Explanatory Statement

Electricity distribution service classification guideline

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AUSTRALIAN ENERGY REGULATOR

Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

Tel: 1300 585165

Email: AERInquiry@aer.gov.au
AER Reference: 61054/D18/-137527

Amendment Record

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Shortened forms

Shortened form	Extended form
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
COAG	Council of Australian Governments
CCP	Consumer Challenge Panel
DNSP	Distribution Network Service Provider
Guidelines	The Electricity Distribution Service Classification Guidelines and the Asset Exemption Guidelines
NEL	National Electricity Law
NEM	National Electricity Market
NEO	National Electricity Objective
NER, or the rules	National Electricity Rules
RAB	Regulated Asset Base
RERT	Reliability and Emergency Response Trader

Definitions

Term	Definition
distribution service	An electricity distribution service provided by means of, or in connection with, a distribution system, as defined in the NER.
regulatory asset base	the value of the assets that are used by a DNSP to provide standard control services

Contents

1 Overview

Service classification defines the type of economic regulation, if any, that will apply to services provided by electricity distribution network services providers (DSNPs). This includes whether or not a service is subject to regulation, the approach to cost recovery (at a high level) and whether or not a service will need to be ring-fenced from other services offered by a DNSP. Consequently, our service classification decisions form the regulatory foundation of the distribution determination we make for each DNSP, which is typically for a five-year period.[1] For consumers, classification identifies the services we will regulate. Classification also signals our view on the services that have the potential to be provided in competitive markets.

The Distribution Service Classification Guideline (the Guideline) aims to provide clarity, transparency and certainty for DNSPs, and also to facilitate competition in markets for energy related services. It does this by looking at how we classify distribution services across the National Electricity Market (NEM), rather than focussing on one particular jurisdiction or one DNSP, which has been the standard approach to classification up until now.

The Guideline provides insight into service classification. This is important because energy markets are undergoing change driven by technology. In turn this is affecting the nature of energy markets that DNSPs operate in. The Guideline explains how we make decisions affecting how DNSPs can participate in these markets.

On 12 December 2017, the AEMC changed the NER in response to two amendment proposals from the COAG Energy Council and the Australian Energy Council. The 'Contestability of energy services' rule change was intended to improve the ability of the rules to respond to emerging technologies and changing behaviours in markets for energy related services. It included, amongst other things, changes to the rules relating to service classification and established the requirement for a service classification guideline.

The Guideline aims to make the service classification process more transparent and effective. The contestability of energy services rule change also aims to facilitate competition in markets for contestable energy services by making clearer the roles and opportunities of DNSPs, and therefore for other entities, operating in competitive markets.[2] Identifying opportunities to open markets to competition helps advance the long-term interests of consumers.

This Explanatory Statement should be read in conjunction with the Guideline and its Appendices. Appendices A and B provide the baseline list of distribution services and worked examples of our approach to the classification of those services respectively.

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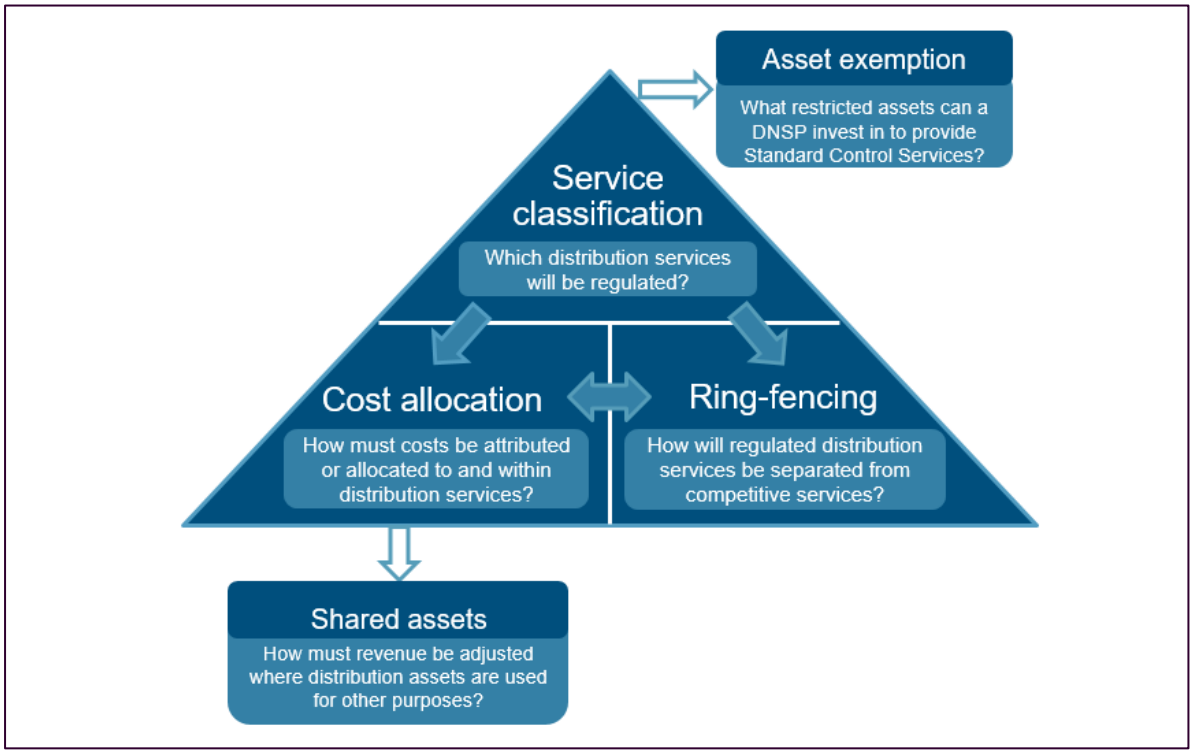
1 NER, cl. 6.2.3A. The NER refers to the *Distribution Service Classification Guidelines*. However, we use the term 'service classification guideline' for simplicity, noting that only electricity distribution services may be classified.

2 AEMC, *National Electricity Amendment (Contestability of energy services) Rule 2017*, December 2017. Also, the role of DNSPs operating in contestable markets are subject to the provisions provided in the AER's ring-fencing guideline (2017).

There are strong interrelationships between many of our Guidelines. Some of these interrelationships are illustrated in Figure 1 below. For example, the classification of a particular service affects the treatment of that service for ring-fencing purposes. Also, the Cost Allocation Guideline sets out how costs for different services must be separated, while the Shared Asset Guideline explains how assets can be shared between regulated and unregulated services. Service classification also has direct links to our Connection Charge Guideline (not shown in Figure 1), which establishes the principles and approaches for DNSPs to charge customers for connection services.

Figure 1: Interaction between elements of the regulatory framework



Source: AER

What does this guideline address?

The purpose of the Guideline is to make our approach to service classification more transparent, consistent and predictable.

The rules, and the AER's work, revolve around promoting the National Electricity Objective (**NEO**), a key focus of which is the long-term interests of consumers. A critical trade-off in making service classifications is short-term expediency of a DNSP's provision of services (typically as the incumbent sole service provider) versus the potential for the development of new and competitive markets, including through different technologies, business models or different service providers. Where competition is feasible, we prefer regulatory approaches that create opportunities for the development of competitive markets.

Where competition is not feasible, the long-term interests of consumers will be best promoted through economic regulation. In some instances, regulation is consistent with

creating opportunities for future competition.[3] For example, setting a regulated price for a service based on efficient costs of supply can create opportunities for third parties to compete with DNSPs, and for competition to develop over time.

In March 2018, we published an issues paper that considered the issues we would need to address in developing the Classification Guideline.[4] We invited submissions on four key aspects of service classification. They were:

1. Our existing 'incremental' approach to classification
2. Whether it was desirable to harmonise distribution service typology across jurisdictions
3. Our interpretation of the form of regulation factors
4. How to interpret the definition of a distribution service

Our issues paper highlighted that our approach to classifying services to date has been 'incremental'. That is, we typically looked only at new services offered by distributors and would review existing services if affected by changes to market conditions or legislation. We noted the NER allows a more bottom-up, fulsome review, of every service at every determination and that instead we had taken a more practical approach. We asked whether stakeholders considered our incremental approach appropriate.

Submissions on our Issues paper supported our incremental approach.

