



PRELIMINARY DECISION
Ergon Energy determination
2015–16 to 2019–20

Attachment 13 – Classification
of services

April 2015

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Note

This attachment forms part of the AER's preliminary decision on Ergon Energy's 2015–20 distribution determination. It should be read with all other parts of the preliminary decision.

The preliminary 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 mechanism

Attachment 15 – Pass through events

Attachment 16 – Alternative control services

Attachment 17 – Negotiated services framework and criteria

Attachment 18 – Connection policy

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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
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

Shortened form	Extended form
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

13 Classification of services

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

We are required to make a decision on the classification of each distributor's distribution services.¹ We propose to classify services consistently for both Energex and Ergon Energy. As a result, our reasoning in regard to classification is the same for each of the two Queensland distributors. We sometimes refer to the Queensland 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.² We set out our proposed approach to the classification of distribution services for the Queensland distributors in our F&A. We proposed to group the Queensland distribution services as follows:

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

13.1 Preliminary decision

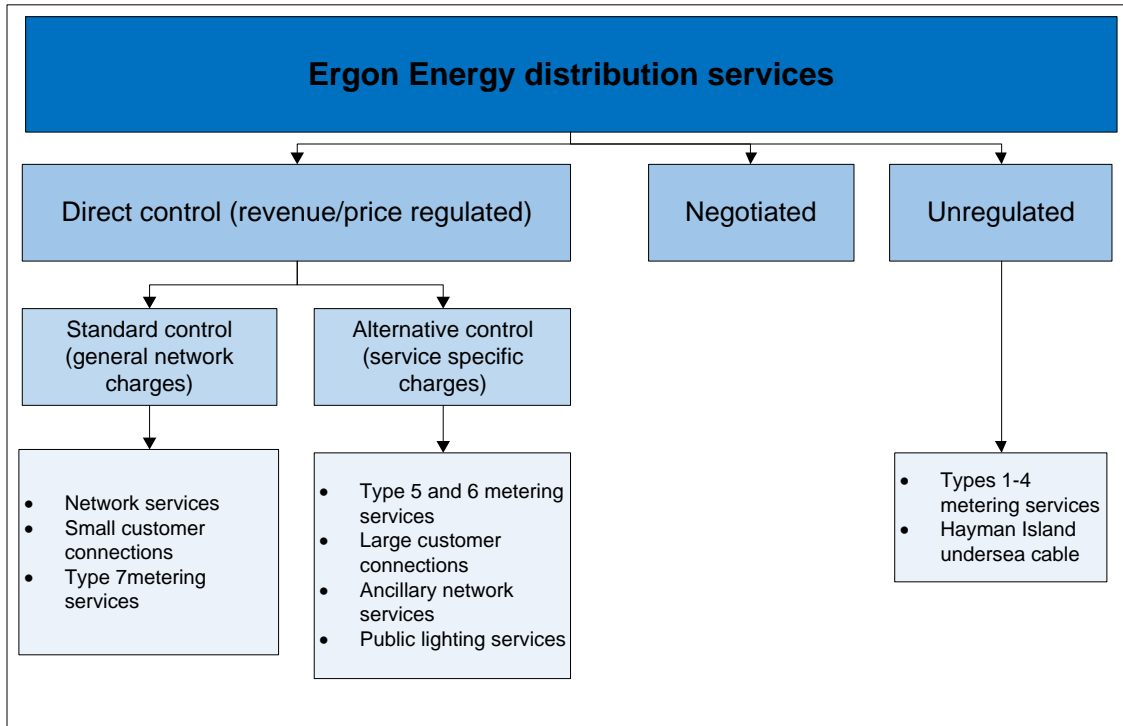
Our preliminary decision is to retain the classification structure set out in our F&A, subject to the following. We will:

- classify separate type 5 or 6 metering services for:
 - meter reading and maintenance
 - meter provision before 1 July 2015
 - meter provision after 1 July 2015
- clarify that load control services provided by equipment external to a meter is classified standard control; load control services provided by equipment internal to a type 5 or 6 meter is classified alternative control.

¹ NER, cl. 6.12.1(1).

² NER, cl. 6.12.3(b).

Figure 13.1 AER preliminary decision on classification of Queensland distribution services



In relation to the undersea cable that connects Hayman Island to mainland Australia, our preliminary decision is that the undersea cable remains an unregulated asset.

Our classification of services determines how costs associated with the services will be recovered at a very high level. However, how service charges are set is not determined as part of classification. That detail is discussed in the control mechanism attachments.³

13.2 Ergon Energy’s proposal

In its regulatory proposal Ergon Energy accepted our proposed service classifications set out in our F&A, including:

- no negotiated distribution services
- unbundling type 5 or 6 metering services from network services and classifying them alternative control
- no change to classification of small customer connections at this time
- no change to shared network augmentation at this time.

³ Refer to attachment 14 for control mechanisms and attachment 16 for alternative control services.

The distribution service descriptions set out in our F&A are intended to provide sufficient detail and examples to make clear our intended classification approach. The service descriptions were not intended to include exhaustive and comprehensive lists of all the distribution service activities undertaken by the Queensland distributors.

In its regulatory proposal Ergon Energy mapped the service descriptions we classified in our F&A to the more detailed list of activities Ergon Energy undertakes.

Ergon Energy also proposed that an unregulated undersea cable between Hayman Island and the mainland be incorporated into its RAB from 1 July 2015.⁴

13.3 AER's assessment approach

The NER allows us to group distribution services when classifying them.⁵ This means we may classify a class of services rather than specific individual services. 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 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 requires us to have regard to the 'form of regulation factors' set out in the NEL.⁶ 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 for consistency in the form of regulation for similar services and any other relevant factor.

