



DRAFT DECISION

Power and Water Corporation Distribution Determination 2019 to 2024

Attachment 12 Classification of services

September 2018

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Note

This attachment forms part of the draft decision on Power and Water Corporation's 2019–24 distribution determination. It should be read with all other parts of the draft decision.

The draft decision includes the following attachments:

Overview

Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 3 – Rate of return

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

Attachment 8 – Efficiency benefit sharing scheme

Attachment 9 – Capital expenditure sharing scheme

Attachment 10 – Service target performance incentive scheme

Attachment 11 – Demand management incentive scheme

Attachment 12 – Classification of services

Attachment 13 – Control mechanism

Attachment 14 – Pass through events

Attachment 15 – Alternative control services

Attachment 16 – Negotiated services framework and criteria

Attachment 17 – Connection policy

Attachment 18 – Tariff structure statement

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Shortened forms

Shortened form	Extended form
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
augex	augmentation expenditure
capex	capital expenditure
CCP	Consumer Challenge Panel
CESS	capital expenditure sharing scheme
CPI	consumer price index
DRP	debt risk premium
DMIAM	demand management innovation allowance (mechanism)
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
NT NER or the rules	National Electricity Rules As in force in the Northern Territory
NSP	network service provider
opex	operating expenditure

Shortened form	Extended form
PPI	partial performance indicators
PTRM	post-tax revenue model
RAB	regulatory asset base
RBA	Reserve Bank of Australia
repex	replacement expenditure
RFM	roll forward model
RIN	regulatory information notice
RPP	revenue 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

12 Classification of services

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

We are required to make a decision on the classification of Power and Water's distribution services in accordance with the NER.¹ Services are classified as direct control services or negotiated distribution services. Direct control services are further classified as standard control services or alternative control services. The classification that we apply determines the nature of the economic regulation we will apply to those services.

The classification of distribution services must be as set out in the relevant framework and approach (F&A) paper unless we consider that a material change in circumstances justify departing from that proposed classification.² We set out our proposed approach to the classification of distribution services for Power and Water in our F&A.³ We proposed to group Power and Water distribution services as follows:

- common distribution services
- ancillary services
- metering services
- connection services
- unregulated distribution services.

12.1 Draft decision

Our F&A was accepted in full by Power and Water in its proposal.⁴ Our preliminary decision is therefore to retain the classification structure set out in our F&A. Figure 12.1 summarises our draft decision on service classifications for Power and Water for the 2019–24 regulatory control period.

Appendix A sets out our detailed classification decisions.

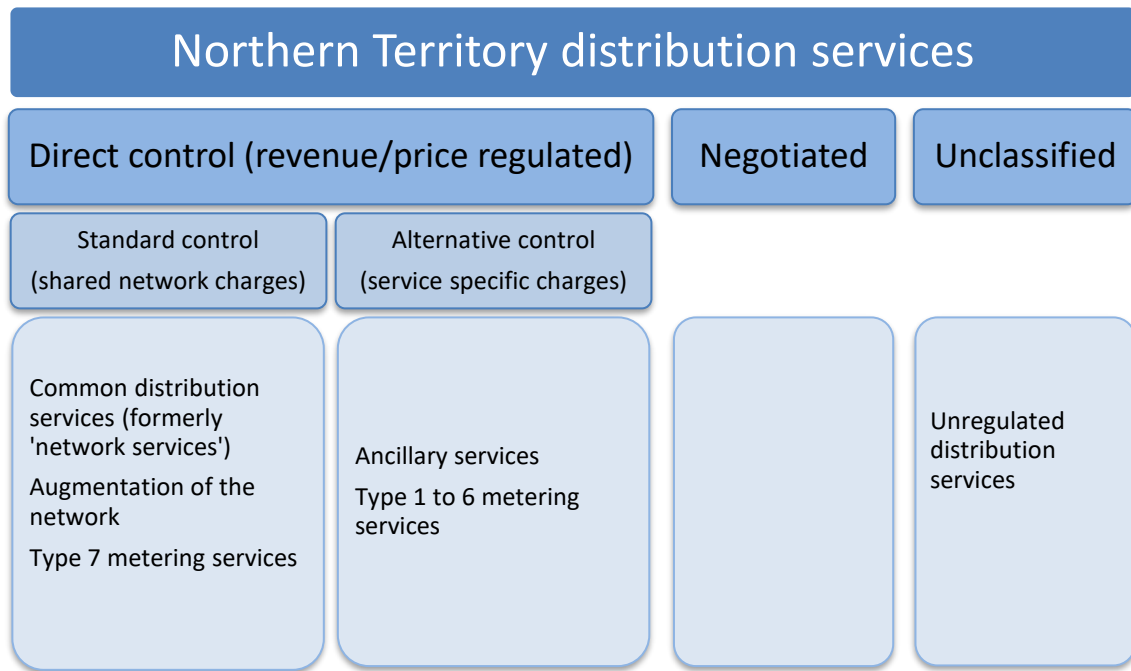
¹ NT NER, cl. 6.12.1(1).

