



**FINAL DECISION**  
**CitiPower distribution**  
**determination**  
**2016 to 2020**

**Attachment 13 – Classification**  
**of services**

May 2016

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## Note

This attachment forms part of the AER's final decision on CitiPower's distribution determination for 2016–20. It should be read with all other parts of the final decision.

The final decision includes the following documents:

Overview

Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 3 – Rate of return

Attachment 4 – Value of imputation credits

Attachment 5 – Regulatory depreciation

Attachment 6 – Capital expenditure

Attachment 7 – Operating expenditure

Attachment 8 – Corporate income tax

Attachment 9 – Efficiency benefit sharing scheme

Attachment 10 – Capital expenditure sharing scheme

Attachment 11 – Service target performance incentive scheme

Attachment 12 – Demand management incentive scheme

Attachment 13 – Classification of services

Attachment 14 – Control mechanisms

Attachment 15 – Pass through events

Attachment 16 – Alternative control services

Attachment 17 – Negotiated services framework and criteria

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## Shortened forms

Shortened form	Extended form
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
AMI	Advanced metering infrastructure
augex	augmentation expenditure
capex	capital expenditure
CCP	Consumer Challenge Panel
CESS	capital expenditure sharing scheme
CPI	consumer price index
DRP	debt risk premium
DMIA	demand management innovation allowance
DMIS	demand management incentive scheme
distributor	distribution network service provider
DUoS	distribution use of system
EBSS	efficiency benefit sharing scheme
ERP	equity risk premium
Expenditure Assessment Guideline	Expenditure Forecast Assessment Guideline for Electricity Distribution
F&A	framework and approach
MRP	market risk premium
NEL	national electricity law
NEM	national electricity market
NEO	national electricity objective
NER	national electricity rules
NSP	network service provider
opex	operating expenditure
PPI	partial performance indicators
PTRM	post-tax revenue model
RAB	regulatory asset base
RBA	Reserve Bank of Australia

Shortened form	Extended form
repex	replacement expenditure
RFM	roll forward model
RIN	regulatory information notice
RPP	revenue and pricing principles
SAIDI	system average interruption duration index
SAIFI	system average interruption frequency index
SLCAPM	Sharpe-Lintner capital asset pricing model
STPIS	service target performance incentive scheme
WACC	weighted average cost of capital

## 13 Classification of 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 make a decision on the classification of each distributor's distribution services in accordance with the NER.<sup>1</sup> Our final decision is to classify services consistently for all Victorian electricity distributors, namely AusNet Services, CitiPower, Jemena, Powercor and United Energy. As a result, our reasoning in regard to classification is the same for each of the five Victorian distributors. We refer to the Victorian distributors collectively in this attachment.

The classification of distribution services must be as set out in the relevant framework and approach (F&A) paper unless we consider that unforeseen circumstances justify departing from that proposed classification in our determination.<sup>2</sup> We set out our proposed approach to the classification of distribution services for the Victorian distributors in our final F&A paper published in October 2014.<sup>3</sup> In that paper, we proposed to group the Victorian distribution services as follows:

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

### 13.1 Final decision

Our final decision is to retain the proposed classification of CitiPower's distribution services according to the classification and reasons set out in our preliminary decision.<sup>4</sup> As set out in our preliminary decision, this includes:

- Classifying dedicated public lighting services as an alternative control service for 2016–20.<sup>5</sup> This is a departure from our final F&A in relation to these services. This

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

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

<sup>3</sup> AER, *Final framework and approach for the Victorian Electricity Distributors – Regulatory control period commencing 1 January 2016*, October 2014, pp. 27–72.

<sup>4</sup> AER, *Preliminary decision CitiPower, Attachment 13 Classification of services*, October 2015.