For services we intend to classify as direct control, the NER requires us to have regard to a further range of factors.⁷ These include: the potential to develop competition in provision of a service and how our classification may influence that potential; whether

⁴ Ergon Energy, *Regulatory proposal attachment 03.01.01*, October 2014, p. 14.

⁵ NER, cl. 6.2.1 (b).

⁶ NER, cl. 6.2.1(c); NEL, s. 2F.

⁷ NER, cl. 6.2.2(c).

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 specifies that for a service regulated previously, unless a different classification is clearly more appropriate, we must:⁸

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

The assets that make up the RAB and 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 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 largest impact of our classification decision for the 2015–20 regulatory control period is reclassifying metering services from standard control to alternative control. By doing this, the standard control RAB for each Queensland distributor 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.

⁸ NER, cl. 6.2.1(d) and 6.2.2(d).

13.4 Reasons for preliminary decision

This section sets out our reasons for our preliminary decision on the distribution service classifications for the Queensland distributors. Our decision is to depart from the classifications set out in our F&A because:

- we classify separate type 5 or 6 metering services, for meter reading and maintenance, and for meter provision.

The NER requires service classifications be as set out in our F&A unless unforeseen circumstances justify a change in classification approach.⁹ In our F&A we proposed unbundling type 5 and 6 metering services from standard control services.¹⁰ Once unbundled, or separated, from standard control services we proposed to classify type 5 and 6 meter provision, maintenance, reading and data services as alternative control services. This remains our classification approach.

Our classifications are consistent with the Australian Energy Market Commission's (AEMC) Power of Choice review.¹¹ The AEMC's recommendations included:

- current metering arrangements need reform to promote investment in better metering technology and promote customer choice
- metering costs should be unbundled from shared network charges.

The AEMC also released a Power of Choice supplementary paper on metering services, exploring the arrangements necessary to implement its recommendations.¹² The AEMC recommended metering provision be contestable and open to competition.

The Queensland distributors adopted our proposal to unbundle type 5 and 6 metering in their regulatory proposals.¹³

13.4.1 Unforeseen circumstances

At the time of releasing our F&A it was not possible to foresee how the AEMC's metering rule change work program would unfold. We consider our classification decisions should have regard to the AEMC's approach, wherever possible, but we have in effect been working ahead of the AEMC's metering rule changes. That is, we have been attempting to settle classifications while the manner in which metering services will be provided by the market is still being considered..

⁹ NER, cl. 6.12.3(b).

¹⁰ AER, *Final framework and approach for Energex and Ergon Energy – Regulatory control period commencing 1 July 2015*, April 2014 pp. 18–51.

¹¹ AEMC, *Final report — Power of choice review - giving consumers options in the way they use electricity*, November 2012.

¹² AEMC, *Consultation paper — National electricity amendment (expanding competition in metering and related services)*, April 2014.

¹³ Energex, *Regulatory proposal*, October 2014, p. 72; Ergon Energy, *Regulatory proposal*, October 2014, p. 14.

When we released the F&A in April 2014 the AEMC had only just commenced its work on the metering rule change process. The COAG rule change proposal itself contains limited detail about residual meter values. It stated the AER may determine “a reasonable exit fee” to recover residual meter asset costs and that the AER may cap such fees.

We consider the AEMC's statements about exit fees were statements of general intent before any detailed examination could be carried out. We are now looking at the matter in more detail. The AEMC's statements early in its consultation process indicate its priorities were to allow the distributors to recover their metering costs and to promote development of an effective market for metering services.

The AEMC now recognises that large exit fees for customers wishing to switch to alternative meter providers may hinder development of a competitive market for metering services.¹⁴ The AEMC's work program on the COAG rule change proposal remains in process. We consider the AEMC's work program on the metering rule change represents an unforeseen circumstance justifying a change in classification approach from our F&A.

When we released our F&A we also did not foresee the size of the Queensland distributors' proposed exit fees. We consider that the proposed exit fees, intended to recover both residual meter capital costs and administration costs, would present a material barrier to entry for alternative metering providers. This would undermine development of a competitive market for metering services. We consider the distributors' proposals therefore justify a change in classification approach.

In response to the Queensland/SA regulatory proposals, we received submissions opposed to exit fees and supporting our proposed approach from the Queensland Farmers Federation, Council of the Ageing, Metropolis Metering, AGL, Vector, Simply Energy, the Australian PV Institute and QCOSS. We consider these submissions give further weight to changing our classification approach for metering services.

Energex retained in its RAB a portion of its unbundled type 5 or 6 meters that it attributed to load control equipment. This was not our intention at the time the F&A was published. Our F&A classified load control services in a manner that is consistent with this preliminary decision. Therefore, the only changes that are required are with respect to the description of load control services rather than classification. However, to the extent others may consider this is a change in classification, we are satisfied the change in circumstances was unforeseen, as noted above. We therefore consider we are justified in making changes necessary to clarify our intent in regard to load control.

¹⁴ AEMC, *Draft Rule Determination: National Electricity Amendment (Expanding competition in metering and related services) Rule 2015*, 26 March 2015.

13.4.2 Exit fees

When a distributor first installs a type 5 or 6 meter, it does not charge customers upfront for the whole cost of the meter. Rather, these costs are recovered over time. If a customer chooses to switch metering providers, the distributor provided meter is unlikely to have been paid for in full. This creates a residual capital cost.

