



DRAFT DECISION
Evoenergy determination
Regulatory control period
2019–24
Attachment 12 – Classification
of services

September 2018

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Note

This attachment forms part of the AER's draft decision on the distribution determination that will apply to Evoenergy for the 2019–2024 regulatory control period. It should be read with all 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 – 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

Attachment 12 – Classification of services

Attachment 13 – Control mechanisms

Attachment 14 – Pass through events

Attachment 15 – Alternative control services

Attachment 16 – Negotiated services framework and criteria

Attachment 17 – Connection policy

Attachment 18 – Tariff structure statement

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Shortened forms

Shortened form	Extended form
AEMO	Australian Energy Market Operator
CESS	Capital expenditure sharing scheme
CT	Current transformer
EBSS	Efficiency benefit sharing scheme
F&A	Framework and Approach
LCTAS	least cost technically acceptable standard
LNSP	Local network service provider
NEL	National Electricity Law
NER	National Electricity Rules
NMI	National metering identifier
RAB	Regulatory asset base
RORL	Retailer of last resort
WC	Whole current

12 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 Evoenergy's distribution services in accordance with the NER.¹ 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 justify departing from that proposed classification.² We set out our proposed approach to the classification of distribution services for the Evoenergy in our F&A.³ We proposed to group Evoenergy's distribution services as follows:

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

12.1 Draft decision

Our preliminary decision is to retain the classification structure set out in our F&A, with the exception of the following:

1. The addition of 'enhanced connection services' as an alternative control service.

Figure 12.1 summarises our draft decision on service classifications for Evoenergy for the 2019–24 regulatory control period.

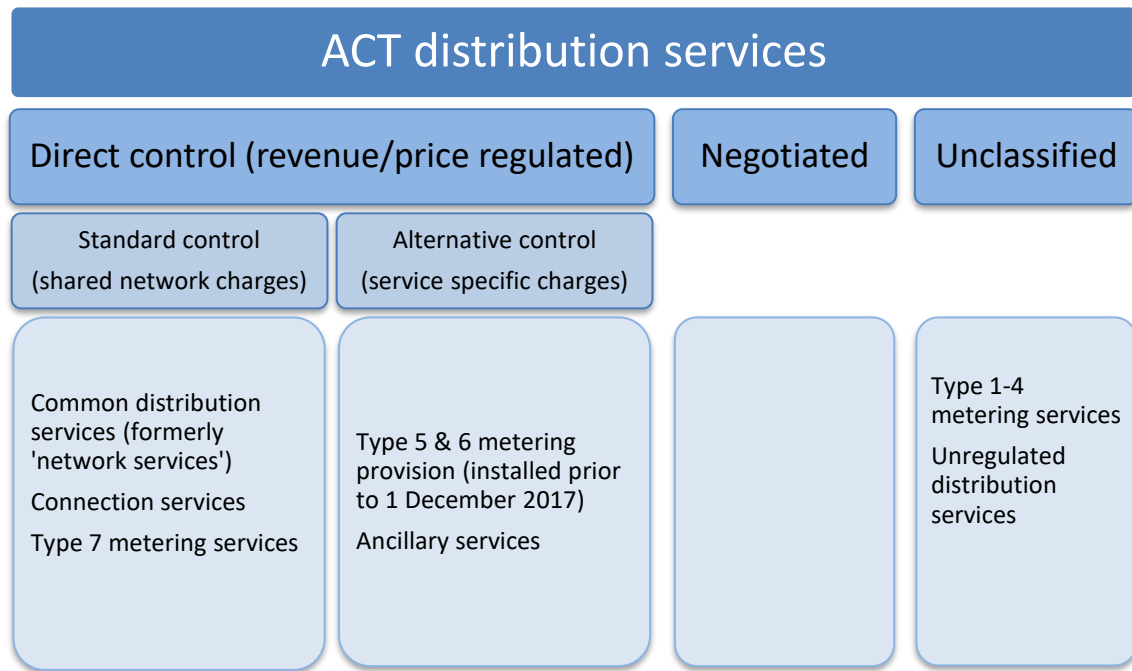
Appendix A sets out our detailed classification decisions.

¹ NER, cl. 6.12.1(1).

² NER, cl. 6.12.3(b).

³ AER, *Final framework and approach for ActewAGL – Regulatory control period commencing 1 July 2019*, July 2017.