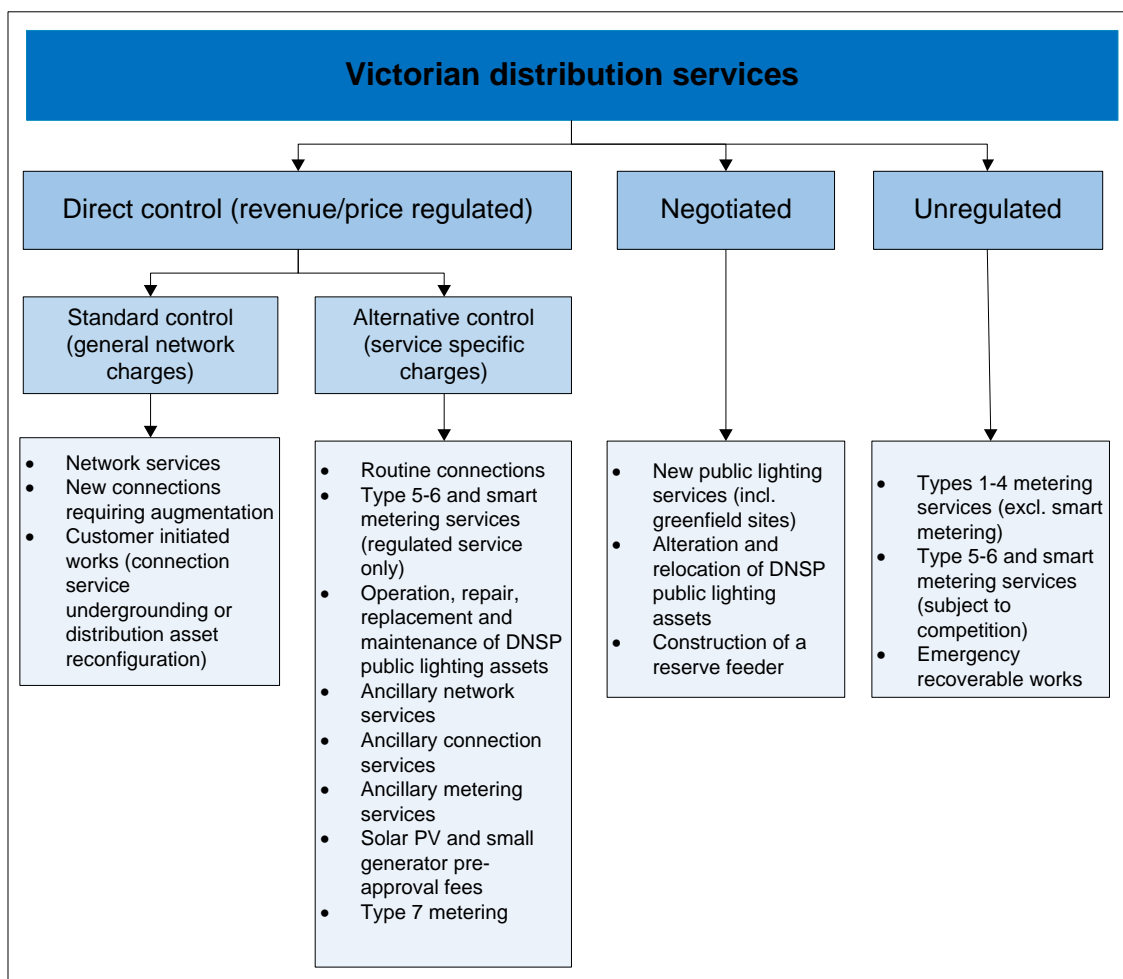
<sup>5</sup> A dedicated public lighting service is defined as a public lighting service that is a stand-alone lighting pole with no other electricity infrastructure attached.

means that our approach to classification of public lighting services in Victoria between the 2011–15 and 2016–20 regulatory control periods remains the same.<sup>6</sup>

summarises our final decision on service classifications for the Victorian distributors for the 2016–20 regulatory control period.

Appendix A sets out our detailed service classification decisions. We have developed one table to apply to all Victorian distributors. We have noted in the table any instances where a specific distributor does not provide a service.

**Figure 1 AER final decision on 2016–20 service classifications for the Victorian distributors**



Our assessment of the classification of services determines how costs associated with the services will be recovered at a very high level. That is, whether the costs of a particular service will be recovered from basic electricity charges, as an additional

<sup>6</sup> AER, Communications Notice published on 3 August 2015 titled 'Victorian Public Lighting Classification' provided stakeholders with an early indication of our intention to depart from our final F&A. The Communications Notice is available at <https://www.aer.gov.au/node/35043>.



charge, or recovered through an unregulated charge (i.e. not set by us). However, the detailed prescription of how service charges are set is not determined as part of classification. Instead, that detail is discussed in the control mechanism attachments.<sup>7</sup>

## 13.2 CitiPower revised proposal

CitiPower, in its revised proposal, has not commented on our preliminary decision for classification other than to state that the timing of when Victoria will implement chapter 5A of the NER, a component of the National Energy Customer Framework (NECF) relating to customer connections, is still unknown.<sup>8</sup>

Otherwise CitiPower did not raise concerns with our preliminary decision on service classification in its revised proposal.

## 13.3 AER's assessment approach

The NER allow us to group distribution services when classifying them rather than treating them as individual services.<sup>9</sup>

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 have no regulatory control over this service or the prices charged by the distributor (unregulated service).

In deciding whether to classify services as either direct control or negotiated services, or to not classify them, the NER require us to have regard to the 'form of regulation factors' set out in the NEL.<sup>10</sup> 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 require us to consider the previous form of regulation applied to services, the desirability for consistency in the form or regulation for similar services and any other relevant factor.<sup>11</sup>

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<sup>7</sup> Refer to attachment 14 – Control mechanism and attachment 16 – Alternative control services.

<sup>8</sup> CitiPower, *Revised regulatory proposal*, January 2016, p. 22.

<sup>9</sup> NER, cl. 6.2.1 (b).

<sup>10</sup> NER, cl. 6.2.1(c); NEL, s. 2F.

<sup>11</sup> NER, cl. 6.2.1(c).

For services we intend to classify as direct control, the NER require us to have regard to a further range of factors.<sup>12</sup> 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, and the possible effect of the classification on administrative costs.

The NER also specify that for a service regulated previously, unless a different classification is clearly more appropriate, we must:<sup>13</sup>

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

### 13.3.1 Interrelationships

In assessing what services we classify, we are setting the basis for the charges that can be levied 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.