In our F&A we classified an alternative control service for the Queensland distributors to recover residual capital costs created by customers switching to another metering provider.¹⁵ We intended this service would facilitate an exit fee, charged by the distributors to switching customers. The Queensland distributors adopted this approach in their regulatory proposals. The proposed fees were intended to cover both the cost of the existing meter and administrative costs associated with its removal (exit fee), or just the cost of the meter (transfer fee). Energex and Ergon Energy proposed a range of fees up to \$324 per meter.¹⁶

The NEL and NER require us to have regard to the development of competition in deciding appropriate service classifications. We consider fees such as proposed by the Queensland distributors would present a significant barrier to customers switching to an alternative metering provider. This would inhibit development of a competitive market in metering services and prevent or delay customer uptake of smart meters. In turn, this would delay realisation of network and customer benefits from smart meters.

Our preliminary decision is that the residual capital value of a redundant type 5 or 6 meter may be recovered by a separate alternative control service—discussed in the section below.

As for the Queensland distributors' administrative costs, we consider the distributors have not provided evidence to sufficiently justify charging exit fees to customers switching to an alternative metering provider. Therefore, our preliminary decision is to not classify an exit fee, or transfer, service. Further details of our reasoning are set out in attachment 16.

13.4.3 Residual meter value

To allow the Queensland distributors to recover their residual metering capital value and their administrative costs, our preliminary decision is to classify four separate alternative control services:

1. Type 5 or 6 meter reading and maintenance.

This covers the operating costs incurred by a distributor in operating a meter. Customers may avoid this ACS charge by switching to an alternative metering provider.

¹⁵ AER, *Final framework and approach for Energex and Ergon Energy – Regulatory control period commencing 1 July 2015*, April 2014 p. 116.

¹⁶ Energex, *Regulatory proposal*, p. 280; Ergon Energy, *Regulatory proposal*, p. 51.

2. Type 5 or 6 meter provision—pre 1 July 2015.

This service allows distributors to recover the cost of meters installed before 1 July 2015. The fee for this service will reflect the pool of distributor provided type 5 or 6 meters, both active and redundant, until their value is depreciated away.

3. Type 5 or 6 meter provision—post 1 July 2015.

This service will allow distributors to recover the cost of a meter installed on or after 1 July 2015.

The above metering services are reflected in appendix A.

In its submission to us on its own regulatory proposal, Ergon Energy noted we had proposed to classify a standard control service for residual meter value cost recovery in our draft NSW/ACT distribution decisions.¹⁷ Ergon Energy submitted that it would be difficult for us to justify changing our classification approach in the Queensland context because the AEMC's rule change process began before we released our Queensland F&A. Ergon Energy also submitted that it would be inappropriate to classify a standard control service to recover asset costs related to an alternative control service.

As discussed in the section above, we do not agree with Ergon Energy that unforeseen circumstances have not arisen. We consider unforeseen circumstances justify us changing our classification approach for type 5 or 6 metering. Ergon Energy's concerns around us classifying a new standard control service are not applicable to our preliminary decision for the Queensland distributors. We have also amended our classification approach for our final NSW/ACT distribution decisions.

13.4.4 Load control

Load control permits a distributor to control an appliance connected at a customer's premises. Distributors use controlled load to reduce demand on the network at peak periods. By doing so, the distributors avoid the need for more expensive investment in network augmentation.

We understand that in the past load control equipment was installed separately from meters. Modern electronic meters have the capacity to provide load control functions as well as metering functions. Hence, load control services may now be provided by meters themselves rather than by separate equipment.

In our F&A we commented that load control services may be considered network services and classified standard control because all customers benefit from lower overall network costs.¹⁸ At the same time, we unbundled type 5 or 6 metering services from standard control, classified these alternative control, and classified an additional new alternative control service for metering related load control. Our intention was to

¹⁷ Ergon Energy, *Submission on the Queensland regulatory proposals issues papers*, January 2015, p. 7.

¹⁸ AER, *Final framework and approach for Energex and Ergon Energy – Regulatory control period commencing 1 July 2015*, April 2014 pp. 18–51.

consistently classify as alternative control any services provided by an unbundled type 5 or 6 meter. We described this service as "install metering related load control" and grouped it with ancillary metering services.

Ergon Energy did not comment on load control in its regulatory proposal. However, in its submission on its own regulatory proposal, Energex said our approach to classify an alternative control service for load control was inconsistent with our discussion of load control as a network service. Energex submitted that load control should remain a standard control service, whether or not it is provided by a meter or by separate equipment. Energex argued that the classification of load control services should be based on the functionality of the service (i.e. to provide network support) rather than on the location of the physical asset.

We understand Energex retained in its RAB a portion of the value of each of its modern type 6 meters, reflecting what it considered to be the load control portion of each meter.

While not clear from Energex's written submissions, from staff level discussions we understand Energex prepared its regulatory proposal considering that a standard control classification would provide it with a level of control over the use of load control services. However, we consider that where load control devices are situated within a meter it is not possible to separate the load control services from the meter itself. If a meter is replaced by a customer, the load control device will be removed also.

A customer can already make a controlled load redundant by switching to a different type of appliance (e.g. moving from off peak hot water to solar hot water). We consider the notion that a standard control classification could provide distributors with greater control over the customer's load is unfounded. We acknowledge distributors rely on load control to manage their networks. However, we do not accept that to be effective distributors need load control services to be classified as standard control or that load control devices need to be a part of the RAB.

Load control uptake can be achieved through arrangements with customers, through tariff or other agreements, giving them incentive or reason to allow a distributor to control the customer's load. Consequently, we do not agree load control devices embedded in a meter should be classified as standard control. This remains our view.