- AusNet Services submitted that service classification should remain relatively stable across regulatory periods and that an incremental approach to service classification is consistent with this premise.[5]
- CitiPower, Powercor and United Energy, in a joint submission supported our incremental approach adding that; "it is impracticable for the AER to assess each service against each form of regulation factor for every framework and approach paper it develops". Furthermore, "such detailed considerations would make it more difficult for stakeholders to understand and engage in the classification process." [6]
- Energex and Ergon Energy submitted that an incremental approach would allow us to take into account transitional and jurisdictional factors as we move toward greater harmonisation.[7] Jemena also supported our incremental approach to service classification suggesting a fulsome ‘bottom-up’ approach was not needed at each determination.[8]
- Red Energy and Lumo submitted that our current incremental approach to service classification is no longer fit for purpose and should be replaced with a more fulsome bottom-up approach to service classification, to be undertaken at each rate review.[9]

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3 NER, cl. 6.2.1

4 AER, *Issues paper: service classification and asset exemption guidelines*, February 2018.

5 AusNet Services, *Submission to Issues paper: classification and asset exemption guidelines*, March 2018, p. 1.

6 CitiPower, Powercor and United Energy, *Submission to Issues paper: classification and asset exemption guidelines*, March 2018, p. 4.

7 Energex and Ergon Energy, *Submission to Issues paper: classification and asset exemption guidelines*, March 2018, p. 7.

8 Jemena, *Submission to Issues paper: classification and asset exemption guidelines*, March 2018, p. 3.

9 Red Energy and Lumo, *Submission to Issues paper: classification and asset exemption guidelines*, March 2018, p. 1.

In our draft guideline, we agreed with the DNSPs that an incremental approach to service classification has many advantages. For example, an incremental approach enhances the stability of service classification and predictability of the classification process by not revisiting every classification decision at every determination. An incremental approach also makes the regulatory process simpler, in that fewer issues must be considered by the distributors, stakeholders and us.

Nevertheless, we acknowledged the issues raised by Red Energy and Lumo and their preference for a 'bottom-up approach'. We consider this type of approach is more in line with the approach set out in clause 6.2 of the NER. Therefore, the approach we adopted in the draft classification guideline was a more fulsome consideration of each distribution service. By undertaking a thorough 'bottom-up assessment' in the Guideline, we considered an incremental assessment of service classification at the time of a regulatory determination for a particular DNSP would be sufficient, where the factors affecting the classification of a service had not changed. This approach has been retained in the final Guideline.

In response to our draft guideline, Red Energy and Lumo changed their position on this issue. They agreed with our view that, having performed a bottom-up review for the purposes of creating a baseline list of services, there are then efficiency gains to be made in applying an incremental approach thereafter.[10]

[10] Red Energy and Lumo, *Submission to the draft Electricity Distribution Service Classification Guideline*, August 2018, p. 1.

2 Consultation process

To our issues paper, published in March 2018, which considered the issues we would need to address in developing a Service Classification Guideline,[11] we received seven submissions. Five submissions were from DNSPs, one came from the electricity retailers Red and Lumo Energy, and one from Trans-Tasman Energy Group, a consultant to the energy sector.

Submissions were generally supportive of improving the consistency of naming and consistency of service classification between jurisdictions, where this is practical to achieve. Our draft explanatory statement contains a discussion of the issues canvassed in our issues paper along with submissions.[12]

Baseline workshop

In May 2018, we held a workshop with DNSPs to canvass issues around the harmonisation of service naming conventions in order to develop a set of baseline services to form the basis of the worked examples[13] required by the rules. Based on the feedback we received at that workshop and in submissions, we have developed the baseline list of services that is attached to the Guideline. The list of baseline services is not binding and individual DNSPs may diverge from this list to accommodate their specific circumstances. For example, an additional or amended service may be required under state regulations that is either not required elsewhere or is provided in a different manner. Tailoring the service list relevant to a particular DNSP will still occur as part of the Framework and Approach paper.

Draft Guideline and Explanatory Statement

We released our draft guideline and explanatory statement on 29 June 2018. These documents explained why we decided to develop a baseline list of distribution services and outlined our approach to service classification. We invited feedback from stakeholders by 13 August 2018. We received five submissions from stakeholders. Four submissions were from DNSPs, and one came from Red and Lumo Energy. A summary of submissions and our response to issues raised in submissions can be found in attachment A of this Explanatory Statement.

Discussions with DNSPs during the public consultation period, along with their consequent submissions, revealed the classification of connection services to be one of the most contentious issues. This reflected the wide range of approaches across (and within) jurisdictions.

The draft explanatory statement noted that a more consistent framework for connections naming and their classification could be developed, but without proposing a firm approach.

11 AER, *Issues paper: service classification and asset exemption guidelines*, February 2018.
12 AER, *Draft Explanatory Statement for the Electricity Distribution Service Classification Guideline*, June 2018, pp. 3-6.
13 NER, cl. 6.2.3.

Connections workshop

In response to the issues raised in submissions, we held a workshop with DNSPs on 21 August 2018 to discuss a framework for describing and classifying connection services. The workshop was well attended, with representatives from all DNSPs in the NEM. AER Consumer Challenge Panel (CCP) member Mike Swanston was also in attendance to provide a consumer perspective.

3 Our approach to the classification guideline

The Guideline aims to provide more clarity, transparency and consistency in our classification decisions. Importantly, the Guideline builds on—but does not replace—existing requirements for service classification under the NER. For example, our Framework and Approach (F&A) papers must still address service classification for a forthcoming regulatory control period. We must also address service classification in the Determination. Many of our decisions on how to classify particular services are common across DNSPs and are unlikely to change over time. Classification changes are more likely at the margin where new technologies or increased competition could affect the role of a DNSP in providing a service.

Consequently, we consider the Guideline will be most useful if it provides a single and enduring assessment of the classification of services that most DNSPs provide to customers. This will allow the F&A and the Determination to focus on changes that could affect the classification of a service offered by a particular DNSP rather than the underlying baseline services that have not changed.

Therefore, we take the following approach to the Guideline:

- Focus the Guideline on the services provided by a typical or baseline DNSP
- Identify the baseline services
- Classify each of the baseline services in accordance with the NER requirements
- Allow DNSPs to depart from the baseline where this is clearly justified given a DNSP's particular circumstances.

This approach allows the Guideline to undertake a thorough consideration of the classification of each service—a bottom-up assessment. Having established the classified list of baseline services in the Guideline, in future we will only need to assess incremental changes to service classification for an individual DNSP within each F&A process. That is, service classification should be simpler at the time of the F&A and also at the Determination.

In its submission to our draft guideline, Red and Lumo Energy supported the approach of undertaking a once-off bottom-up assessment of distribution services and classification for the purposes of creating the baseline services list.[14] The fulsome consideration of each distribution service, undertaken to form the baseline services list, allows us to take an incremental approach to classification going forward. In future F&A and regulatory Determination processes, we will be able to focus on changes in technology, market conditions and other amendments to jurisdictional frameworks that require change to an individual DNSP's service classifications. We agree with Red and Lumo Energy that limiting the range of issues we will focus on will make classifying services more efficient in the future.

14 Red and Lumo Energy, *Submission on the draft Service Classification Guideline*, p. 1.

A further advantage of the baseline is that it provides a means of establishing a consistent set of service descriptions and service classifications. The service descriptions will only need to be varied where a DNSP offers a different service, where the jurisdictional circumstances warrant a different approach, or where the market for a service is different to that assumed in classifying the baseline. In addition, this approach will:

- be practical because it sets out our approach to classifying specific services rather than a likely or theoretical approach.
- show how and why we apply the form of regulation factors to the classification of a given service.
- establish enduring descriptions for each of the baseline services.
- represent a “line of best fit” across the DNSPs.

These advantages of the baseline were acknowledged in all submissions to the draft guideline.

Creating the baseline distribution services and classifications

In section 4 of this Explanatory Statement we explain how we have created the baseline of distribution services.

In section 5 we consider how the Classification Guideline interacts with other guidelines.

Sections 6 discusses other issues raised in submissions.

There are two attachments to the Guideline. Appendix A is the baseline list of distribution services. It briefly summarises each service and its description. Appendix B applies the classification rules to each of the baseline distribution services to arrive at a classification for each service.

4 Creating a baseline of distribution services

DNSPs provide a range of distribution services to the markets they serve. Across the NEM, many of these services have common features, though they often have different names. This has led to some confusion when comparing services across jurisdictions. The AEMC contestability rule change allows us to harmonise services across jurisdictions where appropriate.[15]

In section 4 of the Guideline, we set out our approach to creating a baseline of distribution services, which will serve as the foundation for the Guideline. In appendix A we provide a description of the activities performed by a DNSP in providing each baseline service. Similar types of services are gathered into groupings.

The baseline list of services serves as a guide to DNSPs in the identification, description and grouping of the services they provide. DNSPs may refine services listed in the baseline to suit their particular requirements and circumstances. However, in departing from the baseline, a DNSP should provide its reasons for doing so.