² NT NER, cl. 6.12.3(b).

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

⁴ Power and Water Corporation, *Regulatory Proposal for regulatory control period commencing 1 July 2019*, July 2017, p. 50.

Figure 12.1 AER draft decision on 2019–24 service classifications for Power and Water Corporation



Our classification of services determines, at a very high level, how costs associated with the services will be recovered. How service charges are set is not determined as part of classification. That detail is discussed in the control mechanism attachments.⁵

12.2 Power and Water Corporation’s proposal

In its proposal Power and Water fully adopted our classification approach set out in our F&A, including:

- no negotiated distribution services
- classifying type 1-6 metering services as alternative control services (ACS)
- grouping emergency recoverable works under common distribution services as a direct control and standard control service.

Power and Water did not object to any part of our F&A.⁶

12.3 Our assessment approach

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

⁵ Refer to attachment 13 – Control mechanisms and attachment 15 – Alternative control services.

⁶ Power and Water Corporation, *Regulatory Proposal for regulatory control period commencing 1 July 2019*, July 2017, p. 50.

- classify the service, rather than the asset – we can only decide on service classification, and therefore what services we regulate, by reference to the service that is being provided. That is, distribution service classification involves the classification of services distributors supply to customers. It does not involve the classification of:
 - the assets used to provide such services
 - the inputs/delivery methods distributors use to provide such services to customers
 - services that consumers or other parties provide to distributors.
- classify distribution services in groups – our general approach to service classification is to classify services in groupings rather than individually. This obviates the need to classify services one-by-one and instead defines a service cluster, such that where a service is similar in nature it would require the same regulatory treatment. As a result, a new service with characteristics that are the same or essentially the same as other services within a group might simply be added to the existing grouping and hence be treated in the same way. This provides distributors with flexibility to alter the exact specification (but not the nature) of a service during a regulatory control period. Where we make a single classification for a group of services, it applies to each service in the group.

In making our classification decisions, we may:

- classify a service so the distributor may recover related costs from all customers (direct control – standard control service)
- classify a service so the user benefiting from the service pays (direct control – alternative control service)
- allow customers and distributors to negotiate the provision and price of some services – we will arbitrate should negotiations stall (negotiated distribution service)
- not classify a service – we do not regulate this service or the prices charged by the distributor (unregulated service).

In deciding whether to classify services as either direct control or negotiated services, or to not classify them, the NER requires us to have regard to the 'form of regulation factors' set out in the NEL.⁷ The form of regulation factors include the presence and extent of barriers to entry by alternative providers and the extent to which any distributor market power is likely to be mitigated by any countervailing user or prospective user market power. The NER also requires us to consider the previous form of regulation applied to services, the desirability of consistency in the form or regulation for similar services and any other relevant factor.⁸

⁷ NT NER, cl. 6.2.1(c); NEL, s. 2F.

⁸ NT NER, cl. 6.2.1(c).

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

In some cases, a service may previously have been regulated by another regulator, such as a state or territory economic regulator.