We consider we need not change our service classifications from those set out in the Queensland F&A. We have already classified an ancillary metering service for metering related load control. We consider that to clarify our classification approach, amendments are required to the existing description of services set out in our classifications table at Appendix A.

For the avoidance of doubt, we consider load control services provided by equipment located outside a type 5 or 6 meter are grouped with network services and classified standard control. Load control services provided by a type 5 or 6 meter are grouped with ancillary metering services and classified alternative control.

13.4.5 Hayman Island

Ergon Energy owns an undersea cable that provides a connection service from Hayman Island to its network. Since its construction around 15 years ago, the undersea cable has been unregulated. A customer connection agreement exists between Ergon Energy and Mulpha Australia Limited (Mulpha) (operator of Hayman Island). The connection agreement commenced in 1999 and ran for an initial 15 year period. An automatic renewal for a further 15 years commenced in late 2014.

The renewed contract continues on the same terms. However, the prices to be applied under the renewed contract during the further term are in dispute.¹⁹ If the undersea cable is regulated, the charges will be approved by us. Mulpha explained in its submission that it does not wish this to occur because it considers that regulation would result in higher prices than those that would be payable under the contract.²⁰ If the cable remains unregulated, the charges will be determined between the parties, or if need be, through a dispute resolution mechanism set out in the contract.

In reaching our preliminary decision not to regulate services provided by the undersea cable, we have had regard to, among other things, the form of regulation factors as required by the NER. Specifically, we consider that the existence of the contract mitigates Ergon Energy's market power and there is a prospect that this matter may be resolved commercially. We understand that discussions are ongoing between the parties. We discuss our reasons further below. Notwithstanding our preliminary decision, we are open to hearing further submissions from Ergon Energy and Mulpha on a possible resolution to this dispute prior to our final decision.

AER consideration

As the undersea cable has not previously been regulated, before we may add it to the RAB under cl. S6.2.1(e)(8) of the NER as proposed by Ergon Energy, we must first consider whether the asset will be used to provide standard control services.

As stated above, service classifications must be as set out in the F&A unless we consider unforeseen circumstances justify us departing from them.²¹ Ergon Energy did not, during the F&A development process, raise the possibility of changing the classification. Consequently we did not explicitly consider this issue in our F&A.

Ergon Energy's proposal to regulate the cable and Mulpha's objection were not known to us when we published our F&A in 2014. In its previous regulatory proposal, for 2010–15, Ergon Energy stated the undersea cable was a 'non-distribution service' and was therefore 'not regulated by the AER'.²² Given the change in circumstances, we are

¹⁹ Mulpha Australia Limited, *Submission on Ergon Energy regulatory proposal*, February 2015, pp. 3–4.

²⁰ Mulpha Australia Limited, *Submission on Ergon Energy regulatory proposal*, February 2015, p. 2.

²¹ NER, cl. 6.12.3(b).

²² Ergon Energy, *Regulatory proposal for 2010–15*, July 2009, p. 112.

satisfied that we are justified to change our classification approach, should we consider a change to be appropriate.

In classifying a service, the NER requires the AER to consider whether it is a 'distribution service', and then have regard to the matters in clause 6.2.1(c). These are:

- the form of regulation factors²³ in s 2F of the NEL;
- the form of regulation (if any) previously applicable to the relevant service or services and, in particular, any previous classification under the present system of classification or under the previous regulatory system (as the case requires);
- the desirability of consistency in the form of regulation for similar services (both within and beyond the relevant jurisdiction); and
- any other relevant factor.

After considering these factors, we may classify a service as a direct control service, a negotiated distribution service, or decide against classifying a service. If unclassified, the service would not be regulated under the NER. We consider the factors below.

Ergon Energy submitted that the undersea cable, substation and associated assets provide distribution services.²⁴ That is, that it is a service provided by means of, or in connection with, a distribution system.²⁵ We consider that services provided by means of the cable are of a type that the AER could consider for classification as a standard control service.

We understand that, in general, undersea cables connecting islands to Ergon Energy's network are either owned by the islands or by Ergon Energy. Where Ergon Energy owns a cable (as in the case of Hayman Island), charges are set to recover the full cost of the cable through network charges. Otherwise the costs of cable construction and maintenance are met by the island's operator. While it is desirable that there be consistency in the form of regulation for similar services, we consider that the particular circumstances of this matter suggest that the relevant services should remain unregulated.²⁶

We consider that potential alternatives exist to Ergon Energy providing a link between Hayman Island and its mainland network. For example, Mulpha could offer to purchase the cable from Ergon Energy or construct its own undersea cable. In terms of the form of regulation factors we are required to have regard to, we consider it likely that barriers to alternative provision of the service are not insurmountable.²⁷ Mulpha would continue to depend on Ergon Energy to connect a new undersea cable to Ergon

²³ NER, cl. 6.2.1 and NEL, s. 2F.

²⁴ Ergon Energy, *Regulatory proposal, Attachment 03.01.01*, October 2014, p. 14.

²⁵ NER, chapter 10, glossary.

²⁶ NER, cl. 6.2.1(a)(3).

²⁷ NEL, ss. 2F(a).

Energy's network,²⁸ but this would be the case irrespective of who might own the undersea cable.²⁹

Mulpha submitted it wishes the current connection agreement to continue and for the undersea cable to remain unregulated.³⁰ The nature of the contract, which includes a dispute resolution process, mitigates market power possessed by Ergon Energy during the term of the agreement.³¹ We also consider that, given the existence of the connection agreement, it is likely both parties have adequate information to negotiate on an informed basis.³²

Clause 6.2.1 of the NER also permits us to have regard to any other relevant factor.³³ In this instance, a connection agreement has been in place for a significant period of time. The customer clearly wants the connection agreement to continue, suggesting the current classification (unregulated) be retained.³⁴ At this time a dispute has arisen around unregulated charges. We note that were the asset to be added to the RAB, the current dispute between Mulpha and Ergon Energy over the prices to apply during the further term of the contract would be resolved with prices being set by us. The various factors to be considered, therefore, could lead us to different classifications of this asset, including not classifying the asset.