Services verses inputs

The Rules require that in setting out our approach to classifying services we distinguish between services and the inputs used to provide such services.[16] The Guideline explains that services are provided to customers, while inputs are used by a DNSP to enable it to provide a service to a customer. The term 'inputs' is taken to include all of the operating and capital inputs that contribute to the provision of a service. We do not classify inputs, as these are not offered to customers on a stand-alone basis. If an input was offered to a customer– on a stand-alone basis– then that input would become a service and could therefore be classified.

The draft explanatory statement observed that services are paid for by customers, and inputs are paid for by distributors.[17] As further guidance, we consider services and inputs can be distinguished by the following traits:

- An input differs from a service in that it is not offered to an end customer on a standalone basis.
- While a DNSP may incur costs in utilising an input, costs can only be recovered by offering services. Distribution services have prices, and are offered to distribution customers in return for payment. Inputs generally do not have prices and are not offered to customers on a stand-alone basis.
- A bundled service might be made up of several potentially separate inputs. However, if a consumer may not purchase the services separately, then the bundled service is regarded as a single service, while the potentially separate services are considered to be inputs.

15 NER, cl. 6.2.1 (b) (3).
16 NER, cl. 6.2.1 (b) (3).
17 AER, *Explanatory Statement, draft Electricity Distribution Service Classification Guideline*, June 2018, p.11.

CitiPower, Powercor and United Energy did not agree with our approach to differentiating between inputs and services.[18] They argued that whether a task is an input or a service must be independent of how it is classified, and that to define a service as something for which there is a price is a circular argument.

We do not agree with CitiPower, Powercor and United Energy. We consider our approach to differentiate between inputs and services is sufficiently clear. DNSPs (not the AER) have discretion over the services they offer to consumers. The AER is only able to determine the classification of services the distributor is in a position to provide. Inputs are used in the provision of a final service and are obtained by DNSPs for that purpose, whereas services are the end product a DNSP offers to customers. The CitiPower, Powercor and United Energy submission correctly demonstrated that a change in circumstances could bring about a change in the determination of an input to a service. If a DNSP offered a new service to customers which previously formed part of the provision of a service as an input, we may classify the new service– enabling a price to be determined.

Our Guideline retains the definition of an input as all of the capital and operating inputs that contribute to the provision of a service. Distribution services are provided to customers - usually for a price, whereas inputs are not offered to customers on a stand-alone basis.

Service groupings

Under the NER we may group distribution services together for the purpose of classification rather than classifying each individual service.[19] With respect to the baseline distribution services, we have classified each individual service. However, service groupings comprise many similar types of individual activities and services, reflecting their common attributes—for example, the similarity of services within 'metering services'. The service groupings and their descriptions encapsulate the individual services and activities they comprise.

Ascribing a service to a group of distribution services and indicating how we might classify that group, does not represent a constraint on how we might classify an individual service. Not all services, or activities within a given service group are required to have the same classification. Individual services that fit within the service grouping, but have attributes that require a different classification, can be classified separately to the rest of the group. Likewise, individual services that do not belong to any particular group can be classified individually. An example of this is the metering services grouping, which contains five services within this grouping. Type 1 to 4 metering services are contestable and therefore not regulated, or classified, whereas the other metering services are classified.

DNSPs should keep and maintain a list of services they provide. Services should be sorted by the appropriate grouping. Reviewing the list of services from time to time, ensuring that services are up to date and match descriptions, will help to ensure that the business is offering services that are demanded by customers. It will also help to avoid service scope creep into competitive markets where the DNSP may come into conflict with their ring-fencing obligations. Having a well maintained and grouped service list will also assist DSNPs

18 CitiPower, Powercor and United Energy, *Submission to draft Service Classification Guideline*, 25 July 2018, p. 3.
19 NER, cll. 6.2.1(b) and 6.2.2 (b).

to track the services they provide, leading to increased efficiencies through incremental change, rather than wholesale review during the F&A process.

Service descriptions

Service descriptions assist us in ensuring that the activities and services provided under the service name and grouping are classified correctly. The purpose of this section of the Guideline is to provide DNSPs with some guidance in setting meaningful descriptions to the services they provide.

Service descriptions should clearly relate to the nature of the activities being performed by the DNSP. They should not reflect the purpose of the activity or the mechanism by which costs are recovered. For example; a service should not be described as a 'wasted truck visit'. Rather, this service is for example, a connection or metering service where the service could not be provided because the customer was not at home. We would expect 'wasted truck visits' to be an attribute of the service not a service per se. These attributes would be identified in the pricing structure for the service. Other attributes might be 'after hours services' or other aspects affecting the cost of providing a service to a customer.

Where possible, service descriptions should match those provided in the baseline services list. The exception to this is for services which may have a similar name to those found in the baseline services list, but for operational reasons have different attributes which require the description to vary. Where this is the case, the description should provide a clear indication, when comparing across jurisdictions, as to the differences. Differences should not arise due to preferential wording only, but for demonstrated differences in the nature and operation of a given service.

4.1 Baseline service groupings

The Guideline's baseline services list covers most, if not all of the services commonly provided by DNSPs. It serves as a reference point for DNSPs in creating their own list of services. As noted in the draft explanatory statement[20], we acknowledge the baseline service is not:

- an agreed list of services for every DNSP
- an aspirational or benchmark list of services that DNSP should offer, or
- a default list of services that we fall back to in the event we do not agree with a DNSP on some aspect of its service list

Instead, the baseline provides a starting point. DNSPs can propose modifications to reflect the precise services they provide. The baseline service groups serve as a guide as to where DSNPs should group related activities and services. They represent the core services that DNSPs provide. Where DNSPs deviate from the baseline services list, they should provide reasons for doing so.

Most individual activities and services that DNSPs provide are likely to fall into one of the baseline service groupings. The baseline service groupings are set out below:

20 AER, *Explanatory Statement, draft Electricity Distribution Service Classification Guideline*, June 2018, p. 11.

(a) Common distribution service

(b) Network ancillary services

(c) Metering services

(d) Connection services

(e) Public lighting services

(f) Unregulated distribution services

Each grouping is discussed in turn below:

Common distribution service

Unlike other distribution service groupings, the common distribution service is not a group of services under a single group banner. It is a bundled suite of activities concerned with providing a safe and reliable electricity supply to customers.[21] Activities within the common distribution service group are intrinsically tied to the network infrastructure and the systems that support the shared use of the distribution network by customers. Customers use or rely on access to common distribution service activities on a regular basis. Providing a common distribution service involves a variety of different activities, such as the construction and maintenance of poles and wires and other equipment used to transport energy across the shared network. The precise nature of activities provided to plan, design, construct and maintain the shared network may change over time. Regardless of what activities make up the common distribution service, this service group involves the provision of access to the shared network transporting electricity to customers.

Network ancillary services

Network ancillary services are services that relate closely to the common distribution service but for which a separate charge applies. Network ancillary services share the common characteristics of being services provided to individual customers on an 'as needs' basis with the specific charge that can be applied to the customer(s) requesting the service (e.g. meter testing and reading at a customer's request, moving mains, temporary supply, alteration and relocation of existing public lighting assets).

Network ancillary services involve work on, or in relation to, parts of the distribution network. Therefore, similar to common distribution services, only the distributor may perform these services in its distribution area.

Metering services

All electricity customers have one or more meters that measure the amount of electricity they use.[22] Typically, metering services are made up of a number of activities including: meter provision and installation services, maintenance, and meter reading and data services. However, since the commencement of metering contestability as part of the Power of Choice

21 NER, Chapter 10 glossary.

22 All connections to the network must have a metering installation (NER, cl. 7.3.1A(a)).

reforms[23] on 1 December 2017, there are restrictions on the metering services that DNSPs can provide without a waiver from their ring-fencing obligations.[24]

We do not regulate a number of metering services that are supplied on a competitive basis. For example, type 1-4 meters are not subject to regulation under chapter 6 of the NER, even though they satisfy the definition of a distribution service where they are provided "by means of, or in connection, with a distribution system". On a short term basis, some DSNPs are continuing to provide metering support services under ring-fencing waivers[25], and there are legacy services being provided by DNSPs, such as type 5 and 6 metering services, to support the transition to full contestability. These are transitional arrangements, and we envision that the number and range of metering services provided by DNSPs will diminish over time.

One notable exception to this is type 7 metering services, which is an unmetered site (such as for lighting in a public park), which will continue to be provided by DNSPs for the foreseeable future.