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

12.3.1 Interrelationships

In determining what services to classify, and the classification for each of those services, we classify, we are setting the basis for what charges can be made for those services. To allow charges to be recovered for standard control services, assets associated with delivering those services are added to the regulatory asset base (RAB). A 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 particular 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

⁹ NT NER, cl. 6.2.2(c).

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

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.

This is the first regulatory control period that we have assumed responsibility of Power and Water's electricity distribution services. The largest impact of our classification decision for the 2019–24 regulatory control period is the reclassification of type 1-6 metering services as alternative control. This was previously classified as a standard control service by NT's Utilities Commission. By doing this, the standard control RAB for Power and Water has decreased in size as the asset costs associated with metering services will no longer be recovered through the allowed revenue for standard control services. Rather, they will now be recovered through prices charged for specific metering services.

The incentive schemes do not apply to services classified alternative control. As such, classifying type 5 and 6 metering services alternative control also means the incentive schemes are no longer applied to expenditure associated with these services.

12.4 Reasons for draft decision

This section sets out our reasons for our draft decision on the distribution service classifications for Power and Water. Our decision is not to depart from the classifications set out in our F&A.

The NER requires service classifications to be as set out in our F&A unless unforeseen circumstances justify a change in classification approach.¹¹ Power and Water has accepted our F&A and no unforeseen circumstances have arisen to justify a departure from the F&A under the NER.

¹¹ NT NER, cl. 6.12.3(b).

A AER draft decision on classification of NT distribution services¹²

Service group/Activities included	Further description	Current Classification 2014–19 ¹³	Proposed classification 2019–24
Common distribution services			
Common distribution services (formerly 'network services')	<p>The suite of services involved in the use of the distribution network for the conveyance of electricity (including the service that ensures the integrity of the related distribution system) and includes but is not limited to the following:</p> <ul style="list-style-type: none"> • the planning, design, repair, maintenance, construction and operation of the distribution network • the relocation of assets that form part of the distribution network but not relocations requested by a third party (including a customer) • works to fix damage to the network (including emergency recoverable works) or to support another distributor during an emergency event • network demand management for distribution purposes • training internal staff and contractors undertaking direct control 	Standard control	Standard control

¹² The examples and activities listed in the 'Further description' column are not intended to be an exhaustive list and some distributors may not offer all activities listed. Rather the examples provide a sufficient indication of the types of activities captured by the service.

¹³ Per Utilities Commission (NT), *2014 Network Price Determination, Final determination, (Part A Statement of reasons and Part B Pricing Determination)*, February 2017. See: <http://www.utilicom.nt.gov.au/AboutTheCommission/consultations/2014/Pages/default.aspx>.

Service group/Activities included	Further description	Current Classification 2014–19 ¹³	Proposed classification 2019–24
	<p>services</p> <ul style="list-style-type: none"> • activities related to ‘shared asset facilitation’ of distributor assets • emergency disconnect for safety reasons and work conducted to determine if a customer outage is related to a network issue • bulk supply metering • rectification of simple customer fault (e.g. fuse) relating to a life support customer • neutral integrity test – where a distributor will identify the source of a fault following detection from a network issued device. Rectification work to render the network safe is limited to distribution network infrastructure. <p>Such services do not include a service that has been separately classified including any activity relating to that service.</p>		

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

Design related services	<p>Activities include:</p> <ul style="list-style-type: none"> • provision of design information, design rechecking services in relation to connection and relocation works provided contestably • specialist services where the design is non-standard, technically complex or environmentally sensitive and any enquiries related to distributor assets • the provision of engineering consulting (related to the shared distribution network). 	Alternative control	Alternative control
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Service group/Activities included	Further description	Current Classification 2014–19 ¹³	Proposed classification 2019–24
Connection application related services	<p>Activities include:</p> <ul style="list-style-type: none"> • assessing connection applications or a request to undertake relocation of network assets as contestable works and preparing offers • processing preliminary enquiries requiring site specific or written responses • undertaking planning studies and associated technical analysis (e.g. power quality investigations) to determine suitable/feasible connection options for further consideration by applicants • site inspection in order to determine the nature of the connection service sought by the connection applicant and ongoing co-ordination for large projects • registered participant support services associated with connection arrangements and agreements made under Chapter 5 of the NER. 	Alternative control	Alternative control
Access permits, oversight and facilitation	<p>Activities include:</p> <ul style="list-style-type: none"> • a distributor issuing access permits or clearances to work to a person authorised to work on or near distribution systems including high and low voltage • a distributor issuing confined space entry permits and associated safe entry equipment to a person authorised to enter a confined space • a distributor providing access to switch rooms, substations and the like to a non-LNSP party who is accompanied and supervised by a distributor's staff member. May also include a distributor providing safe entry equipment (fall-arrest) to enter 	Alternative control	Alternative control