In considering this matter, we note Ergon Energy stated the cable would be included in the RAB.³⁵ While the NER allows an asset to be included in the RAB, we must first form the view that the asset is reasonably required to achieve one or more of the capex objectives, and the value of the asset must not have been otherwise recovered. The asset must also be used to provide standard control services in the relevant regulatory control period.³⁶ Therefore, while the NER provides a mechanism for including an asset in the RAB, it does not apply unless the asset will be used to provide standard control services.

We do not accept that we made a decision to change the classification of the services provided by the cable in the F&A. Our usual practice is to explicitly address services where a change of classification is proposed. As stated above, this issue was not raised during the F&A process.

We understand that commercial discussions have resumed between the parties. On balance, we consider retaining our current approach to not regulate the undersea cable is the preferred option. However, we will consider submissions on this matter from

²⁸ NEL, s. 2F(b).

²⁹ NEL, ss. 2F, (c) and (e).

³⁰ Mulpha Australia Limited, *Submission on Ergon Energy regulatory proposal*, February 2015, p. 3.

³¹ NEL, s. 2F(d).

³² NEL, s. 2F (g).

³³ NER, cl. 6.2.1(c)(4).

³⁴ NER, cl. 6.2.1(c)(2).

³⁵ Ergon Energy, *Regulatory proposal attachment 03.01.01*, October 2014, p. 13.

³⁶ NER, cl. S6.2.1(e)(8).

interested parties. We will reconsider our approach in the context of making our final decision.

A AER preliminary decision on classification of services

Service group	Further description (if any)	AER preliminary decisions classification 2015–20	Current classification 2010–15
AER Service group— Network services			
Planning the network	<p>Network asset - assessment of asset requirements involving investment, management and delivery including risk and feasibility assessment and estimating and cost planning.</p> <p>Demand management - the identification and development of non-network options to address forecast network limitations.</p> <p>Network forecasting - analysis of network demand to enable the development of the capital program of works.</p> <p>Network business strategy development - strategic initiatives development and management including business improvement/efficiency initiatives.</p> <p>Governance - developing policies, procedures and standards.</p> <p>Regulatory planning as required by the National Electricity Rules (rules).</p>	Standard control	Standard control
Designing the network	Creation of a plan or the standards and criteria for network construction. Includes developing design standards, protection engineering and designs for augmentation and extensions to the	Standard control	Standard control

Service group	Further description (if any)	AER preliminary decisions classification 2015–20	Current classification 2010–15
	shared network. ³⁷		
Constructing the network	<p>Network construction, augmenting the shared network and extensions of shared network.</p> <p>Project planning and works management (works program development, procurement, vendor management, contract management, work scheduling and dispatching).</p> <p>Management of environmental issues.</p> <p>Asset deployment and commissioning of shared network assets.</p> <p>Asset relocation (other than those undertaken at a customer’s request).</p> <p>Installing load control (external to a meter) on customer premises.</p>	Standard control	Standard control
Maintaining the network	Planned maintenance – activities carried out to reduce the probability of failure or performance degradation of a network asset.	Standard control	Standard control

³⁷ Excluding designs for augmentation and extensions to shared network undertaken in feasibility and concept scoping for large customer connections (i.e. prior to acceptance of connection offer)

Service group	Further description (if any)	AER preliminary decisions classification 2015–20	Current classification 2010–15
	<p>Corrective – activities undertaken to detect, isolate and rectify a fault so that the failed equipment, machine or system can be restored to normal operable state.</p> <p>Work to restore a failed component of the distribution system to an operational state.</p> <p>Maintaining load control devices (external to a meter) on customer premises.</p>		
Operating the network	<p>Network control and operation.</p> <p>Outage management.</p> <p>Emergency management and response.</p> <p>Field operations.</p> <p>Switching and testing for network purposes.</p> <p>Scheduling and controlling the switching of controllable load for network purposes.</p> <p>Operation of load control devices (external to a meter) on customer premises.</p>	Standard control	Standard control
Administrative support for provision of network services	Customer interactions including network product development, customer service management/call centre, complaints and	Standard control	Standard control

Service group	Further description (if any)	AER preliminary decisions classification 2015–20	Current classification 2010–15
	<p>enquiries, record management and network claim processing.</p> <p>Market operations: includes revenue management, network billing, processing of service order requests, and market notifications of retailer changes.</p> <p>National Metering Identifier (NMI) establishment, discovery requests and classification in accordance with the rules.</p> <p>Populate and maintain NMI standing data in Market Settlement and Transfer Solution in accordance with the rules.</p> <p>Processing and publication of notifications of new connections and alterations.</p> <p>Pricing strategy and development of pricing proposals.</p> <p>Financial and commercial management.</p> <p>Compliance monitoring and reporting.</p> <p>Procurement activities.</p> <p>Technical and safety training of distributor staff.</p> <p>Supply, manage and maintain distributor Fleet.</p> <p>Retailer management (e.g. credit support).</p> <p>Administration of connections pioneer / rebate scheme.</p>		