Connection services

Connection refers to the physical link between a distribution system and a retail customer's premises to allow the flow of electricity.[26] It includes connection services provided to connection applicants who are small customers and large customers (as defined in the National Energy Retail Law), real estate developers, as well as embedded generators, and micro-embedded generators as defined in the NER.[27]

Public lighting services

Public lighting services are not defined in the NER. However, we have consistently defined public lighting services in other distribution determinations as:

- the operation, maintenance, repair and replacement of public lighting assets
- the alteration and relocation of public lighting assets, and
- the provision of new public lighting.

Public lighting is usually provided by DNSPs either to local councils and government departments responsible for public lighting or on their behalf. Unlike the DNSP's network of poles and wires, public lighting is not a natural monopoly. However, most DNSPs have some monopoly power to the extent that their networks of poles and wires are integral to the provision of public lighting services.

23 AEMC, *Competition in metering services information sheet*, 26 November 2015.
24 Victoria is also an exception under a separate moratorium under a Victorian jurisdictional instrument
25 For example, Ergon Energy's Mt Isa-Cloncurry network in Qld, which is not part of the NEM.
26 NER, cl. 5A.A.1.
27 NERL, Section 5 and NER Chapter 5A, cl. 5A.A.1

Unregulated services

Services where our consideration of the form of regulation factors, along with the other factors we must take into account, leads us to conclude that regulation is not required. Unregulated services are not classified.

4.2 Submissions

In their joint submission, CitiPower, Powercor and United Energy requested that the Guideline better reflect the purpose of the baseline list as a starting point from which distributors may vary for jurisdictional reasons, rather than a default list to which the AER will revert. Their concern is that over time the intent of the baseline list will be lost if not clearly articulated in the Guideline itself.[28] We agree and have revised the Guideline to make it clear it is not a default approach.

Similar to the CitiPower, Powercor and United Energy submission, AusNet Services expressed concerns that service classification should be based on NER requirements, rather than comparisons against the baseline list. The AusNet Services submission also suggested that the baseline services list be moved to the explanatory statement, and not be a part of the Guideline. AusNet Services argued that the static nature of the baseline list does not lend itself well to application for all DNSPs, and that the classifications in the Guideline can only be current at the time of publication. AusNet Services suggested that rather than providing the baseline services list as part of the Guideline that we could choose one or two services to serve as worked examples in the Guideline, and move the baseline list to the Explanatory Statement.[29]

We do not agree with AusNet Services' suggested approach of worked examples. A few worked examples would still result in the AER needing to classify each service at each Determination in accordance with 6.2.1 and 6.2.2. As explained in the draft explanatory statement, we consider it expeditious to draw on the classification of the baseline services as a means to achieve consistency over time. It will also increase transparency of what core distribution services are and how they are classified, as well as reduce repetition when classifying services for each DNSP. In practice this involves comparing the classification of services for a particular DNSP to the equivalent baseline. If a DNSP's service is comparable with the baseline list, the requirements to classify a service are greatly simplified. However, we agree that service classification should be based on NER requirements, and have reflected NER requirements for service classification in the baseline services list in the Guideline.

We have classified baseline services in accordance with the approach set out in the NER, under a given set of market assumptions. Comparison of services against the baseline allows us to take into consideration the specific jurisdictional requirements of each DNSP for each service proposed, along with any reasons the DNSP has submitted for departing from the Guideline. Jurisdictional differences and/or differences in how a service is provided are acceptable reasons for departing from the baseline services list. We will not accept changes to the baseline services list proposed by a DNSP based on simple wording preferences, but

28 CitiPower, Powercor and United Energy, *Submission on the draft Service Classification Guideline*, p. 3.
29 AusNet Services, *Submission on the draft Service Classification Guideline*, p. 2.

only for material differences in how a service is actually delivered. Qualitative explanations for departing from the Guideline are sufficient for us to make an assessment.

Submissions on connection services

As part of their role in providing the AER with advice in the long-term interest of consumers, the CCP was invited to attend consultation meetings held with the DNSPs. In relation to connections, the CCP provided some high level observations, guidance and principles to guide the development and application of the Guideline.[30]

The CCP expressed the view that, as far as practicable, the Guideline should be responsive and flexible to adapt to new technologies and new customer requirements. The CCP submission recommended that, in relation to connections in particular, the Guideline should encourage and support distributors to deliver innovative, timely and efficient connections.[31] While it is not possible to fully anticipate which emerging and future technologies will become the dominant drivers for change, the Guideline seeks to set out a framework for the classification of connections which provides clarity and consistency now and is flexible enough to allow for technological and other customer driven advancements in the future.

In the draft explanatory statement, we introduced the naming conventions from Chapter 5A in the NER to the classification of connection services. Chapter 5A of the NER is concerned with connections to a distribution system for customers and other connection applicants. The terms 'basic', 'standard' and 'negotiated' connections are described in Chapter 5A. We proposed to use these terms to describe the main types of connections. In the final Guideline we have retained this approach but expanded the framework to make it more flexible so that the different approaches in each jurisdiction can be accommodated.

In addition, "connection application and management" services and "enhanced connection" services are used to describe other less frequently requested types of connection services. The Guideline adopts these five connection service groupings to encapsulate the connection services that DNSPs provide.

Submissions from several DNSPs identified concerns with our approach to classifying connection services. Energex and Ergon Energy, for example, highlighted that regulatory arrangements and terminology for connections differ considerably across NEM jurisdictions, and also across businesses within jurisdictions. Energex and Ergon Energy questioned whether "there is any value in developing an ill-fitting baseline for connection services".[32]

We have therefore reconsidered this particular aspect of the draft guideline. We have developed a flexible framework, taking into account the more complex context in which connections occur. This complexity comes as a result of:

- Differing connection contestability arrangements which varies across the jurisdictions: ranging from competitive to monopoly and everything in between. Some aspects of these jurisdictional approaches need to be examined closely because they are more reflective

30 Mike Swanston, *Consumer Challenge Panel member, Comments on the AER Service Classification Workshop*, August 2018.

31 Mike Swanston, *Consumer Challenge Panel member, Comments on the AER Service Classification Workshop*, August 2018, p. 2.

32 Energex and Ergon Energy, *Submission to the draft Service Classification Guideline*, August 2018, p. 1.

of past practice when DNSPs held a more central role in providing all distribution services. However, more recently network services are being provided by other service providers, such as metering.

- Historic approaches that have not been subject to comparison or review: This has resulted in approaches to connections that tend to be idiosyncratic. For example, in practice, Endeavour Energy, Essential Energy and Ausgrid's approaches to connections are quite different, even though they are each subject to an accredited service scheme, which makes these services contestable in NSW. This is because different interpretations of the rules and obligations around connection requirements have not been tested. Indeed, it is evident that no two DNSPs in the NEM approach connections exactly the same way. As noted in the CCP submission, the various approaches are all compliant, despite the inconsistency.[33]

Some DNSPs have identified different components of connections, i.e. premises, extension and augmentations. We consider these as cost components of the three major connection services, and not stand alone services in their own right. However, we also acknowledge that under certain circumstances these components may receive a different classification, or not be classified at all. Separating the components of the connection process provides for increased transparency, and is an objective that is strongly supported by the CCP.[34]

The Guideline needs to be suitable for different customer classes, i.e. small customers and large customers (as defined in the National Energy Retail Law), real estate developers, as well as embedded generators, and micro-embedded generators as defined in the NER.

The following discussion focusses on connections for premises and connections that require network extensions or augmentation. It does not relate to:

- enhanced connection services, e.g. above the minimum requirements, or
- connection management services, e.g. connection application services or re and de-energisations.

Framework for connections

In table 1 below, we set out the connections service framework. The framework aligns the naming conventions used in Chapter 5A of the NER with the connection components identified by DNSPs. The result is a connections classification matrix which can be tailored for each DNSP, taking into account its jurisdictional and operational circumstances.

A table can be created for each customer type, if different service classifications are required for different customer groups. Otherwise, the table allows a distinction to be made between connection types. Alternatively, connection services can be distinguished based on aspects of a connection, such as premise connection, extension or augmentation. The classification of the baseline services depend on a range of assumptions in order to work through the classification requirements set out in 6.2.1 and 6.2.2 of the rules.

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33 Mike Swanston, *Consumer Challenge Panel member, Comments on the AER Service Classification Workshop*, August 2018, p. 1.

34 Mike Swanston, *Consumer Challenge Panel member, Comments on the AER Service Classification Workshop*, August 2018, p. 2.