The assets that make up the RAB and the operating costs that relate to any standard control service, form a starting point for our assessment of the distributor's proposal for recovering revenues through charges for their 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 their 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.

The incentive schemes do not apply to services classified as alternative control services. Therefore, incentive schemes will not apply to the type 5 and 6 and smart metering services (regulated) as alternative control services, or expenditure associated with these services.

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<sup>12</sup> NER, cl. 6.2.2(c).

<sup>13</sup> NER, cll. 6.2.1(d) and 6.2.2(d).

## 13.4 Reasons for final decision

This section sets out the reasons for our final decision on the distribution service classifications for the Victorian distributors. Consistent with our preliminary decision, our final decision is to depart from the classifications set out in our F&A by classifying dedicated public lighting services as alternative control services rather than negotiated distribution services.

Second, while our final decision, and our reasoning, on classification of services are otherwise unchanged from our preliminary decision and final F&A, it is useful to restate, at a high level, our approach to metering. This is because metering in Victoria differs to other NEM jurisdictions, which have also been subject to recent classification changes. The key reasons we will restate include:

- classification of metering services to address the transition from the Advanced Metering Infrastructure (AMI) Order in Council (OIC) to regulation under the NER
- a different determination of metering exit fees for the Victorian distributors than what we decided for distributors in other jurisdictions.

Finally, we also address the classification of new customer connections requiring augmentation should the Victorian Government adopt NECF during the 2016–20 regulatory control period.

### 13.4.1 Classification of dedicated public lighting services

In our final F&A, our proposed approach was to classify dedicated public lighting services as negotiated services rather than alternative control services.<sup>14</sup> A dedicated public lighting service is defined as a public lighting service that is a stand-alone lighting pole with no other electricity infrastructure attached to it.<sup>15</sup> In making this decision in the final F&A, we received a small number of submissions supporting such a change.<sup>16</sup> Our decision aligned with United Energy's submission<sup>17</sup> and the approach advocated by the Trans Tasman Energy Group (TTEG) on behalf of the Streetlight Group of Councils.<sup>18</sup>

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<sup>14</sup> AER, *Final framework and approach for the Victorian Electricity Distributors – Regulatory control period commencing 1 January 2016*, October 2014, pp. 66–68.

<sup>15</sup> AER, *Final framework and approach for the Victorian Electricity Distributors – Regulatory control period commencing 1 January 2016*, October 2014, p. 63.

<sup>16</sup> United Energy, *United Energy's Response – AER's 2016–20 preliminary positions framework and approach*, July 2014, pp. 13–14; Street Light Group of Councils submission prepared by the Trans Tasman Energy Group, *Preliminary positions on replacement framework and approach (for consultation)*, July 2014, p. 7; Citelum, *AER's preliminary positions on a replacement framework and approach 2016–20*, 1 July 2014, p. 5.

<sup>17</sup> United Energy, *United Energy's response – AER's 2016–20 preliminary positions framework and approach*, July 2014, pp. 13–14.

<sup>18</sup> Street Light Group of Councils submission prepared by the Trans Tasman Energy Group, *Preliminary positions on replacement framework and approach (for consultation)*, July 2014, p. 7.

However, in response to the Victorian distributors' initial regulatory proposals, we received numerous submissions opposing this change.

Our preliminary decision, which sets out our reasons in full, was to depart from our final F&A position and retain the current classification to public lighting services in Victoria for the 2016–20 regulatory control period. That is:

- operation, repair, replacement and maintenance of distributor-owned public lighting services remain classified as alternative control services.<sup>19</sup>
- new public lighting services, including public lights constructed by developers in greenfield sites and then gifted to the distributors, and alteration and relocation of distributor-owned public lighting assets remain classified as negotiated services.<sup>20</sup>

Each of the Victorian distributors, in their revised proposals, accepted our preliminary decision to classify dedicated public lighting services as alternative control services.<sup>21</sup> We also received submissions from Eastern Alliance for Greenhouse Action<sup>22</sup> and Trans Tasman Energy Group on behalf of the Street Light Group<sup>23</sup>, supporting our preliminary decision in this regard.

Several submissions on the distributors' initial regulatory proposals called on us to undertake further consultation during the 2016–20 regulatory control period to allow more detailed consideration of a negotiated services classification for public lighting services.<sup>24</sup> We encourage interested parties to engage with relevant bodies like Energy Safe Victoria, Essential Services Commission of Victoria, the Victorian Government, public lighting consultants and third party providers to conduct a further evaluation of this issue. There may be safety and other non-economic legislation and regulations that require further consideration and the classification issue can be revisited as part of the 2021 Victorian reset.

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<sup>19</sup> AER, *Final decision appendices – Victorian electricity distribution network services providers, distribution determination 2011–15*, October 2010, p. 2.

<sup>20</sup> AER, *Final decision appendices – Victorian electricity distribution network services providers, distribution determination 2011–15*, October 2010, p. 3.