Service group	Further description (if any)	AER preliminary decisions classification 2015–20	Current classification 2010–15
	<p>Supply, manage, test and maintain field equipment (other than metering equipment).</p> <p>Responding to cold water reports.</p> <p>Network claim processing where distributor is at fault.</p> <p>External stakeholder interactions (regulatory, government and industry).</p> <p>Environmental health and safety management (risk assessment, monitoring, program management, reporting and training).</p>		
AER service group—pre-connection services			
General connection enquiry services	<p>Provision of standard information and general advice during connection enquiry. Includes, but is not limited to:</p> <p>provision of general connection information (e.g. supply availability)</p> <p>advice on process, such as how to complete a connection application</p> <p>and services associated with an initial assessment of a connection applicant’s enquiry and provision of a response.</p>	Standard control	Standard control

Service group	Further description (if any)	AER preliminary decisions classification 2015–20	Current classification 2010–15
Connection application services	<p>Services associated with assessing a connection application, making a connection offer and negotiating offer acceptance. Unless otherwise specified, services or activities undertaken under this service group relate to both small and large customers and real estate development connections. Includes, but is not limited to:</p> <p>Application services to assess connection application and making of compliant connection offer.</p> <p>Undertaking design for small customer or real estate development connection offer (excludes detailed design undertaken after a connection offer has been accepted).</p> <p>Carrying out planning studies and analysis relating to connection applications.</p> <p>Feasibility and concept scoping, including planning and design, for large customer connections.</p> <p>Negotiation services involved in negotiating a connection agreement.</p> <p>Tender process – distributor may carry out tender process on behalf of connection applicant or distributor may assist connection application.</p> <p>Protection and Power Quality assessment prior to connection.</p>	Alternative control	Alternative control

Service group	Further description (if any)	AER preliminary decisions classification 2015–20	Current classification 2010–15
Pre-connection consultation services	<p>Additional support services provided by the distributor (on request) during connection enquiry and connection application other than General Connection Enquiry Services and Connection Application Services. Generally relates to services which require a customised or site-specific response and/or are available contestably. Unless otherwise specified, services or activities undertaken under this service group relate to both small and large customers and real estate development connections. Includes:</p> <ul style="list-style-type: none"> • site inspection in order to determine nature of connection • provision of site-specific connection information and advice for small or large customer connections • preparation of preliminary designs and planning reports for small or large customer connections, including project scopes and estimates • customer build, own and operate consultation services. 	Alternative control	Alternative control

Service group	Further description (if any)	AER preliminary decisions classification 2015–20	Current classification 2010–15
AER service group—connection services			
Small customer connections ³⁸	<p>Design, construction, commissioning and energisation of connection assets for small customers.</p> <p>(Generally, small customers are those customers who connect under the Standard Asset Connection tariff class in the distributor’s pricing proposal.³⁹)</p>	Standard control	Standard control
Large customer connections ⁴⁰	<p>Design and construction of connection assets for large customers.⁴¹</p> <p>Generally, large customers are those customers who connect under the Individually Calculated Customer (ICC), Connection Asset Customer (CAC) and Embedded Generator (EG) tariff classes as per the distributor’s pricing proposal.</p> <p>We consider that connection of embedded generators larger than 30 kVA but smaller than 1 MW should be treated as large</p>	Alternative control	Alternative control

³⁸ Ergon Energy uses ‘minor customer’ in place of ‘small customer’.

³⁹ See the Energex and Ergon Energy tariff schedules, available at their websites: www.energex.com.au and www.ergon.com.au

⁴⁰ Ergon Energy uses ‘major customer’ in place of ‘large customer’.

⁴¹ Does not include augmentation of the existing network.

Service group	Further description (if any)	AER preliminary decisions classification 2015–20	Current classification 2010–15
	customer connections.		
Commissioning and energisation of large customer connections	<p>Commissioning and energisation of large customer connection assets to allow conveyance of electricity. Inspection and testing of connection assets.</p> <p>Includes administration services involved in reconciling the financials of a connection project, processing and finalising network information and contracts in relation to a connection.</p> <p>Includes generation required to supply existing customers while equipment is de-energised to allow testing and commissioning of large customer connection assets.</p>	Alternative control	Standard control
Real estate development connection	Design, construction, commissioning and energisation of connection assets for real estate developments.	Alternative control	Standard control
Removal of network constraint for embedded generator	<p>Augmenting the network to remove a constraint faced by an embedded generator.</p> <p>(Generally, ‘embedded generators’ are those customers who connect under the Embedded Generator (EG) tariff class as per the distributor’s pricing proposal. This does not include customers with micro-generation facilities that connect under a Standard Asset Customer (SAC) tariff class. We consider that generators larger than 30 kVA but smaller than 1 MW should be treated as</p>	Alternative control	Standard control

Service group	Further description (if any)	AER preliminary decisions classification 2015–20	Current classification 2010–15
	embedded generators for the purpose of removing network constraints.)		
Temporary connections	Customer requests a temporary connection for short term supply (e.g. blood bank vans, school fetes).	Alternative control	Alternative control
AER service group—post connection services			
Operate and maintain connection assets	Works to operate, maintain, repair and replace connection assets owned by or gifted to the distributor to a technically acceptable standard. Excludes works initiated by a customer, which is not required for the efficient management of the network or for distributor purposes (such as customer requests to provide or maintain connection assets to a higher standard).	Standard control	Standard control
Connection management services (post connection)	<p>Work initiated by a customer which is specific to a connection point. Includes, but is not limited to:</p> <p>Supply abolishment.</p> <p>Move point of attachment.</p> <p>Re-arrange connection assets at customer’s request.</p> <p>Overhead service line replacement – customer requests the existing overhead service to be replaced (e.g. as a result of a point of attachment relocation). No material change to load.</p> <p>Auditing services – auditing of connection assets after energisation to</p>	Alternative control	Alternative control