Table 1: Framework for the classification of connection services

Baseline – [customer type]	Components		
	Premises	Extension	Augmentation
Basic connection	[proposed classification]	[proposed classification]	[proposed classification]
Standard connection	[proposed classification]	[proposed classification]	[proposed classification]
Negotiated connection	[proposed classification]	[proposed classification]	[proposed classification]

We anticipate DNSPs will use this framework to meet their own approaches to connection services, jurisdictional requirements and specific circumstances. We consider that creating a common set of terminology for classifying connections, increases the transparency and clarity of the jurisdictional differences and regulatory treatment of the different connection components.

4.3 Classification of the baseline distribution services

Section 3 of the Guideline[35] describes, in detail, the process we must follow under the Rules when we classify distribution services. It also sets out our approach to how we apply the factors we must take have regard to –under clauses 6.2.1 and 6.2.2 of the NER– in classifying the distribution services that make up the baseline services list. We did not receive any submissions to our draft guideline and explanatory statement on the process. As a result, we believe the process we have outlined in the Guideline is sufficiently clear and does not require any additional explanation in this Explanatory Statement. We confine the rest of this section to providing additional clarity about the classification of connection services.

Classification of connection services

Consistent with the approach set out in the NER, the AER must apply clauses 6.2.1 and 6.2.2 of NER to classify connection services. In applying these clauses, we may also have regard to 'any other relevant factor'.[36]

Other relevant factors

As noted above, the NER requires us to have regard to other relevant factors in deciding whether to classify a distribution service as a direct control service or a negotiated

35 AER, *Electricity Service Classification Guideline*, September 2018, pp. 11-22.
36 NER, cl. 6.2.2(c)(6).

distribution service[37] and in deciding whether to classify a direct control service as a standard control service or negotiated distribution service.[38] Taking into account the regulatory context, including the National Electricity Objective,[39] Chapter 5A of the NER – connection charge principles,[40] and Chapter 6 of the NER– network pricing objective and pricing principles[41] we have identified the following additional factors that are relevant to classifying connections:

- the desirability of customers being able to choose their service provider, where allowed by jurisdictional regulation, to promote the development of competition and contestable markets in order to ensure efficient costs and prices – both now and in the future.
- the desirability of driving effective competition where it is feasible and of providing effective regulation where competition is not feasible.[42]
- the desirability of efficient connection to the network, to promote clarity and transparency for customers about when and how they are required to pay for their connection. To promote efficient user-pays charging, where a DNSP can attribute the full costs of a connection or its component to a particular customer, it should do so.
- the desirability of equitable customer outcomes, both now and over time
- the desirability of regulatory good practice (in terms of the classification being clear, predictable, transparent, workable, etc.).

These 'other relevant factors' are important for ensuring that the classification of connections is aligned with the purpose and intent of the objectives and principles outlined above. The other factors are used in establishing the baseline for connection services, and should be used by DNSPs when proposing departures from the baseline.

Classifying the connection services baseline

We have applied clause 6.2.1 and 6.2.2, including the other relevant factors, to arrive at baseline classifications for connection services, making explicit assumptions about the key facts that are relevant for determining what classification is appropriate. To be clear, the baseline classification for connections services does not represent a benchmark or ideal that we would like DNSPs to adopt. Indeed, we would support the transition to greater contestability of connection services where this is feasible.[43] Importantly, the baseline, as we have defined it, demonstrates how the framework for connections can be applied in circumstances where connections are not contestable.

The guideline explicitly provides for flexibility for DNSPs to tailor the connection services they provide to suit their jurisdictional and operational circumstances. Additional tables can be created for different customer and connection types, where this is appropriate. When departing from the baseline, DNSPs should do so in consideration and with reference to

37 NER, cl. 6.2.1(c)(4).
38 NER, cl. 6.2.2(c)(6).
39 NEL, s. 7.
40 NER, cl. 5A.E.1.
41 NER, cl. 6.18.5.
42 AER Strategic Statement: https://www.aer.gov.au/publications/corporate-documents/aer-strategic-statement.
43 Such as it is in the case of NSW where connections services are fully contestable within the ASP scheme.

clauses 6.2.1 and 6.2.2 of the NER, including the other relevant factors for connection services identified in the Guideline.

In the table below we present a summary of our baseline service classifications for small and large customers, real estate developers and embedded generators. We note that not all connection services will be applicable to all customer types. We have not created different tables for the different customer types, but some DNSPs may. In arriving at the classification we have made a number of assumptions about the markets in which these services are offered. The market conditions upon which these assumptions are based may and likely will vary across jurisdictions. Our key assumptions are as follows:

- Premises connection costs are directly attributable costs dedicated to the customer connection.
- Basic connections are below the augmentation threshold and therefore do not incur extension or augmentation costs.
- Real estate developers and embedded generators should be treated the same as large customers (as defined in the National Electricity Retail Law).[44] That is, all these customers would pay the individual/dedicated connection costs while contributing to shared network costs under the cost revenue test. Notwithstanding, real estate developers and embedded generators do not pay DUOS charges.[45]

In classifying the baseline connection services, our approach is that customers should pay their dedicated connection costs, consistent with the 'other relevant factors' described above. On this basis, we have classified the premises component of connection services as alternative control. However, for the extension and augmentation components of connection, we have classified these as standard control, as these components of a connection will form part of the shared network once constructed.

For standard control services, a distributor applies the cost revenue test in accordance with its approved connections policy. The cost revenue test ensures that existing customers derive a net benefit from a new customer joining a network even if connection costs are shared across all customers. The test does this by comparing the future tariffs to be paid by the new customer (the benefit), to the cost of connecting the new customer (the cost). If the cost exceeds the benefit, a capital contribution must be paid by the new customer that will result in a connection with a net benefit to existing customers.

44 NERL, cl. 5(2).

45 Where a real estate development requires upstream extension or augmentation of the network, the developer is likely to face a larger capital contribution, than a large customer, as a result of not paying DUOS charges.

Table 2: Baseline connection service classification

Baseline	Premises	Extension	Augmentation
Basic connection service	ACS	n.a.	n.a.
Standard connection service	ACS	SCS – apply cost revenue test to extension and augmentation costs to determine capital contribution, if any	
Negotiated connection*	ACS	SCS – apply cost revenue test to extension and augmentation costs to determine capital contribution, if any	

* (real estate developers, embedded generators and connections made under chapter 5)

4.4 Other changes to the baseline services list between the draft and final Guideline.

In the draft baseline services list, we described two services which have since been relocated to different service groupings or removed from the baseline list altogether. These are discussed below.

Fault response

DNSPs have a proposed a 'fault response' service, which they describe as "attendance at a customer's premises to restore supply or investigate power quality issues where it is determined that the fault was unrelated to the distributor's equipment or infrastructure".[46] This service excludes circumstances where the fault relates to the network. Where a fault response does not relate to the DNSP's network, they would like to impose a charge, which is effectively a charge for a 'wasted truck visit'. The DNSPs suggested this type of service would discourage customers from unduly reporting outages that are not related to a DNSP's network.

We do not agree with such a service. In most cases, rectification of faults on the customer side of the connection are generally contestable and not the responsibility of the DNSP. We are of the view that a 'wasted truck visit' fee should only be associated with the alternative control service that the distributor is attempting to provide. This charge should appear as a line item in the distributor's price list for that particular alternative control service.

For example, a distributor might send a truck to a customer's premises to perform an alternative control metering service and find that no one is at home and the service cannot be performed. In this case, the distributor can charge for that truck visit on an alternative control basis because it occurred in the course of performing an alternative control service.

In many cases, customer reported faults are based on the premise that it is the distributor's equipment or infrastructure that is causing the fault. If after investigation the fault is found to be on the network side of the connection, the fault is rectified by the distributor under the common distribution service, in line with the distributor's responsibility to maintain and repair

46 For example, SA Power Networks, *Submission to the Draft Service Classification Guideline*, Appendix 1, p. 6.

its network. It does not therefore make sense to change the description and the classification of a service only after the service has been performed. We acknowledge that customers may misdiagnose faults, resulting in a wasted truck visit. But we do not agree that the solution to this problem is to change the classification of the service being provided. As a result, we have removed fault response from the baseline list of services and will deal with proposals for similar services on a case-by-case basis in each distributor's Framework and Approach and distribution determination.

Network metering

Network metering—sometimes referred to as "bulk supply point metering"—involves measurement of the flow of energy through the distribution system to support the operation of the wholesale market. In the draft guideline we grouped this activity with other metering services. However, after consulting with distributors, we agree that network metering services are sufficiently different from other metering services to justify remaining separate to the group. As a result, in the Guideline we have grouped network metering with the common distribution service. We have labelled it as "bulk supply point metering" and have retained its classification as a standard control service.