<sup>21</sup> AusNet Services, *Revised regulatory proposal*, January 2016, p. 12.3; CitiPower, *Revised regulatory proposal*, January 2016, pl. 464; Powercor, *Revised regulatory proposal*, January 2016, p. 473; Jemena, *Revised regulatory proposal*, January 2016, *Revised regulatory proposal*, January 2016, p. 7; United Energy, *Revised regulatory proposal*, January 2016, p. 5.

<sup>22</sup> Eastern Alliance for Greenhouse Action. *Submission on AER preliminary decision for VIC EDPR 2016–20*, 6 January 2016.

<sup>23</sup> Trans Tasman Energy Group on behalf of the Streetlight Group of Councils, *Response to AER's Preliminary Decision—Victorian Electricity distribution determination 2016 to 2020*, January 2016, p. 9.

<sup>24</sup> East Gippsland Shire Council, *Submission Negotiation for Dedicated Public Lights*, 13 July 2015; VicRoads, *Final Framework and Approach for the Victorian Electricity Distribution Network Service Providers*, 13 July 2015; City of Greater Bendigo, *Response to Victorian Electricity Distribution Price Review 2016-2020 public lighting proposed change*, 13 July 2015; City of Greater Geelong, *Proposed Negotiated Distribution Service Criteria*, 13 July 2015; City of Casey, *Submission AER Public Lighting*, 13 July 2015; Yarra Ranges Council, *Submission AER regulation of dedicated street lighting*, 13 July 2015.

## 13.4.2 Metering – transition to regulation under the NER

In 2006, the Victorian Government mandated the roll out of AMI to Victorian residential and small business customers using up to 160 MWh of electricity per annum.<sup>25</sup> The meter selected for the roll-out was a type 4 'smart meter' which the Victorian Government deemed under a derogation to be a type 5 or 6 meter.<sup>26</sup> The derogation from the NER expires on or before 31 December 2016. This derogation appoints the Victorian distributors as the monopoly suppliers of type 5 and 6 metering services (which also encompasses type 4 meters when deemed to be a type 5 or 6 meter). The AMI Order issued by the Victorian Government provides that for the 2016–20 distribution determination, these services are regulated by the AER pursuant to the NEL and NER, subject to certain modifications.<sup>27</sup> Aspects of the AMI Order will continue to apply until 1 January 2021.<sup>28</sup>

As competition in metering will be introduced during the 2016–20 regulatory control period (following expiry of the derogation), it was necessary for two metering services to be classified. This was to minimise barriers to developing competition and reduce confusion around the regulation of these meters during the transition to regulation under the NER.

First, metering services provided to residential and small business customers by the distributor under the AMI Order and which continue to be supplied by the distributor until replaced by a competitively supplied meter will be classified as alternative control. The AEMC, in its consultations on introducing metering competition in Victoria, stated that:<sup>29</sup>

The NER mandates that smart metering in Victoria be classified as an alternative control service in the 2016–20 regulatory control period...

Second, to facilitate the transition to a fully competitive market, type 5 and 6 metering services supplied on a competitive basis by third parties to new residential and small business customers up to 160 MWh will be unclassified.<sup>30</sup> This unclassified service will only be offered once metering becomes fully competitive.

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<sup>25</sup> Victoria State Government, Department of Economic Development, Jobs, Transport and Resources, *Advanced metering infrastructure cost benefit analysis*, 2 August 2011, <http://www.smartmeters.vic.gov.au/about-smart-meters/reports-and-consultations/advanced-metering-infrastructure-cost-benefit-analysis/2.-background>.

<sup>26</sup> NER, cl. 9.9C. This derogation will only expire earlier than 31 December 2016 if competition in residential and small business metering services is introduced before this date.

<sup>27</sup> Advanced Metering Infrastructure Cost Recovery Order in Council made by the Governor of Victoria under section 15A and section 46D of the Electricity Industry Act 2000 (Vic) and published in the Victoria Government Gazette on 28 August 2007, as amended; AMI Order, cl. 5K.

<sup>28</sup> NER, cl. 11.17.6.

<sup>29</sup> AEMC, *Competition in metering and related services – rule change, Stakeholder workshop 5*, 9 October 2014, p. 30.

<sup>30</sup> A 'new customer' includes an existing customer who elects to replace an existing meter.

## Classification of smart meters

All Victorian distributors adopted our preliminary decision on the classification of metering services in their revised proposals.<sup>31</sup> However, Jemena submitted that the Victorian Government's derogation that type 5 and 6 meters rolled out under the AMI OIC be classified as a type 4 or 'smart meter' is problematic. Specifically, Jemena submitted:<sup>32</sup>

- The metering services for smart meters rolled out under the AMI OIC will be classified as alternative control service.<sup>33</sup> However, the AER's preliminary decision classifies metering services for type 1-4 meters as unregulated services.
- Even though the AMI OIC requires the service for smart meters to be classified as an alternative control service, the absence of a service (and corresponding regulated price) means that Jemena is not able to recover its efficient cost for providing this service.
- Jemena notes that within the grouping of 'type 5 and 6 and smart meter' the smart meter is not a defined term in the NER and therefore in the absence of clarification, a possible interpretation is to classify metering services for smart meters rolled out under AMI OIC as type 4 and therefore be unregulated services.