Service group	Further description (if any)	AER preliminary decisions classification 2015–20	Current classification 2010–15
	<p>network.</p> <p>Protection and power quality assessment - (e.g. embedded generation connected to network).</p> <p>Customer requested works to allow customer or contractor to work close.</p> <p>Temporary disconnections and reconnection (including de-energisations and re-energisations) which may involve a line drop. e.g. community events.</p> <p>Supply enhancement. e.g. upgrade from single phase to three phase.</p> <p>Provision of connection services above minimum requirements – customer requests increase in reliability or quality of supply beyond the standard, and/or above minimum regulatory requirements (e.g. reserve feeder).</p> <p>Upgrade from overhead to underground service.</p> <p>Customer consultation or appointment (if requested on B2B service order).</p> <p>Rectification of illegal connections or damage to overhead or underground service cables.</p> <p>De-energisation:</p> <ul style="list-style-type: none"> • Retailer requests de-energisation of the customer's premises (business or after hours) where the de-energisation can be performed (e.g. pole, pillar or 		

Service group	Further description (if any)	AER preliminary decisions classification 2015–20	Current classification 2010–15
	<p>meter isolation link).</p> <ul style="list-style-type: none"> Retailer requests de-energisation of the customer's premises – Main switch seal (business or after hours). <p>Re-energisation:</p> <ul style="list-style-type: none"> Retailer requests re-energisation of the customer's premises where the customer has not paid their electricity account (business or after hours). Retailer requests a re-energisation of the customer's premises following a main switch seal (business or after hours). Reading provided for an active site. Retailer requests a re-energisation of the customer's premises after a physical disconnection and premises requires a visual examination. 		
Accreditation of alternative service providers and approval of their designs, works and materials	<p>Accreditation of service providers that meet competency criteria.</p> <p>Approval of third party design, works and materials:</p> <p>Review, Inspection and Auditing of design and works carried out by an alternative service provider prior to energisation.</p>	Alternative control	Standard control

Service group	Further description (if any)	AER preliminary decisions classification 2015–20	Current classification 2010–15
<p>Certification of non-approved materials - approval of non-approved materials to be used on the network.</p>			
<p>AER Service group— Metering services</p>			
<p>Type 5 and 6 meter installation and data services</p>	<p>On site connection of a new meter at a customer's premises, and on site connection of an upgraded meter at a customer's premises where the customer initiates the upgrade.</p> <p>Load control services provided by a type 5 or 6 meter are grouped with metering services and classified alternative control.</p> <p>Metering data services include collection, processing, storage and delivery of metering data, remote or self-reading at difficult to access sites, provision of metering data from previous 2 years, ongoing provision of metering data.</p> <p>Meter Data Services provided as part of general obligations as a local network service provider in accordance with the rules.</p>	<p>Alternative control</p>	<p>Standard control</p>
<p>Type 5 and 6 metering maintenance, reading and data services</p>	<p>Meter maintenance covers scheduled maintenance, meter inspection, removal of meter and meter tampering.</p> <p>Meter reading refers to quarterly or other regular reading of a meter.</p>	<p>Alternative control</p>	<p>Standard control</p>
<p>Types 5 and 6 meter provision (before 1 July 2015)</p>	<p>By charging for this service, distributors may recover the capital cost of types 5 and 6 metering equipment (including meters with internally integrated load control devices) installed before 1 July 2015.</p>	<p>Alternative control</p>	<p>Standard control</p>

Service group	Further description (if any)	AER preliminary decisions classification 2015–20	Current classification 2010–15
Types 5 and 6 meter provision (after 1 July 2015)	By charging for this service, distributors may recover the capital cost of types 5 and 6 metering equipment (including meters with internally integrated load control devices) installed on or after 1 July 2015.	Alternative control	Standard control
Type 7 metering services	Administration and management of type 7 metering installations in accordance with the Rules 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
Auxiliary metering services	<p>Off-cycle meter read, including:</p> <ul style="list-style-type: none"> • special meter reads • move in move out meter reads • check read – check the accuracy of the meter reading. <p>Testing for type 5 and 6 metering installations - customer requested meter accuracy testing.</p> <p>Meter inspection and investigation – a request to conduct a site review of the state of the customer’s metering installation without physically testing the metering equipment.</p> <p>Alterations and additions to current metering equipment, includes:</p> <ul style="list-style-type: none"> • meter alteration – meter is being relocated or meter wiring altered and requires DNSP to visit site to 	Alternative control	Alternative control

Service group	Further description (if any)	AER preliminary decisions classification 2015–20	Current classification 2010–15
	<p>verify the integrity of the metering equipment</p> <ul style="list-style-type: none"> exchange meter – customer requests exchange of their current meter (e.g. for alternative metering configuration/consolidation of multiple meters for one meter), or customer requests exchange of their current meter for a solar PV meter. <p>Provision, installation, testing and maintenance of instrument transformers for metering purposes.</p> <p>Type 5 to 7 non-standard metering services.</p> <p>Replacement or removal of a type 5 or 6 meter instigated by a customer switching to a non-type 5 or 6 meter that is not covered by any other fee.</p> <p>Meter re-seal – where the customer has caused the meter to need re-sealing (e.g. by having electrical work done on site).</p> <p>Install additional metering.</p> <p>Reconfigure meter.</p> <p>Meter exit fee – recovery of stranded asset costs associated with the removal of a meter(s) from customer’s premises before the end of its useful life at the request of the customer (or customer’s retailer) due to a change in Responsible Person / Meter Coordinator.</p> <p>Install metering related load control.</p> <p>Remove load control relay or time clock.</p>		