4.5 Departures from the baseline classification

The concept of a baseline of distribution services explicitly allows for departures by DNSPs to suit their particular circumstances. The CCP expressed the view that demonstrable jurisdictional requirements should apply to how a service is delivered, not the actual nature of the service itself.[47] We agree with this sentiment, but note that departures may also arise due to other reasons including the following:

- the description of the services they offer may be different to the baseline
- there may be different jurisdictional obligations that affect the nature of the services being offered
- the contestability of providing a particular service may be different from that assumed for the baseline list of services.

We anticipate a DNSP would propose departures from the baseline in its advice to us on whether the F&A paper, for a forthcoming regulatory control period, requires adjustment.[48] Alternatively, we may adopt the conventions and approaches outlined in the Guideline and will provide reasons for doing so, in the first instance, during consultation on our F&A.

4.6 Services identified within a regulatory control period

SA Power Networks submitted the services and activities that sit beneath the groups should not be considered exhaustive and, allow for new activities arising during a regulatory period to be accommodated within their relevant group.[49]

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47 Mike Swanston, *Consumer Challenge Panel member, Comments on the AER Service Classification Workshop*, August 2018, p. 2.

48 NER, cl. 6.8.1(c)(1).

49 SA Power Networks, *Submission on the draft Service Classification Guideline*, p. 2.

We agree with SA Power Networks. The Guideline outlines the approach we will take for new distribution services or activities identified within a regulatory control period. Where it is clear that the newly identified service relates to an existing service or service grouping and is consistent with the classification for that existing service or grouping, it would not make sense to expect DNSPs to wait until the next regulatory period to commence the service.

Distributors may add new services, which are consistent with existing groupings during the regulatory period, by notifying us at the time of the annual price submission, regarding the new service and the price they plan to charge.[50]

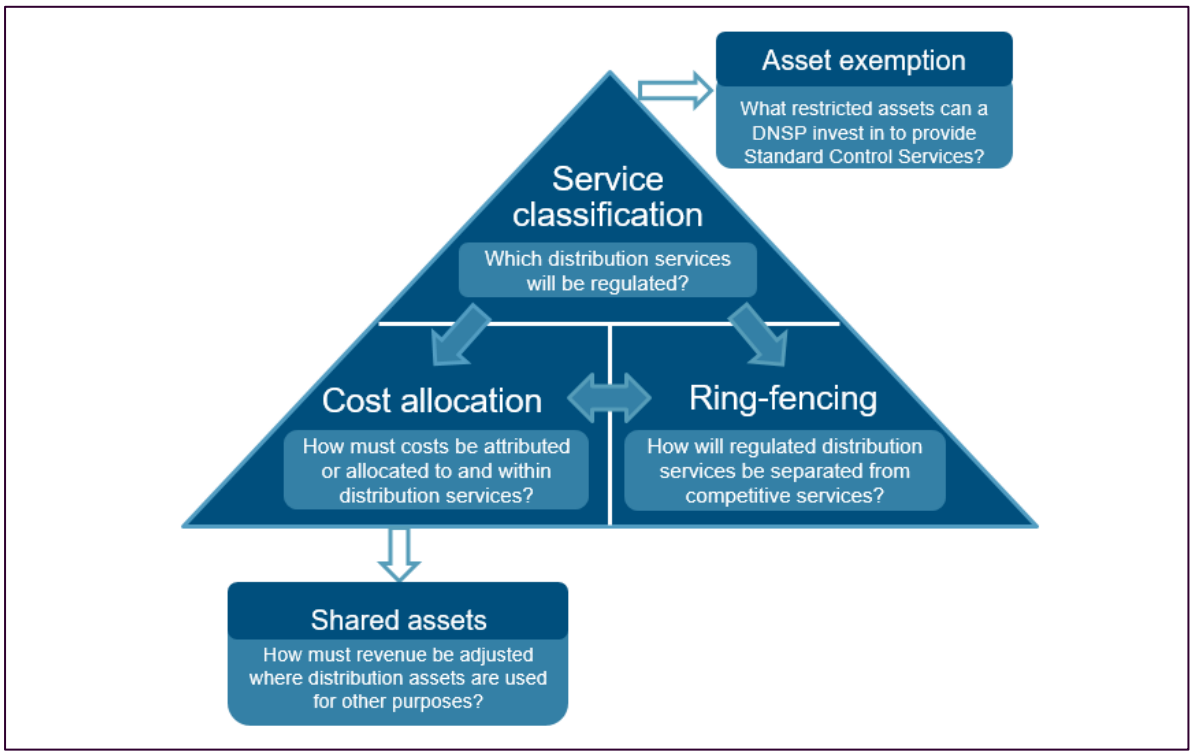
Any proposed new services that do not fit within an existing grouping and classification will be treated as an unregulated service until they can be considered at the next regulatory determination. This means that DNSPs cannot commence or continue a newly identified service, under the brand name of the DNSP within the current regulatory period, without a waiver from ring-fencing obligations. Furthermore, in the rare event where a DNSP might identify an existing service, which has not been previously listed or classified, the DNSP should immediately report a breach of their ring-fencing obligations.

50 AER, *Preliminary Framework and Approach paper for Energex and Ergon Energy*, March 2018, pp. 41-42.

5 Interaction of service classification with other aspects of the framework: case studies

The Service Classification Guideline is just one element of the regulatory framework contained in chapter 6 of the NER and in the NEL. It is important to understand how this Guideline interacts with other aspects of the regulatory framework. Figure 3 below illustrates some of the key interrelationships between the classification, ring-fencing and other guidelines.

Figure 3: Interaction between elements of the regulatory framework



Source: AER

In our draft explanatory statement, we outlined some case studies which highlight these interlinkages. Of the case studies discussed, services provided by DNSPs using their network control systems, such as frequency control ancillary services (FCAS) and Reliability and Emergency Reserve Trader (RERT) services to AEMO drew the most attention.

AusNet and CitiPower, Powercor and United Energy submitted that these services form part of the common distribution service, under 'activities related to shared asset facilitation of distributor assets', and as a result should be classified as standard control. They further argue that the revenue generated by this activity is adequately addressed by the Shared Asset Guideline (SAG).[51]

51 AusNet Services and CitiPower, Powercor and United Energy, *Submission on the draft Service Classification Guideline*, pp. 3 & 4 respectively.

We expressed the view in the draft explanatory statement that these services are becoming increasingly important to support reliability of the NEM due to the changing mix of energy sources. The provision of these services needs to be considered carefully in relation to any benefits to consumers from their provision at lower cost (where no additional costs or assets are being utilised) in comparison to the impact on the development of these markets.

Further, other issues to the provision of these services include the following:

- Risk of over investment in control systems. DNSPs may be encouraged to over invest in control systems and attribute this to meeting network requirements.
- Issues with having the SAG used to cost allocate and provide benefits to customers from the unregulated revenue generated from the use of regulated assets, which include:[52]
    - The SAG is not intended to reflect the correct allocation of costs. The use of the SAG would result in a cross subsidy.
    - The SAG cannot be used in a forward looking manner - that is when a DNSP invests in new control systems, the use of these systems must be factored in to the allocation of costs. The SAG cannot be used for future investments.
    - The SAG is designed to encourage DNSPs to use underutilised regulated assets for the benefit of customers, not as an alternative to cost allocation.
    - Use of the SAG is restricted to circumstances in which the use of assets in the RAB will not materially prejudice the use of assets for standard control services.

Given the above, we would be concerned if there were cross subsidies embedded in the provision of FCAS and RERT services. The implications of this for the development of these markets would need to be considered in the context of any application for a ring-fencing waiver in relation to these services.

In the draft explanatory statement to the guideline, we indicated that consideration of the classification of these services would be on a case-by-case basis at the time of the F&A and regulatory determination for each DNSP.

We maintain this position in this final Explanatory Statement to the Guideline, for the reasons provided above. As a result, RERT and FCAS services are not listed or classified in the baseline services list. The issues raised by DNSPs in connection to the provision of RERT and FCAS services will be addressed within their F&A and regulatory Determination processes.

52 AER, *Draft Explanatory Statement, Electricity Distribution Service Classification Guideline*, p. 23.

6 Other issues raised in submissions

Submissions to the draft guideline and explanatory statement closed on 13 August 2018. We received five submissions; four from DNSPs and one from an electricity retailer. Major issues from submissions not previously covered are discussed below, along with our response (including an explanation of the approach we have taken in the Guideline). Attachment A to this Explanatory Statement provides a complete list of issues raised in submissions and our response.