Jemena submitted that ideally this issue would be resolved by creating a new meter type for the smart meters rolled out under AMI OIC as the Victorian distributors proposed to the AEMC's consultation on expanding competition in metering; however, this recommendation was not adopted.<sup>34</sup> Jemena submitted the next best alternative is for the AER to define 'smart meter' as those meters deployed under the AMI OIC to ensure the grand-fathering of this fleet of meters and for the avoidance of doubt in the final decision for the 2016–20 regulatory control period.

In our Final Framework and Approach for Victoria we said:<sup>35,36</sup>

Because Victoria has had a roll-out of Advanced Metering Infrastructure (AMI), we must first introduce a new defined term — 'smart meter'.<sup>93</sup> In plain language, a smart meter is an electronic meter that replaces an older technology meter. Its special advantage is that it can be read remotely and (in

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<sup>31</sup> AusNet Services, *Revised regulatory proposal*, January 2016; CitiPower, *Revised regulatory proposal*, January 2016, p. 17; Powercor, *Revised regulatory proposal*, January 2016, p. 16; Jemena, *Revised regulatory proposal*, January 2016, p. 7; United Energy, *Revised regulatory proposal*, January 2016, p. 5.

<sup>32</sup> Jemena, *Revised regulatory proposal, attachment 2.01 – Classification of services*, January 2016, p. 5.

<sup>33</sup> Advanced Metering Infrastructure Order in Council, cl 5K (a).

<sup>34</sup> AEMC, *Rule Determination, National Electricity Amendment (Expanding competition in metering and related services) Rule 2015*, 26 November 2015, p. 528. The AEMC did not accept the Victorian distributors' recommendation as it was outside the scope of the rule change and would require a new jurisdictional derogation request from the relevant Minister.

<sup>35</sup> A derogation is a special class of rules that alter how the NER operates for a whole State (Jurisdictional derogation) or just the named market participant(s) (participant derogation).

<sup>36</sup> AER, *Final framework and approach for the Victorian Electricity Distributors – Regulatory control period commencing 1 January 2016*, October 2014, p. 48.



Victoria) has the capacity to be turned on or off remotely. Although smart meters are, technically speaking, a type 4 meter they were deemed by a Victorian Government derogation contained in clause 9.9C of the NER to be type 5-6.

We think Jemena's characterisation of the rollout of types 5 and 6 meters as type 4 is reversed. Jemena's characterisation is true after the effect of Victorian Government derogation is applied. Our definition of 'smart meter' adopts the definitions of metering types that apply in the NEM before the effect of the Victorian Government derogation is applied. Our definition is intended to specifically identify advanced meters deployed under the AMI program are subject to classification as an alternative control service as set out in the Final F&A. These metering installations do not fall into the unregulated classification of metering types 1-4. Our definition corresponds with the 'next best alternative' as submitted by Jemena and has been accepted by all the other Victorian distributors.

### **Cost allocation between metering and standard control services**

Each of the Victorian distributors proposed to allocate the costs of some metering services as though these were standard control services. This would spread the cost of those services across all customers. As the proportion of advanced metering costs re-allocated to standard control services by some distributors appears relatively high, there is a risk that this approach may create barriers to entry once metering is subject to competition. Different cost allocation approaches by distributors for metering services may also have implications for the transparency of opex benchmarking.

We received submissions on this issue from the Victorian Government, Vector Limited, CitiPower, Powercor and Jemena.<sup>37</sup> We consider this classification attachment is not the appropriate place for a detailed discussion of cost allocation issues. Once services have been classified, cost allocation determines the sharing of costs amongst the classified services and therefore determines prices paid for those services. In this case, the classification of metering and standard control services is not at issue. Rather, it is the allocation of costs to services which is at issue. A detailed discussion of this issue is provided in attachment 7 (opex).

### **Service classification summary**

Table 13.1 summarises the current classification and our final decision on the classification of metering services in Victoria.

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<sup>37</sup> Victorian Government, *Submission on the Victorian electricity distribution network service providers' preliminary distribution determinations for 2016-20*, p. 10; CitiPower, *Further submission to the AER regarding preliminary determination*, February 2016, p. 17; Powercor, *Further determination to the AER regarding preliminary determination*, p. 23; Jemena, *Submission to the Victorian EDPR process*, February 2016, p. 21.