Figure 12.1 AER draft decision on 2019–24 service classifications for Evoenergy



Our classification of services determines, at a very high level, how costs associated with the services will be recovered. How service charges are set is not determined as part of classification. That detail is discussed in the control mechanism attachments.⁴

12.2 Evoenergy proposal

In its proposal Evoenergy adopted most of our classification approach set out in our F&A, including:

- Classifying common distribution services as standard control services
- Type 5 and 6 metering services classified alternative control services
- Moving emergency recoverable works to common distribution services
- No negotiated services

In its proposal, Evoenergy sought clarity concerning the classification of non-standard connection services. Evoenergy proposed that it will continue to apply its Connections Policy relating to 'requirements above least cost technically acceptable standard' (LCTAS). Under its Connection Policy, Evoenergy customers requesting a connection service of a higher standard than the LCTAS, or with special requirements, will be

⁴ Refer to attachment 13 – Control mechanisms and attachment 15 – Alternative control services.

required to pay the additional costs. These additional costs are charged on a quoted basis and reflect full cost recovery of above standard requirements.⁵

12.3 Our assessment approach

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

- classify the service, rather than the asset – we can only decide on service classification, and therefore what services we regulate, by reference to the service that is being provided. That is, distribution service classification involves the classification of services distributors supply to customers. It does not involve 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.⁶ This obviates the need to classify services one-by-one and instead defines a service cluster, such 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 grouping and hence be treated in the same way. 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 – we will arbitrate should negotiations stall (negotiated distribution service)
- not classify a service – we do not regulate this service or the prices charged by the distributor (unregulated service).

⁵ Evoenergy, *Regulatory proposal for the ACT electricity distribution network 2019-24, Attachment 4: Classification of services*, January 2018, pp. 4-3.

⁶ NER, cl 6.2.1(b).

In 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.⁷ The form of regulation factors include 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 of consistency in the form or regulation for similar services and any other relevant factor.⁸

For services we intend to classify as direct control, the NER requires us to have regard to a further range of factors in deciding whether to further classify them as either standard control services or alternative control services.⁹ 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 service are attributable to a specific person; the possible effect of the classification on administrative costs, and; the way in which the service is currently regulated, and the desirability of a consistent regulatory approach to similar services.

In the case of some distribution services, we may determine there is sufficient competition that there is no need for us to classify the service as either a direct 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'. Broadly, pursuant to our Ring-fencing Guideline, this means that while existing regulated distribution services will continue to be provided by the distributor, all unregulated distribution services or new services that come into existence within a regulatory control period must be separated from direct control services, unless the distributor applies for, and receives, a waiver under the Ring-fencing Guideline.¹⁰

12.3.1 Interrelationships

In determining what services to classify, and the classification for each of those services, 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 separate 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.

⁷ NER, cl. 6.2.1(c)(1); NEL, s. 2F.

⁸ NER, cl. 6.2.1(c).

⁹ NER, cl. 6.2.2(c)(2),(3).

¹⁰ AER, *Ring-fencing Guideline electricity distribution*, November 2016; AER, *Electricity distribution ring-fencing Guideline explanatory statement*, November 2016.

The assets that make up the RAB, and the operating costs that relate to any particular service, form a starting point for our assessment of the distributor's proposal for recovering revenues through charges for its services. Classification of services will therefore influence all revenue components of our decision.

There are assets and operating costs associated with the services provided by distributors. We set the revenues the distributor may collect from customers to recover its asset 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 (EBSS) and the Capital Expenditure Sharing Scheme (CESS) to encourage the provision of services as efficiently as possible. All of these factors interrelate with each other. We must be cognisant of these interrelationships when we make our determinations.

12.4 Reasons for draft decision

This section sets out our reasons for our draft decision on the distribution service classifications for Evoenergy. Our decision is to not depart from the classifications set out in our F&A, except for adding a new service - 'enhanced connection services'.

In its proposal, Evoenergy explained that it requires greater clarification regarding the classification of non-standard connection services. Evoenergy proposed to address this by continuing to apply its Connections Policy relating to 'requirements above least cost technically acceptable standard (LCTAS) and special requirements'.

'Special requirements' may be related to legal or statutory requirements, specific requirements, or other parameters of the job. Examples of above standard requirements include:

1. provision of a chamber substation instead of a padmount substation;
2. higher reliability;
3. better security of supply;
4. excess length of cable to supply a substation at the back of a customer's block to satisfy architectural requirements;
5. provision of a basement substation; and
6. developer requirements for subdivision estate reticulation.