Service group/Activities included	Further description	Current Classification 2014–19 ¹³	Proposed classification 2019–24
	<p>difficult access areas</p> <ul style="list-style-type: none"> • specialist services (which may involve design related activities and oversight/inspections of works) where the design or construction is non-standard, technically complex or environmentally sensitive and any enquiries related to distributor assets • facilitation of generator connection and operation of the network • facilitation of activities within clearances of distributor’s assets, including physical and electrical isolation of assets • assessing an application from a manufacturer to consider approval of alternative material and equipment items that are not specified in the distributor’s approved materials list. 		
<p>Notices of arrangement and completion notices</p>	<p>A distributor may be required to perform work of an administrative nature where a local council requires evidence in writing from the distributor that all necessary arrangements have been made to supply electricity to a development. This may include receiving and checking subdivision plans, copying subdivision plans, checking and recording easement details, assessing supply availability, liaising with developers if errors or changes are required and preparing notifications of arrangement.</p> <p>A distributor may also be required to provide a completion notice (other than a notice of arrangement). This applies where the customer/developer requests distributor to provide documentation confirming progress of work. Usually associated with discharging contractual arrangements (e.g. progress payments) to meet contractual undertakings.</p>	<p>Alternative control</p>	<p>Alternative control</p>

Service group/Activities included	Further description	Current Classification 2014–19 ¹³	Proposed classification 2019–24
Network related property services	<p>Property tenure services related to obtaining deeds of agreement, deeds of indemnity, leases, easements or other property tenure in relation to property rights associated with connection or relocation.</p> <p>Conveyancing inquiry services relating to the provision of property conveyancing information at the request of a customer.</p>	Alternative control	Alternative control
Site establishment services	<p>Activities include, but not limited to:</p> <ul style="list-style-type: none"> • Site establishment, including liaising with the Australian Energy Market Operator (AEMO) or market participants for the purpose of establishing NMIs in market systems, for new premises or for any existing premises for which AEMO requires a new NMI and for validation of and updating network load data. This includes processing and assessing requests for a permanently unmetered supply device. • site alteration, updating and maintaining national metering identifier (NMI) and associated data in market systems • NMI extinction, processing a request by the customer or their agent for permanent disconnection and the extinction of a NMI in market systems. • confirming or correcting metering or network billing information in market business to business or network billing systems, due to insufficient or incorrect information received from retailers or metering providers. 	Alternative control	Alternative control

Service group/Activities included	Further description	Current Classification 2014–19 ¹³	Proposed classification 2019–24
Network safety services	<p>Examples include:</p> <ul style="list-style-type: none"> • provision of traffic control services by the distributor where required • fitting of tiger tails, high load escort • de-energising wires for safe approach (e.g. for tree pruning) • work undertaken to determine the cause of a customer fault where there may be a safety impact on the network or related component. 	N/A	Alternative control
Network tariff change request	<p>Activities including a retailer's customer or retailer requesting an alteration to an existing network tariff (for example, a change from a Block Tariff to a Time of Use tariff), requiring the distributor to conduct tariff and load analysis to determine whether the customer meets the relevant tariff criteria.</p> <p>Where a distributor processes changes in its IT systems to reflect a tariff change request.</p>	Alternative control	Alternative control
Services provided in relation to a Retailer of Last Resort (ROLR) event	<p>The distributors may be required to perform a number of services as a distributor when a ROLR event occurs. For example:</p> <ul style="list-style-type: none"> • preparing lists of affected sites and reconciling data with AEMO listings, arranging estimate reads for the date of the ROLR event, preparing final invoices and miscellaneous charges for affected customers, extracting customer data, providing it to the ROLR and handling subsequent enquiries. 	Alternative control	Alternative control
Planned Interruption – Customer	Where the customer requests to move a planned interruption and	N/A	Alternative control