**Table 13.1 AER's current and final decision on classification of metering services in Victoria**

Current classification	AER's final decision on metering classification
Metering types 1 to 4 – unclassified	Metering types 1 to 4 (excluding smart meters) – unclassified
Metering types 5 and 6 and smart meters - regulated service – alternative control (subject to AMI Order in Council)	<p>Metering types 5 and 6 and smart meters - regulated service - alternative control. This includes installation (including on site connection of a meter at a customer's premises, and on site connection of an upgraded meter at a customer's premises where the upgrade was initiated by the customer), provision, maintenance, reading and data services. Meter provision refers to the capital cost of purchasing the metering equipment to be installed. Meter maintenance covers works to inspect, test, maintain, repair and replace meters. Meter reading refers to quarterly or other regular reading of a meter. Metering data services involve the collection, processing, storage, delivery and management of metering data.</p> <p>Service description as above; however, the provision of this service only commences when competition in metering is introduced.</p>
Metering types 5 and 6 and smart meters - unregulated service – unclassified (service not currently provided)	<p>Metering types 5 and 6 and smart meters - unregulated service – unclassified – This includes installation (including on site connection of a meter at a customer's premises, and on site connection of an upgraded meter at a customer's premises where the upgrade was initiated by the customer), provision, maintenance, reading and data services. Meter provision refers to the capital cost of purchasing the metering equipment to be installed. Meter maintenance covers works to inspect, test, maintain, repair and replace meters. Meter reading refers to quarterly or other regular reading of a meter. Metering data services involve the collection, processing, storage, delivery and management of metering data.</p>
Meter type 7 – Alternative control	Meter type 7 – Alternative control
Auxiliary metering services – alternative control	Auxiliary metering services – Alternative control

Source: AER

### 13.4.3 Exit fees

In developing the rules with respect to competition in metering, the AEMC recognised that large exit fees for customers wishing to switch to alternative meter providers may hinder development of a competitive market for metering services.<sup>38</sup> The AEMC issued its final rule determination on expanding competition in metering on 26 November 2015. As part of its determination, it stated that until 31 December 2020, the exit fee payable will be determined by the AER in accordance with the AMI Cost Recovery Order. After 2020, the AER will determine the level of any exit fee in accordance with the regulatory framework in Chapter 6 of the NER that applies to other jurisdictions.<sup>39</sup> The Victorian AMI Order states that an exit fee must be paid to each distributor where

<sup>38</sup> AEMC, *Draft Rule Determination: National Electricity Amendment (Expanding competition in metering and related services) Rule 2015*, 26 March 2015.

<sup>39</sup> AEMC, *Rule Determination, National Electricity Amendment (Expanding competition in metering and related services) Rule 2015*, 26 November 2015, pp. xiv and 87.



a residential or small business customer switches to an alternative metering provider. The AMI Order states and clause 11.17.6(b) of the NER states that:

However, for a relevant regulatory control period, services to which exit fees under clause 7, or restoration fees under clause 8, of the AMI Order in Council applied are to be classified as alternative control services and are to be regulated by the AER on the same basis as applied under the AMI Order in Council.

The AEMC's final rule determination and the above clause limit our discretion, but we acknowledge Vector Limited's submission that allowing exit fees to remain until 2020 creates a barrier to increasing competition.<sup>40</sup> Any fee determined will need to comply with this clause in calculating an exit fee or a restoration fee.<sup>41</sup> As stated above, metering services provided to residential and small business customers by the distributor under the AMI Order and which continue to be supplied by a distributor until replaced by a competitively supplied meter will be classified as alternative control services. This classification will also apply to exit fees. This way, only customers that choose to switch metering providers will face an exit fee.<sup>42</sup>

Specifically, the Victorian distributors in their initial proposals submitted that a meter exit fee is to be paid by a retailer to the respective distributor where:<sup>43</sup>

- that retailer becomes the responsible person in respect of a metering installation for a customer with annual electricity consumption of 160MWh or less which, immediately prior to that time, included a revenue meter that is a remotely read interval meter which complies with the AMI Specifications and that has been previously installed by a Victorian distributor; and
- the responsible person in respect of that metering installation immediately prior to that time was a Victorian distributor.

The retailer would charge the exit fee back to the customer who has elected to switch metering providers or, for commercial reasons, may elect to absorb the cost themselves.

We acknowledge that exit fees will impact the rate of transition to a fully competitive market in metering services. However, clause 11.17.6 (b) of the NER and the AMI Order make it clear that an exit fee is payable. In determining the components of those fees, we will have regard to minimising the negative effects on competition and barriers

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<sup>40</sup> Vector Limited, *Submission on the AER's preliminary decision VIC EDPR, 2016–20*, 21 December 2015, p. 2.

<sup>41</sup> Restoration is where someone who switched from a distributor-provided meter to competitive provision of a meter elects to return to the regulated environment. At this time, it is unclear whether there will be a need for a restoration fee. This will depend on the outcome of the AEMC metering rule change process which is ongoing.

<sup>42</sup> This is consistent with the Victoria Department of Economic, Jobs, Transport and Resources, *Submission to Victorian electricity distribution pricing review 2016–20*, July 2015, pp. 4–5.

<sup>43</sup> AusNet Services, *Regulatory proposal*, 30 April 2015, p. 397.

to customers switching to an alternative metering provider.<sup>44</sup> The method and cost inputs used to derive the exit fees proposed by each of the Victorian distributors are considered in attachment 16 – alternative control services.

#### 13.4.4 New customer connections requiring augmentation

The Victorian distributors, in their revised proposals, noted that the Victorian Government will adopt NECF during the 2016–20 regulatory control period.<sup>45</sup> However, the timing remains unclear.