Service group	Further description (if any)	AER preliminary decisions classification 2015–20	Current classification 2010–15
	Change load control relay channel at retailer, customer or other third party request, that is not a part of initial load control installation, nor part of standard asset maintenance or replacement.		
AER Service group— Ancillary network services			
Services provided in relation to a Retailer of Last Resort (ROLR) event	<p>Distributors may be required to perform a number of services as a distributor when a ROLR event occurs. These include:</p> <p>Preparing lists of affected sites, and reconciling data with Australian Energy Market Operator listings; handling in-flight transfers; identifying open service orders raised by the failed retailer and determining actions to be taken in relation to those service orders; arranging estimate reads for the date of the ROLR event and providing data for final NUOS bills in relation to affected customers; preparing final invoices for NUOS and miscellaneous charges for affected customers; preparing final debt statements; extracting customer data, providing it to the ROLR and handling subsequent enquiries; handling adjustments that arise from the use of estimate reads; assisting the retailer with the provision of network tariffs to be applied and the customer move in process; administration of any 'ROLR cost recovery scheme distributor payment determination'.</p>	Alternative control	Not currently classified
Other recoverable works	<p>Works initiated by a customer, which are not covered by another service and are not required for the efficient management of the network, or to satisfy distributor purposes or obligations. Includes:</p> <p>Customer requests provision of electricity network data requiring</p>	Alternative control	Alternative control

Service group	Further description (if any)	AER preliminary decisions classification 2015–20	Current classification 2010–15
	<p>customised investigation, analysis or technical input (e.g. requests for pole assess information and zone substation data).</p> <p>Bundling of cables carried out at the request of another party.</p> <p>Provision of services, other than standard connection, for approved unmetered equipment, public telephones, traffic lights and public BBQs.</p> <p>Customer requested appointments.</p> <p>Attendance at customer's premises to perform a statutory right where access is prevented.</p> <p>Rearrangement of network assets (other than connection assets).</p> <p>Conversion to aerial bundled cables.</p> <p>Aerial markers.</p> <p>Installation of covers on service lines (tiger tails).</p> <p>Assessment of parallel generator applications.</p> <p>Witness testing.</p>		
AER Service group—Public lighting services			
Provision, construction and maintenance of public lighting.	<p>Application assessment, design, review and audit public lighting services.</p> <p>Provision, construction and maintenance of new street lighting services.</p>	Alternative control	Alternative control

Service group	Further description (if any)	AER preliminary decisions classification 2015–20	Current classification 2010–15
	<p>Alteration, repair, relocation, rearrangement or removal of existing street light assets and energy efficient retrofit.</p> <p>Provision of glare shields, vandal guards, luminaire replacement with aero screens.</p> <p>A fee for the residual asset value of non-contributed public lights when removed from service before the end of their useful life at the request of the customer.</p> <p>Operating street lighting assets including handling enquiries and complaints and dispatching crews to repair assets.</p>		
Emerging public lighting technology.	<p>New public lighting technologies, including trials.</p> <p>Energy efficient retrofit (including where customer requests to retrofit existing assets before end of life).</p>	Alternative control	Unclassified
Unclassified distribution services			
Emergency recoverable works	Work to repair damage to the distribution network caused by an identifiable third party from whom costs may be recovered.	Unclassified	Alternative control
Type 1 to 4 metering	Contestable metering services.	Unclassified	Unclassified
Watchman	Unmetered light mounted on customer's property or distribution pole for security purposes.	Unclassified	Unclassified

Service group	Further description (if any)	AER preliminary decisions classification 2015–20	Current classification 2010–15
Distribution services provided in unregulated isolated networks	Ownership and operation of isolated supply networks, other than the Mt Isa-Cloncurry supply network (Ergon Energy).	Unclassified	Unclassified
High load escorts	Request by customer to scope an appropriate route and lift wires to allow passage of high vehicles.	Unclassified	Alternative control / Unclassified
Hayman Island undersea cable		Unclassified	Unclassified
Non-distribution services that are unregulated⁴²			
Rental and hire services	Rental of distributor owned property (e.g. plant hire and asset leasing).	Unregulated	Unregulated
Test, inspect and calibrate	Calibration and testing of equipment for external party products.	Unregulated	Unregulated
Property services	Customers request the distributors undertake conveyancing property searches, conduct easement negotiations or purchase negotiations.	Unregulated	Unregulated
Contracting services to other network service providers	Services, such as specialist cable jointers, provided to other network service providers.	Unregulated	Unregulated

⁴² In addition to services listed here, the distributors may use regulated assets to provide a range of unregulated services. Such assets are referred to by the rules as 'shared assets' and are subject to a revenue sharing mechanism set out in the AER's Shared Asset Guideline, available at www.aer.gov.au.

Service group	Further description (if any)	AER preliminary decisions classification 2015–20	Current classification 2010–15
Provision of training to external parties	Specialist post and pre-trade training provided by distributors to external parties.	Unregulated	Unregulated
Equipment services	Safety testing of equipment such as: insulating gloves live line hot sticks and rubber products insulating mats and covers voltage and phasing detectors, operational sticks harnesses, climbing kits, rescue kits step/extension ladders, pole platforms.	Unregulated	Unregulated
Sale of inventory, asset or scrap		Unregulated	Unregulated
Operate and maintain customer assets	Contract to provide, operate and maintain services for connection assets owned by customer.	Unregulated	Unregulated