Special connection requirements may also be a result of the works scope or parameters rather than the customer/developer preferences. For example:

7. Difficult ground conditions with high rock content
8. Difficult site access; and
9. Significant additional costs related to traffic management

Evoenergy considers that the Connections Policy treatment of special customer requirements, described above, corresponds in the ACT context to the treatment afforded to these services in NSW.

We agree that the current classification of non-standard services on the Evoenergy distribution network is unclear. In order to improve clarity for customers and other stakeholders, we have included an additional 'enhanced connection service' in the Evoenergy services list.

Enhanced connection services are described as:

“Activities to provide customers with a higher standard of electricity supply that exceeds the minimum technically feasible standard. These include services where customers request higher levels of reliability or three phase electricity.”¹¹

This ancillary service is classified as a direct control service, and further as an alternative control service. This classification is consistent with Evoenergy's Connections Policy.

¹¹ AER, *Service Classification Guideline*, September 2018.

A AER draft decision on classification of services¹²

Service group	Further description (if any)	Current Classification 2014–19	Proposed classification 2019-24
Common distribution services			
Common distribution services (formerly 'network services')	The suite of services involved in the use of the distribution network for the conveyance of electricity (including the service that ensures the integrity of the related distribution system) and includes but is not limited to the following: <ul style="list-style-type: none"> • the planning, design, repair, maintenance, construction and operation of the distribution network • the relocation of assets that form part of the distribution network but not relocations requested by a third party (including a customer) • works to fix damage to the network (including emergency recoverable works) or to support another distributor during an emergency event • network demand management for distribution purposes. • training internal staff and contractors undertaking direct control services 	Standard Control	Standard Control

¹² 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 (if any)	Current Classification 2014–19	Proposed classification 2019-24
	<ul style="list-style-type: none"> • activities related to ‘shared asset facilitation’ of distributor assets • emergency disconnect for safety reasons and work conducted to determine if a customer outage is related to a network issue • bulk supply metering • rectification of simple customer fault (e.g. fuse) relating to a life support customer • neutral integrity test – where a distributor will identify the source of a fault following detection from a network issued device. Rectification work to render the network safe is limited to distribution network infrastructure. <p>Such services do not include a service that has been separately classified including any activity relating to that service.</p>		

Ancillary services – Services closely related to common distribution services but for which a separate charge applies

Design related services	<p>Activities include:</p> <ul style="list-style-type: none"> • provision of design information, design rechecking services in relation to connection and relocation works provided contestably • specialist services where the design is non-standard, technically complex or environmentally sensitive and any enquiries related to distributor assets • the provision of engineering consulting (related to the shared distribution network). 	Alternative control	Alternative control
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Service group	Further description (if any)	Current Classification 2014–19	Proposed classification 2019-24
Connection application related services	<p>Activities include:</p> <ul style="list-style-type: none"> • assessing connection applications or a request to undertake relocation of network assets as contestable works and preparing offers • processing preliminary enquiries requiring site specific or written responses • undertaking planning studies and associated technical analysis (e.g. power quality investigations) to determine suitable/feasible connection options for further consideration by applicants • site inspection in order to determine the nature of the connection service sought by the connection applicant and ongoing co-ordination for large projects • registered participant support services associated with connection arrangements and agreements made under Chapter 5 of the NER. 	Alternative control	Alternative control
Access permits, oversight and facilitation	<p>Activities include:</p> <ul style="list-style-type: none"> • 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 • a distributor issuing confined space entry permits and associated safe entry equipment to a person authorised to enter a confined space • a distributor providing access to switch rooms, substations and 	Alternative control	Alternative control

Service group	Further description (if any)	Current Classification 2014–19	Proposed classification 2019-24
	<p>the like to a non-LNSP 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.</p> <ul style="list-style-type: none"> • facilitation of generator connection and operation of the network • facilitation of activities within clearances of distributor's assets, including physical and electrical isolation of assets • assessing an application from a manufacturer to consider approval of alternative material and equipment items that are not specified in the distributor's approved materials list. 		
Network related property services	<p>Property tenure services related to obtaining deeds of agreement, deeds of indemnity, leases, easements or other property tenure in relation to property rights associated with connection or relocation.</p> <p>Conveyancing inquiry services relating to the provision of property conveyancing information at the request of a customer.</p>	Alternative control	Alternative control
Site establishment services	<p>Activities include, but not limited to:</p> <ul style="list-style-type: none"> • site establishment, including liaising with the Australian Energy Market Operator (AEMO) or market participants for the purpose of establishing national metering identifiers (NMI) 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. This includes processing and assessing requests for a permanently unmetered supply device. 	Alternative control	Alternative control