We regulate new customer connections requiring augmentation as standard control services. However, the Essential Services Commission of Victoria oversees Victorian Electricity Industry Guideline 14 relating to new connections requiring augmentation.

Our final decision is to continue classifying new connections requiring augmentation as direct control and standard control services. This is because they will continue to be subject to Guideline 14 or, if the Victorian Government adopts NECF, the AER's Connection Guideline.<sup>46</sup> New connections requiring augmentation are subject to limited contestability under Guideline 14. If this service were classified as an alternative control or negotiated service, new customers would pay more for the connection service because the expected incremental network revenue would not be taken into consideration to offset the incremental cost for connection. This was the rationale for the current service classification.<sup>47</sup>

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<sup>44</sup> AER, *Final framework and approach for the Victorian Electricity Distributors – Regulatory control period commencing 1 January 2016*, October 2014, p. 128.

<sup>45</sup> Jemena, *Revised regulatory proposal attachment 2.01– Classification of services*, January 2016, p. 4 refers to the *Electricity Industry Act and National Electricity (Victoria) Act (NEVA)* tabled before the Victorian parliament on 8 December 2015.

<sup>46</sup> AER, *Final framework and approach for the Victorian Electricity Distributors – Regulatory control period commencing 1 January 2016*, October 2014, p. 39.

<sup>47</sup> AER, *Final framework and approach for the Victorian Electricity Distributors – Regulatory control period commencing 1 January 2016*, October 2014, p. 39.

## A AER final decision on classification of distribution services in Victoria

Service group	AER's final decision – classification 2016–20	Current classification 2011–15
<b>AER service group—network services</b>		
Planning the distribution network	Standard control	Standard control
Designing the distribution network	Standard control	Standard control
Constructing the distribution network	Standard control	Standard control
Maintaining the distribution network and connection assets	Standard control	Standard control
Operating the distribution network and connection assets for DNSP purposes	Standard control	Standard control
Administrative support (call centre, billing, etc.)	Standard control	Standard control
Emergency response	Standard control	Standard control
Location of underground cables (dial before you dig)	Standard control	Standard control
<b>AER service group—connection services</b>		
Routine connections - customers up to 100 amps	Alternative control (fee-based)	Alternative control (fee-based)
Routine connections - customers above 100 amps	Alternative control (quoted)	Alternative control (quoted)
New connections requiring augmentation	Standard control	Standard control
Repair and replacement of routine connection	Alternative control (fee-based)	Alternative control (fee based)

Service group	AER's final decision – classification 2016–20	Current classification 2011–15
Supply enhancement at customer request	Unclassified	Alternative control (quoted)
Customer initiated undergrounding and/or rearrangement of distribution assets serving that customer <sup>48</sup>	Standard control	Alternative control (quoted)
Supply abolishment (>100 amps)	Alternative control (quoted)	Alternative control (quoted)
Supply abolishment (up to 100amps)	Standard control	Alternative control (fee-based)
Temporary disconnect/reconnect services <sup>49</sup>	Alternative control (fee-based) <sup>50</sup>	Alternative control (fee-based)
De-energisation of existing connections	Alternative control (fee-based)	Alternative control (fee-based)
Energisation of existing connections	Alternative control (fee-based)	Alternative control (fee-based)
PV & small generator installation pre-approval (up to 5 kW) <sup>51</sup>	Alternative control (fee-based)	Alternative control (fee-based)

<sup>48</sup> This classification applies where a customer contribution is calculated and applied in accordance with Essential Services Commission (ESCV) Guideline 14 or where a customer contribution is calculated and applied in accordance with any other relevant Victorian legislation or regulation, including regulations made under the *National Electricity (Victoria) Act, 2005*. The party requesting such works under this classification must pay the net cost of the works, subject to any rebates specified in Guideline 14 or by any other relevant Victorian legislation or regulation.

<sup>49</sup> CitiPower, *Regulatory proposal*, 30 April 2015, p. 289; Powercor, *Regulatory proposal*, 30 April 2015, p. 300; CitiPower and Powercor submitted that they do not provide this service.

<sup>50</sup> Jemena, *Regulatory proposal, Attachment 5.1 Classification of services*, 30 April 2015, p. 3 accepted that temporary disconnect/reconnect services be classified as an alternative control service, but that the charge should be calculated on a quoted basis rather than a fee basis. We do not consider that 'fee based services' and 'quoted services' are appropriate service groupings. Rather they describe the basis on which services captured in a specific service classification are charged. How the charge for a service is calculated is not a classification issue but is addressed in attachment 16 –Alternative control services.

<sup>51</sup> CitiPower *Regulatory proposal*, 30 April 2015, p. 289; Powercor, *Regulatory proposal*, 30 April 2015, p. 300; Jemena, *Regulatory proposal, Attachment 5.1 Classification of services*, 30 April 2015, p. 3; CitiPower, Powercor and Jemena all submitted that they no longer provide this service due to a change in obligations.