Service group/Activities included	Further description	Current Classification 2014–19 ¹³	Proposed classification 2019–24
requested	agrees to fund the additional cost of performing this distribution service outside of normal business hours.		
Attendance at customers' premises to perform a statutory right where access is prevented.	A follow up attendance at a customer's premises to perform a statutory right where access was prevented or declined by the customer on the initial visit. This includes the costs of arranging, and the provision of, a security escort or police escort (where the cost is passed through to the distributor).	Alternative control	Alternative control
Provision of training to third parties for network related access	Training services provided to third parties that result in a set of learning outcomes that are required to obtain a distribution network access authorisation specific to a distributor's network. Such learning outcomes may include those necessary to demonstrate competency in the distributor's electrical safety rules, to hold an access authority on the distributor's network and to carry out switching on the distributor's network. Examples of training might include high voltage training, protection training or working near power lines training.	N/A	Alternative control
Metering services			
Type 1 to 6 metering services ¹⁴	Provide type 1 to 6 metering services as set out in chapter 7A of the NER (NT), including but not limited to: <ul style="list-style-type: none"> <li data-bbox="728 1155 1025 1182">• metering coordinator 	Standard control	Alternative control

¹⁴ Type 5 meters are currently not approved for use in the Northern Territory. When referring to type 1 to 6 metering services, this includes services relating to pre-payment meters.

Service group/Activities included	Further description	Current Classification 2014–19 ¹³	Proposed classification 2019–24
	<ul style="list-style-type: none"> metering provider including providing, installing, maintaining, inspecting, replacing and testing meters meter reading including scheduled and special meter reads (e.g. move in and move out meter reading, final read on removed meter) meter data services including collection, processing, management, delivery and storage of metering data. 		
Type 7 metering services	Administration and management of type 7 metering installations in accordance with the chapter 7A of NER (NT) and jurisdictional requirements. Includes the processing and delivery of calculated metering data for unmetered loads, and the population and maintenance of load tables, inventory tables and on/off tables.	Standard control	Standard control
Customer requested provision of additional metering/consumption data	Customer requested provision of data in excess of requirements under rule 28 of the National Electricity Retail Rules (two requests per annum are permitted under this NERR) or the Electricity Retail Supply Code (NT).	Alternative control	Alternative control
Connection services			
Connection services	<p>Connection services include:</p> <p>Premises connection services includes any additions or upgrades to the connection assets located on the customer's premises (Note: excludes all metering services)</p> <p>Extensions include an enhancement required to connect a power line or facility outside the present boundaries of the transmission or</p>	Standard control	Standard control

Service group/Activities included	Further description	Current Classification 2014–19 ¹³	Proposed classification 2019–24
	<p>distribution network owned or operated by a network service provider</p> <p>Network augmentations include any shared network enlargement/enhancement undertaken by a distributor which is not an extension</p>		
Reconnections/Disconnections	<p>Disconnection and/or reconnection services (some provided in accordance with the National Energy Retail Rules). Examples include (but are not limited to):</p> <ul style="list-style-type: none"> • Disconnection visit (site visit only) • Disconnection visit (disconnection completed - technical) • Disconnection visit (disconnection completed) • Pillar box/pole top disconnection - completed • Reconnection/disconnection outside of business hours • Vacant property - site visit only • Vacant property disconnection (disconnection completed) • Shared service fuse replacement • Rectification of illegal connections • Temporary connections • Remove or reposition connection • Single phase to three phase. 	Alternative control	Alternative control

Unregulated distribution services

Service group/Activities included	Further description	Current Classification 2014–19 ¹³	Proposed classification 2019–24
Distribution asset rental	Rental of distribution assets to third parties (e.g. office space rental, pole and duct rental for hanging telecommunication wires etc.).	N/A	Unclassified distribution service