Service group	Further description (if any)	Current Classification 2014–19	Proposed classification 2019-24
	<ul style="list-style-type: none"> • site alteration, updating and maintaining NMI and associated data in market systems • NMI extinction, processing a request by the customer or their agent for permanent disconnection and the extinction of a NMI in market systems • confirming or correcting metering or network billing information in market business to business or network billing systems, due to insufficient or incorrect information received from retailers or metering providers. 		
Network safety services	<p>Examples include:</p> <ul style="list-style-type: none"> • provision of traffic control services by the distributor where required • fitting of tiger tails, high load escort • de-energising wires for safe approach (e.g. for tree pruning) • work undertaken to determine the cause of a customer fault where there may be a safety impact on the network or related component. 	N/A	Alternative control
Rectification works to maintain network safety	Activities include issues identified by the distributor and work involved in managing and resolving pre-summer bush fire inspection customer vegetation defects or aerial mains where the customer has failed to do so.	N/A	Alternative control
Network tariff change request	Activities including a retailer's customer or retailer requesting an alteration to an existing network tariff (for example, a change from a	Alternative control	Alternative control

Service group	Further description (if any)	Current Classification 2014–19	Proposed classification 2019-24
	<p>Block Tariff to a Time of Use tariff), requiring the distributor to conduct tariff and load analysis to determine whether the customer meets the relevant tariff criteria.</p> <p>Where a distributor processes changes in its IT systems to reflect a tariff change request.</p>		
Services provided in relation to a Retailer of Last Resort (ROLR) event	<p>The distributors may be required to perform a number of services as a distributor when a ROLR event occurs. For example:</p> <ul style="list-style-type: none"> preparing lists of affected sites and reconciling data with AEMO listings, arranging estimate reads for the date of the ROLR event, preparing final invoices and miscellaneous charges for affected customers, extracting customer data, providing it to the ROLR and handling subsequent enquiries. 	Alternative control	Alternative control
Planned Interruption – Customer requested	Where the customer requests to move a planned interruption and agrees to fund the additional cost of performing this distribution service outside of normal business hours.	N/A	Alternative 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. This includes the costs of arranging, and the provision of, a security escort or police escort (where the cost is passed through to the distributor).	Alternative control	Alternative control
Inspection services – private electrical installations	<p>Inspection of and reinspection by a distributor of:</p> <ul style="list-style-type: none"> private electrical wiring work undertaken by an electrical 	N/A	Alternative control

Service group	Further description (if any)	Current Classification 2014–19	Proposed classification 2019-24
	<p>contractor</p> <ul style="list-style-type: none"> private inspection of privately owned low voltage or high voltage network infrastructure (i.e. privately owned distribution infrastructure before the meter). 		
Provision of training to third parties for network related access	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 might include high voltage training, protection training or working near power lines training.	N/A	Alternative control
Off-peak conversion	Customer requested alteration of load control equipment for the purposes of converting a customer from peak to off-peak electricity supply.	Alternative control	Alternative control
Large scale embedded generator connection services	Over 30 kW.	Alternative control	Alternative control
Enhanced connection services	Activities to provide customers with a higher standard of electricity supply that exceeds the minimum technically feasible standard. These include services where customers request higher levels of reliability or three phase electricity.	N/A	Alternative Control

Metering services – Evoenergy will remain responsible for the provision of type 5 and 6 meters up to 30 November 2017. Evoenergy will continue to be responsible for those meters until they are replaced (and entitled to levy associated charges). We refer to these