Service group	AER's final decision – classification 2016–20	Current classification 2011–15
PV & small generator installation pre-approval (>5kW) <sup>52</sup>	Alternative control (fee-based)	Alternative control (fee-based)
<b>AER service group—metering services</b>		
Installation, operation, repair & maintenance, and replacement of type 1-4 metering installations (excluding smart meters)	Unclassified	Unclassified
Collection of meter data, processing and storage of meter data, and provision of access to meter data for type 1-4 metering installations (excluding smart meters)	Unclassified	Unclassified
Operation of type 7 metering installations	Alternate control	Alternate control
Prescribed metering services (public lighting) — a charge for reading meter data for a type 7 meter	Alternative control	Alternative control
<b>AER service sub-group—regulated metering services for type 5, 6 and smart meters</b>		
Installation, operation, repair & maintenance, and replacement of type 5-6 metering installations (including smart meters)	Alternative control (revenue cap)	New service for 2016–20
Collection of meter data, processing and storage of meter data, and provision of access to meter data for type 5-6 metering installations (including smart meters)	Alternative control	Unclassified
Meter exit services	Alternative control	Unclassified <sup>53</sup>
Meter restoration services	Alternative control	Unclassified <sup>54</sup>

<sup>52</sup> CitiPower *Regulatory proposal*, 30 April 2015, p. 289; Powercor, *Regulatory proposal*, 30 April 2015, p. 300; CitiPower and Powercor submitted that they no longer provide this service due to a change in obligations.

<sup>53</sup> These services were not regulated by us during the 2011–15 regulatory control period, they were regulated under the AMI Order.

Service group	AER's final decision – classification 2016–20	Current classification 2011–15
Meter investigation	Alternative control (fee-based)	Alternative control (fee-based)
Special meter read (including a manual meter read)	Alternative control (fee-based)	Alternative control (fee-based)
Re-test of type 5 and 6 metering installations (including smart meters) for first tier customers with annual consumption greater than 160 MWh <sup>55</sup>	Alternative control (fee-based)	Alternative control (fee-based)
Customer to access metering data	Alternative control	Alternative control
<b>AER service sub-group—unregulated metering services for type 5, 6 and smart meters</b>		
Installation, operation, repair & maintenance, and replacement of type 5-6 metering installations (including smart meters) to new customers <sup>56</sup>	Unclassified	New service for 2016–20
<b>AER service group—public lighting services</b>		
Operation, maintenance, repair and replacement - public lighting assets	Alternative control (fee-based)	Alternative control (fee based)
Alteration and relocation of distributor public lighting assets	Negotiated	Negotiated
New public lights (that is, new lighting types not subject to a regulated charge and new public lighting at greenfield sites)	Negotiated	Negotiated
<b>AER service group—ancillary services</b>		
Fault response - not distributor fault <sup>57</sup>	Alternative control (fee-based)	Alternative control (fee-based)

<sup>54</sup> These services were not regulated by us during the 2011–15 regulatory control period, they were regulated under the AMI Order.

<sup>55</sup> CitiPower, *Regulatory proposal*, 30 April 2015, p. 290; Powercor, *Regulatory proposal*, 30 April 2015, p. 300; CitiPower and Powercor submitted that they do not provide this service.

<sup>56</sup> A 'new customer' includes an existing customer who elects to replace an existing meter.

<sup>57</sup> CitiPower *Regulatory proposal*, 30 April 2015, p. 290; Powercor, *Regulatory proposal*, 30 April 2015, p. 300; CitiPower submitted that they do not provide this service.

Service group	AER's final decision – classification 2016–20	Current classification 2011–15
Wasted attendance - not distributor fault	Alternative control (fee-based)	Alternative control (fee-based)
Service truck visits	Alternative control (fee-based)	Alternative control (fee-based)
Reserve feeder construction	Negotiated service	Alternative control (fee-based)
Reserve feeder maintenance	Alternative control (quoted)	Alternative control (fee-based)
Temporary supply services <sup>58</sup>	Alternative control (fee-based)	Alternative control (fee-based)
Rearrangement of network assets at customer request, excluding alteration and relocation of public lighting assets	Alternative control (quoted)	Alternative control (quoted)
Auditing design and construction	Alternative control (quoted)	Alternative control (quoted)
Specification and design enquiry fees	Alternative control (quoted)	Alternative control (quoted)
Elective undergrounding where above ground service currently exists	Alternative control (quoted)	Alternative control (quoted)
Damage to overhead service cables caused by high load vehicles	Alternative control (quoted)	Alternative control (quoted)
High load escorts - lifting overhead lines	Alternative control (quoted)	Alternative control (quoted)
Covering of low voltage lines for safety reasons	Alternative control (quoted)	Alternative control (quoted)
After hours truck by appointment	Alternative control (quoted)	Alternative control (quoted)
Emergency recoverable works	Unclassified	Alternative control (quoted)
Provision of possum guards	Unclassified	Unclassified

<sup>58</sup> CitiPower *Regulatory proposal*, 30 April 2015, p. 290; Powercor, *Regulatory proposal*, 30 April 2015, p. 300; CitiPower and Powercor submitted that they do not provide this service.

Service group	AER's final decision – classification 2016–20	Current classification 2011–15
Installation, repair, and maintenance of watchman lights	Unclassified	Unclassified