Interpretation of a distribution service

In our draft guideline and explanatory statement, we indicated that it is not our intention to add further to the definition of a distribution service provided by the NER.[53] That is; a service that is provided by means of, or in connection with a distribution system. Furthermore, we expressed our intention to continue to adopt the approach used by the Federal Court, where they found that:

> *"in connection with" does not require that the service be provided via the distribution system, as defined, only that the services be connected with that system.*[54]

This is a broad definition which allows us to consider each service on a case-by-case basis in the context of the legislation that defines distribution service and historical treatment.

CitiPower, Powercor and United Energy's submission supported this approach. They submitted that further re-definition of the term may not be applicable or correct in all circumstances.[55]

We agree with the submission, and in the final Guideline have continued with the approach outlined in the draft guideline and explanatory statement.

Harmonisation

In its submission, Red and Lumo Energy supported our approach to seek harmonisation of the service names and description where it is feasible to do so. They further submitted that the identification of baseline services, which forms the basis of harmonisation, will streamline classification during future F&A processes.[56]

SA Power Networks also supported the need for greater harmonisation of service descriptions and classification through the baseline services list. However, it cautioned against being overly prescriptive in expecting "an unreasonable degree of justification for proposed departures from the Guideline".

We consider that the flexibility offered within the Guideline strikes the appropriate balance between seeking harmonisation where it is feasible to do so, and allowing DNSPs to depart from the baseline when required.

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53 NER Chapter 10 Glossary, p.1247. a service that is provided by means of

54 *Ergon Energy Corporation v Australian Energy Regulator*, FCA 393 (19 April 2012).

55 AusNet Services and CitiPower, Powercor and United Energy, *Submission on the draft Service Classification Guideline*, p. 3.

56 Red Energy and Lumo Energy, *Submission on the draft Service Classification Guideline*, p. 1.

7 Transitional arrangements

The NER makes some allowance for transitional arrangements in the period between when the new rule commenced, in December 2017, and when the new arrangements apply in determinations for DNSPs.[57] Transitional arrangements for each of the terms within the contestability rule change are detailed below. However, for the purposes of providing a summary, the general approach established by the transitional arrangements is that the new rules do not apply to the distribution determinations for the 2019-2024 regulatory period for the NSW, ACT, Tasmanian and Northern Territory DNSPs, and that the previous rules continue to apply for those determinations.

DNSPs in South Australia and Queensland, where the preliminary Framework and Approach has been published since the commencement of the Rule change, have indicated their in-principle support for the approach we have taken in the Guideline. They are expected to adopt the baseline list of services and classification where practical. We have adopted the Rule change for the preliminary F&A for Victorian distributors, which we published in September 2018.

No presumption in favour of retaining previous classification

We note that the transitional arrangements in the new rule mean that we will still need to have regard the previous rule,[58] which required us not to depart from a previous classification or the previously applicable regulatory approach unless that different classification is clearly more appropriate. This applies to our distribution determinations for the 2019–24 regulatory period for the NSW, ACT, Tasmanian and Northern Territory DNSPs.[59]

Departures from the guideline

We note that the transitional arrangements in the new rule mean that this Guideline will not apply to our distribution determinations for the 2019–24 regulatory period for the NSW, ACT, Tasmanian and Northern Territory DNSPs.[60]

Changing service classification

The new rule changes the threshold for us changing a service classification or control mechanism between the Framework and Approach and the distribution determination from “unforeseen circumstances” to “a material change in circumstances”.[61] We note that the transitional arrangements in the new rule mean that the "unforeseen circumstances" threshold will still apply for our distribution determinations for the 2019–24 regulatory period for the NSW, ACT, Tasmanian and Northern Territory DNSPs.[62]

57 National Electricity Amendment (Contestability of energy services) Rule 2017 No. 16, cl. 11.104.3
58 NER, cll. 6.2.1(d) and 6.2.2(d) (now deleted).
59 NER, cl. 11.104.3(b).
60 NER, cl. 11. 104.3(a).
61 NER, cl. 6.12.3(b).
62 NER, cl. 11. 104.3(a).

Attachment A: Summary of submissions on the draft Electricity Distribution Service Classification Guideline and our response

Submissions to draft Service Classification Guideline and Explanatory Statement	
Submission	**AER Response**
Service grouping/harmonisation and departures from the baseline list	
SA Power Networks - The AER should not be overly prescriptive and expect an unreasonable degree of justification for proposed departures from the baseline. In subsequent decisions, DNSPs should not be required to re-justify departures from the baseline if the AER has previously approved these departures.	The Guideline and Explanatory statement sets out our approach to departures from the baseline list. In seeking to depart from the baseline list, DNSPs should set out their reasons for doing so, which we will consider. Departures should be based on jurisdictional and operational requirements, not wording preferences. Qualitative descriptions are sufficient for us to asses departures requested.
SA Power Networks - Activity lists sitting beneath service groupings should not be exhaustive and therefore accommodate new activities arising during a regulatory control period that meet the definitions of existing groupings.	The final Guideline adopts the position we took in the draft to allow for new activities and services, which are aligned with and have the same classification as existing services, to be included during a regulatory control period.
SA Power Networks - The most practical approach to treating new services/activities arising during a regulatory period is for DNSPs to report on these (including the intended price regulation approach) within annual pricing proposals.	We agree. This is the approach we have adopted in the final Guideline.
AusNet - Once a list of services and their classifications is proposed, the AER's decision should be based on the NER requirements rather than a comparison against the baseline list	We consider it correct to compare the services proposed by DNSPs to the baseline list and its classifications. We have classified services within the baseline list strictly according to NER criteria, under a given set of market assumptions, independent of regard for distributors. Comparison of services against the baseline allows us to take into consideration the specific jurisdictional requirements of each DNSP for each service proposed, along with any reasons the DNSP has submitted for departure.
AusNet - The GL goes beyond providing guidance and consider that the question of the appropriate service classification can only be dealt with in each DNSP's distribution determination and that the Guideline should not set out presumptive service classifications.	The appropriate service classification for each DNSP will be set out at the time of the final F&A and confirmed at the distribution determination. The Guideline provides service classification according to NER criteria, for a given set of assumptions, which will not suit every DNSP.
AusNet - the GL contains a level of detail that would be best left in the ES – moving the discussion of specific services and service classifications into the ES	We disagree. The Guideline offers DNSPs sufficient flexibility to tailor their services according to the needs of the market and any jurisdictional requirements that may apply.

would increase the flexibility of the GL to address matters that vary between jurisdictions	
CitiPower, Powercor and United Energy - The GL should better reflect the AER's intent that the baseline list of services is a starting point rather than a default list. CP/PC/UE are concerned that phrases used in the GL provide an impression that the baseline is a default and a distributor must 'convince' the AER to depart from it.	In the Explanatory Statement, we state that the baseline provides a starting point from which DNSPs can modify to reflect the precise services that it provides. The baseline service groups serve as a guide to where DSNPs should group related activities and services. They represent the core services that DNSPs provide. Where DNSPs deviate from the baseline services list, they should provide reasons for doing so.
Clarification of Services	
CitiPower, Powercor and United Energy - Excluding 'connection applications services' from the network ancillary services group may have been an oversight and request that it is included in the baseline. It should be classified as ACS to ensure connection applicants pay costs incurred should they not proceed with their connection.	Connection application services has been added to the Connection application and management service grouping in the baseline services list.
Inputs vs Services	
CitiPower, Powercor and United Energy - The distinction between inputs and services should not depend on whether a payment/price is made – this is an unhelpful distinction and is circular because whether a price is charged depends on whether the AER classifies the task. CP/PC/UE do not consider the AER's criteria accords with the Rules.	We acknowledge the concern raised in the submission. However, we consider that the criteria we use to differentiate between inputs and services is sufficiently clear. Inputs are used in the production of the final service and are obtained by DNSPs for that production, whereas services are the end product the DNSP offers to customers. The CitiPower, Powercor and United Energy submission correctly demonstrated that a change in circumstances can bring about a change in the determination of an input to a service. If we were to decide that customers should pay for a new service, which was previously being provided as an input, we would classify the service and set a price for it.
Connections	
CitiPower, Powercor and United Energy - Negotiated connection services should be classified as SCS to ensure connection applicants do not pay more than their fair share towards network augmentation. CP/PC/UE were of the view that if this service is ACS, connection applications will pay twice for augmentation –	We understand the concern raised. In the final Guideline we take the view that customers should pay their dedicated costs, with the cost revenue test applying where the benefits of an extension or augmentation to the network are shared with other users of the network. A capital contribution, which takes account of the