Service group	Further description (if any)	Current Classification 2014–19	Proposed classification 2019-24
meters as ‘legacy meters’. New meters (that will be type 1 to 4 meters) installed from 1 December 2017 are referred to as ‘contestable meters’.			
Type 1 to 4 metering services	Type 1 to 4 meters and supporting services are competitively available.	Unclassified	Unclassified
Type 5 and 6 meter provision (prior to 1 December 2017)	Recovery of the capital cost of type 5 and 6 metering equipment installed prior to 1 December 2017.	Alternative control	Alternative control
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	Standard control
Types 5 and 6 meter maintenance, reading and data services (legacy meters)	Meter maintenance covers works to inspect, test, maintain and repair 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 NER.	Alternative control	Alternative control
Special meter reading and testing (legacy meters)	Special meter reading and testing services include: <ul style="list-style-type: none"> • Special meter reading for type 5 and 6 meters and move in and move out metering reading (type 5 and 6 meters) • Type 5 meter final read on removed type 5 metering equipment • Special meter test (for type 5 and 6 meter) • Type 5 and 6 non-standard meter data services 	Alternative control	Alternative control

Service group	Further description (if any)	Current Classification 2014–19	Proposed classification 2019-24
	<ul style="list-style-type: none"> Type 5 and 6 current transformer testing 		
Emergency maintenance of failed metering equipment not owned by the distributor (contestable meters)	The distributor is called out by the customer or their agent (e.g. retailer, metering coordinator or metering provider) due to a power outage where an external metering provider's metering equipment has failed or an outage has been caused by the metering provider and the distributor has had to restore power to the customer's premises. This may result in an unmetered supply arrangement at this site. This fee will also be levied where a metering provider has requested the distributor to check a potentially faulty network connection and when tested by the distributor, no fault is found.	Alternative control	Alternative control
Meter recovery and disposal – type 5 and 6 (legacy meters)	<p>Activities include:</p> <ul style="list-style-type: none"> at the request of the customer or their agent to remove and dispose of type 5 or 6 current transformer (CT) meters where a permanent disconnection has been requested disposing of type 5 or 6 whole current (WC) meters which may otherwise be removed and disposed of by the incoming metering provider. 	N/A	Alternative control
Distributor arranged outage for purposes of replacing metering	At the request of a retailer or metering coordinator provide notification to affected customers and facilitate the disconnection/reconnection of customer metering installations where a retailer planned interruption cannot be conducted.	N/A	Alternative control

Service group	Further description (if any)	Current Classification 2014–19	Proposed classification 2019-24
Customer requested provision of additional metering/consumption data	Customer requested provision of data in excess of requirements under Rule 28 of the National Electricity Retail Rules (two requests per annum are permitted under the NERR).	N/A	Alternative control
Connection services			
Connection services	<p>Connection services include:</p> <p>Premises connection services includes any additions or upgrades to the connection assets located on the customer's premises (Note: excludes all metering services)</p> <p>Extensions include 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</p> <p>Network augmentations include any shared network enlargement/enhancement undertaken by a distributor which is not an extension.</p>	Standard control	Standard control
Reconnections/Disconnections	<p>Disconnection¹³ and/or reconnection services (some provided in accordance with the National Energy Retail Rules). Examples include (but are not limited to):</p> <ul style="list-style-type: none"> • Disconnection visit (site visit only) 	Alternative control	Alternative control

¹³ Disconnection services related to business as usual activities and not disconnection services that may be related to a customer changing over meter types.

Service group	Further description (if any)	Current Classification 2014–19	Proposed classification 2019-24
	<ul style="list-style-type: none"> • Disconnection visit (disconnection completed - technical) • Disconnection visit (disconnection completed) • Pillar box/pole top disconnection - completed • Reconnection/disconnection outside of business hours • Vacant property - site visit only • Vacant property disconnection (disconnection completed) • Shared service fuse replacement • Rectification of illegal connections • Temporary connections • Remove or reposition connection • Single phase to three phase. 		
Unregulated distribution services			
Distribution asset rental	Rental of distribution assets to third parties (e.g. office space rental, pole and duct rental for hanging telecommunication wires etc.).	N/A	Unclassified distribution service
Contestable metering support roles	Includes metering coordinator (except where the distributor is the initial metering coordinator), metering data provider and metering provider for meters installed or replaced after 1 December 2017.	N/A	Unclassified distribution service

Service group	Further description (if any)	Current Classification 2014–19	Proposed classification 2019-24
Provision of training to third parties for non-network related issues	Training programs provided to third for non-network related issues	N/A	Unclassified distribution
Type 5 and 6 meter data management to other electricity distributors	The provision of type 5 and 6 meter data management to other electricity distributors.	Unclassified distribution service	Unclassified distribution service