 5 and 6 (inc. smart metering) services where the distributor remains responsible	Includes: <ul style="list-style-type: none"> <li>Recovery of the cost of type 5 and 6 metering equipment<sup>17</sup> including communications network (including meters with internally integrated load control devices).</li> <li>Testing, inspecting, investigating, maintaining or altering existing type 5</li> </ul>	Alternative control	Alternative control

<sup>16</sup> Includes the instrument transformer, as per the definition of a 'metering installation' in Chapter 10 of the NER.

<sup>17</sup> Includes the instrument transformer, as per the definition of a 'metering installation' in Chapter 10 of the NER.

Service group	Further description	Current classification 2016–20	AER proposed – classification 2021–26
	<p>or 6 metering installations or instrument transformers.</p> <ul style="list-style-type: none"> <li>• Quarterly or other regular reading of a metering installation.</li> <li>• Metering data services that involve the collection, processing, storage and delivery of metering data, the provision of metering data from the previous two years, remote or self-reading at difficult to access sites, and the management of relevant NMI Standing Data in accordance with the NER.</li> </ul>		
<p>Auxiliary metering services (type 5 to 7 including smart metering) where the distributor remains responsible</p>	<p>Activities include:</p> <ul style="list-style-type: none"> <li>• requests to test, inspect and investigate, or alter an existing type 5 or 6 metering installation</li> <li>• testing and maintenance of instrument transformers for type 5 and 6 metering purposes</li> <li>• Non-standard metering services for Type 5 to 7 meters and any other meter types introduced.</li> <li>• works to re-seal a type 5 or 6 meter due to customer or third party action (e.g. by having electrical work done on site)</li> <li>• change distributor load control relay channel on request that is not a part of the initial load control installation, nor part of standard asset maintenance or replacement.</li> <li>• Remote de-energisation and re-energisation</li> </ul>	<p>Alternative control</p>	<p>Alternative control</p>

Service group	Further description	Current classification 2016–20	AER proposed – classification 2021–26
	<ul style="list-style-type: none"> <li>• Remote meter configuration</li> <li>• Field based special meter read</li> <li>• Office based special meter read</li> <li>• Metering exit services</li> </ul>		
Type 7 metering services	Administration and management of type 7 metering installations in accordance with the NER 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.	Alternative control	Alternative control
Connection services <sup>18</sup> - services relating to the electrical or physical connection of a customer to the network			
Basic connection services	Means a <i>connection service</i> <sup>19</sup> related to a <i>connection</i> (or a proposed <i>connection</i> ) between a <i>distribution system</i> and a <i>retail customer's</i> premises (excluding a non-registered <i>embedded generator's</i> premises) in the following circumstances:	Alternative control	Alternative control

<sup>18</sup> When discussing connections, we must consider how connection policies and chapter 5A of the NER impact the regulation of connection services. For this reason, we will not be able to completely address the classification of connection services in the classification guideline.

<sup>19</sup> Italics denotes definitions in Chapter 5A of the NER.

Service group	Further description	Current classification 2016–20	AER proposed – classification 2021–26
	<p>(a) either:</p> <ol style="list-style-type: none"> <li>1. the <i>retail customer</i> is typical of a significant class of <i>retail customers</i> who have sought, or are likely to seek, the service; or</li> <li>2. the <i>retail customer</i> is, or proposes to become, a <i>micro embedded generator</i>; and</li> </ol> <p>(b) the provision of the service involves minimal or no <i>augmentation</i> of the <i>distribution network</i>; and</p> <p>(c) a <i>model standing offer</i> has been approved by the AER for providing that service as a <i>basic connection service</i>.</p>		
Standard connection service	Means a connection service (other than a basic connection service) for a particular class (or sub-class) of connection applicant and for which a model standing offer has been approved by the AER.	Standard control	Standard control
Negotiated connection	Means a connection service (other than a basic connection service) for which a DNSP provides a connection offer for a negotiated connection contract.  This includes connections under Chapter 5 of the NER.	Standard control	Standard control
Connection application and management services	<ul style="list-style-type: none"> <li>• Connection application related services</li> <li>• Works initiated by a customer or retailer that are specific to the connection point. This includes, but is not limited to:</li> </ul>	Alternative control	Alternative control

Service group	Further description	Current classification 2016–20	AER proposed – classification 2021–26
	<ul style="list-style-type: none"> <li>• field based de-energisation<sup>20</sup> and re-energisation</li> <li>• Non basic supply abolishment or reposition non-basic connection</li> <li>• Temporary connections (e.g. for builder's supply, fetes etc.)</li> <li>• overhead service line replacement – customer requests the existing overhead service to be replaced (e.g. because of a point of attachment relocation). No material change to load</li> <li>• protection and power quality assessment</li> <li>• supply enhancement (e.g. upgrade from single phase to three phase)</li> <li>• customer requested change requiring primary and secondary plant studies for safe operation of the network (e.g. change protection settings)</li> <li>• upgrade from overhead to underground service</li> <li>• rectification of illegal connections or damage to overhead or underground service cables</li> <li>• calculation of a site specific distribution loss factor on request in respect of a generating unit up to 10 MW or a connection point for an end-user with actual or forecast load up to 40 GWh per annum capacity, as per</li> </ul>		

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<sup>20</sup> De-energisation services related to business as usual activities and de-energisation services that may relate to changing over meter types

Service group	Further description	Current classification 2016–20	AER proposed – classification 2021–26
Enhanced connection services	<p>clause 3.6.3(b1) of the NER</p> <ul style="list-style-type: none"> <li>• calculation of site specific loss factors when required under the NER</li> <li>• power factor correction</li> <li>• Embedded network management</li> <li>• assessing connection applications or a request to undertake relocation of network assets as contestable works and preparing offers</li> <li>• processing preliminary enquiries requiring site specific or written responses</li> <li>• undertaking planning studies and associated technical analysis (e.g. power quality investigations) to determine suitable/feasible connection options for further consideration by applicants</li> <li>• liaising with groups representing multiple connecting parties (e.g. community group upgrades)</li> <li>• site inspection in order to determine the nature of the connection service sought by the connection applicant and ongoing co-ordination for large projects</li> <li>• registered participant support services associated with connection arrangements and agreements made under Chapter 5 of the NER.</li> </ul>	Alternative control/ negotiated/ Not	Alternative control

Service group	Further description	Current classification 2016–20	AER proposed – classification 2021–26
	<p>or third party that include those that are:</p> <ul style="list-style-type: none"> <li>provided with higher quality of reliability standards, or lower quality of reliability standards (where permissible) than required by the NER or any other applicable regulatory instruments. This includes reserve feeder installation and maintenance.</li> <li>in excess of levels of service or plant ratings required to be provided by the distributor</li> </ul>	classified	
Public lighting - lighting services provided in connection with a distribution network			
Public lighting	<ol style="list-style-type: none"> <li>Operation, maintenance, repair and replacement public lighting services</li> <li>Alteration and relocation of public lighting assets</li> <li>New public lighting services incl. greenfield sites &amp; new light types (distributor provided)</li> <li>Provision, construction and maintenance of emerging public lighting technology.</li> </ol>	Alternative control/ negotiated	Alternative control