augmentation cost through ACS charge and through augmentation component included in DUoS.	incremental revenue generated by the connection, ensures that customers who require extensions or augmentation to complete the connection pay an appropriate contribution to those costs.
CitiPower, Powercor and United Energy - classifying negotiated connections as SCS will not (and currently does not) undermine contestability. Should a customer require a third party to complete the contestable works, they will receive a rebate from the distributor meaning they would be financially indifferent.	This is a feature of the Victorian connections regime, which we agree is helpful in ensuring that the cost revenue test provides an appropriate pricing signal to reflect the efficient cost of provision, leaving the customer indifferent to the supplier, based on the price of provision.
CitiPower, Powercor and United Energy - Connections made under Ch 5 of the NER should be classified in the "non-basic negotiated connections" grouping.	We have included connections made under Chapter 5 of the NER in the negotiated connections service grouping.
Energy Queensland have significant concerns with AER's approach to connection services in the draft Guideline. EQL consider that it is extremely difficult, if not impossible, to develop a common framework for grouping and classifying connection services given the myriad of existing jurisdictional policy and network differences. It would be more practical for the AER to retain the current jurisdictional approach to grouping and classifying connection services, and set out high-level principles in the Service Classification Guideline that the AER will consider in classifying connection services on a jurisdictional basis.	We agree that connections services as presented in the draft Guideline would be unworkable for many DNSPs. However, since reconsidering this aspect of the draft Guideline, we have developed, in consultation with all DNSPs in the NEM, a more flexible framework which we believe caters for the diversity of connection approaches, while delivering increased consistency and transparency.
Energy Queensland submit that connections should be excluded from the baseline list and instead should be replaced by an agreed set of high-level principles to guide the determination of connection service groupings and classifications.	We disagree with this approach. It is important to provide increased consistency and transparency in the naming and description of connection services insofar as it is possible given the diversity of jurisdictional arrangements.
Energy Queensland - The draft GL does not consider that aspects of connection services can be classified differently. The rules and the AER's connection charge guideline contemplate that different service classifications can apply to different aspects of a connection service. EQL submit that connection services should be broken down into their constituent services for service classification purposes.	We agree and have addressed these issues within the reconfigured framework.
Energy Queensland - There is no sound basis for differentiating the classification of connection services based on the GL approach. EQL does not consider that there is any economic rationale for differentiating the classification of connection services on the basis of their complexity.	We consider that the approach we have taken in the final Guideline provides flexibility, but also allows for consistency and increased transparency in the classification and provision of connection services. It also provides for opportunities

	for competition to develop where jurisdictional requirements allow. This is in the long-term interests of consumers.
Energy Queensland - The proposed default service classifications for basic, standard and negotiated connections are inconsistent with the AER's view in the ES. EQL submit that given the AER assumes there is not contestability for the purpose of the GL, it would logically follow that all connection services would be classified as SCS. **Energy Queensland** - If the AER maintains the position of developing a baseline list of connection services, EQL consider the approach adopted in recent F&As to be more useful.	Our view on connections has moved on from the one presented in the draft Guideline and Explanatory Statement. In connections, a standard control classification does not preclude effective competition. The Victorian connections regime demonstrates that competitive tendering and standard classification can coexist, with the cost revenue test providing a price signal for the provision of extensions and augmentations, leaving the customer indifferent to the provider, with regard to price. The flexible nature of the connections framework we have implemented aligns terminology with the NER and provides for the classification of the connection components. This will improve consistency and transparency of connections services across the NEM.
SA Power Networks - submitted that the intent for the classification of basic connections, non-basic connections: standard, and non-basic connections: negotiated is unclear.	The framework we have provided in the final Guideline provides the clarity SA Power Networks seeks.
RERT/FCAS	
CitiPower, Powercor and United Energy consider that their participation in RERT (and the possible use of voltage control to support FCAS) forms part of their CDS; either as part of operating the network or as activities related to 'shared asset facilitation'. Should the services be unclassified as set out by the AER, a waiver from functional separation is not required for a range of reasons specified in more detail in the CitiPower, Powercor and United Energy submission.	We maintain the position, in the final Explanatory Statement, that we set out in the draft Explanatory Statement. RERT and FCAS services are not listed or classified in the baseline services list. The issues raised by DNSPs in connection to the provision of RERT and FCAS services will be addressed within their F&A and regulatory Determination processes.
AusNet - The AER appears to have a strong presumption against allowing DNSPs to provide FCAS services. AusNet were of the view that FCAS services would fall within the definition of "activities related to 'shared asset facilitation' of distributor assets" in the baseline. Further, AusNet consider FCAS services would be treated appropriately under the Shared Asset GL. AusNet considered that the AER may be unnecessarily restrictive in its assessment of FCAS services and risks preventing DNSPs offering these services into the market.	See previous response - issues raised by DNSPs in connection to the provision of RERT and FCAS services will be addressed within their F&A and regulatory Determination processes.
Comments and suggestions for the baseline list of distribution services	

Attachment A: Summary of submissions on the draft Electricity Distribution Service Classification Guideline and our response

SA Power Networks	
The activity called "network demand management for distribution purposes" should be reworded in favour of "demand management for distribution or system reliability, efficiency or security" This ensures consistency with the ability to consider broader NEM benefits, as provided by the National Electricity Objective (NEO) and NER.	Capital and operational expenditure for the purposes of "the quality, reliability or security of supply" of standard control services are adequately covered by the NER cll. 6.5.6(a)(iii) and 6.5.7(a)(iii). We feel that adding these terms specifically to demand management (DM) goes beyond the objectives of Chapter 6 of the NER. Nevertheless, we have adjusted the description of the service, from the draft, to include both provision and procurement of DM service activities.
Connection application services seems to be missed from the baseline list.	We have included this service with connection services and retitled the name of the group to "Connection *application and management related services*"
Omission of an activity related to Network Safety Services (de-energising wires for safe approach (e .g. for tree pruning by a customer/ third party).	We have added this service to the baseline services list
Fault response – The coverage of this service needs clarification. "Attendance" should cover fault identification and rectification of an impact the customer has caused on network assets. Also seeking clarification of an activity labelled "inspection and rectification of customer fault where there may be safety and or reliability impact on the network or related component".	We do not agree with a Network Ancillary Service called "Fault Response", where the DNSP charges the customer for a visit when the fault reported is not on the network's side of the connection. It is effectively a wasted truck visit. In most cases, rectification of faults on the customer's side of the connection are generally contestable and not the responsibility of the DNSP. We are of the view that a 'wasted truck visit' fee should only be associated with the alternative control service that the distributor is attempting to provide. This charge should appear as a line item in the distributor's price list for that particular alternative control service. As a result, we have removed fault response from the baseline list of services and will deal with proposals for similar services on a case-by-case basis in each distributor's Framework and Approach and distribution determination. Distributors are responsible for the planning design, repair, maintenance, construction and operation of the distribution network, as an activity under the Common Distribution Service. We note that where distributors have identified that the cause of a fault is related to activities of a third party, or customer, that DNSPs would seek to recover costs from the party that initiated or caused the fault. Our view is that this is similar to the activity "works to fix damage to the network (including recoverable works caused by a customer or third party) which is provided as part of the standard control service with the costs recoverable from identifiable

	third parties. As a result DNSPs should account for the recoverable portion of works within their charging arrangements – as line item, rather than a "service" that they provide to customers.
Customer initiated network asset relocations/re-arrangements – asset relocations might be requested by a third party including a customer, but might also be triggered by a customer's non-compliance with network safety or security standards – the service should apply to both situations. Seeking clarification whether the AER's use of the term "initiated" applies to both.	The description of services is designed to provide additional clarity regarding the range of activities undertaken within the service grouping. Individual DNSPs can provide customers with additional clarification regarding the services they provide through their charging policies.
Customer requested provision of electricity network data – unclear if the title of the service grouping adequately reflects the service description	The service in the final baseline services list is: Third party and/or customer initiated network asset relocations/re-arrangements to reflect that other parties, apart from customers may request the relocation of assets. This service should not be confused with recoverable works to fix damage to the network caused by a third party. Where assets may need to be relocated due to the actions of a customer, these are recoverable works and are part of the common distribution service as they are closely related to the planning, design, repair, maintenance, construction and operation of the distribution network.
Metering services – seeking to clarify why a planned outage for metering services was included in the final F&A for SAPN, but omitted from the draft baseline list.	We have included Third party requested outage for purposes of replacing meter in the final baseline services list.
Enhanced connection services – omission of "other additional customer dedicated connection lines/assets" from the description in the draft baseline service list	We have added other additional customer dedicated connection lines/assets as part of the enhanced connection service grouping to the final baseline services list.