



PRELIMINARY DECISION
United Energy distribution
determination
2016 to 2020

Attachment 13 – Classification
of services

October 2015

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Note

This attachment forms part of the AER's preliminary decision on United Energy's revenue proposal 2016–20. 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 - f-factor scheme

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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
NECF	national electricity customer framework
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.¹ Our preliminary determination 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.² We set out our proposed approach to the classification of distribution services for the Victorian distributors in our final F&A, published in October 2014.³ 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 Preliminary decision

Our preliminary decision is to retain the proposed classification and reasons set out in our F&A for the Victorian distributors,⁴ with the exception of the following. We will:

- classify dedicated public lighting services as an alternative control service for 2016–20.⁵ To be clear, this means that we are departing from our final F&A in

¹ NER, cl. 6.12.1(1).

² NER, cl. 6.12.3(b).

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

⁴ AER, *Final framework and approach for the Victorian Electricity Distributors – Regulatory control period commencing 1 January 2016*, October 2014, pp. 27–72.

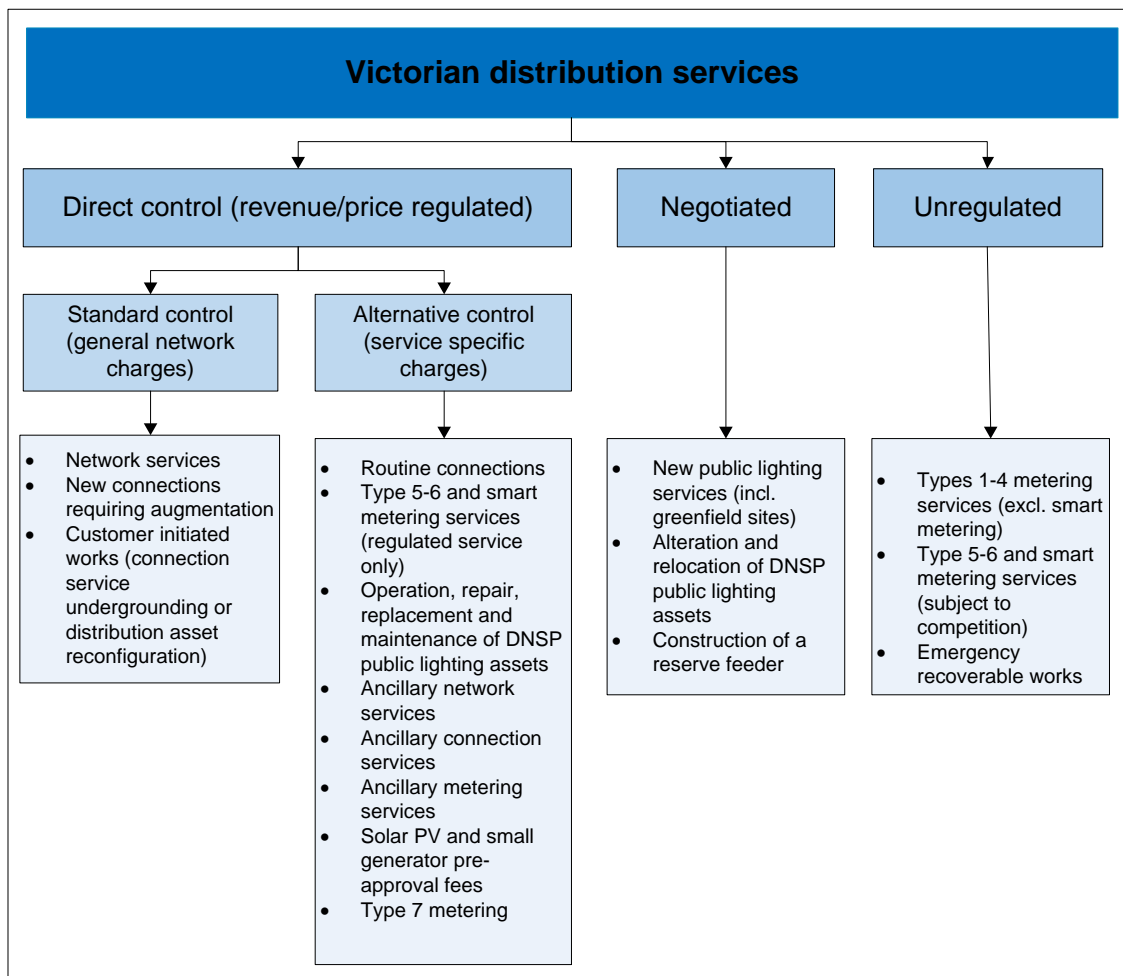
⁵ A dedicated public lighting service is defined as a public lighting service that is a stand-alone lighting pole with no other electricity infrastructure attached.

relation to these services and that our approach to classification of public lighting services in Victoria between the 2011–15 and 2016–20 regulatory control periods remains the same.⁶

summarises our preliminary 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 Victorian distributor does not provide a service.

Figure 13.1 AER preliminary decision on 2016–20 service classifications for the Victorian distributors



⁶ 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 can be located at <https://www.aer.gov.au/node/35043>.

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 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.⁷

13.2 United Energy's regulatory proposal

Each of the Victorian distributors has proposed to adopt the service classification as set out in our F&A for the 2016–20 regulatory control period.⁸ This includes our proposed classification of:

- metering types 5 and 6 and smart metering services offered by the distributor – regulated service, classified as alternative control services
- metering types 5 and 6 and smart metering services offered by alternative service providers once metering is made contestable – unregulated service and therefore not classified.

These service classifications were created to address a transition from the current regulation of metering services under the Advanced Metering Infrastructure (AMI) Cost Recovery Order in Council (Order) issued by the Victorian Government to regulation under the NER during the 2016–20 regulatory control period.

New customer connections requiring augmentation

In its regulatory proposal AusNet Services raised that the Victorian Government is currently considering whether to adopt the National Electricity Customer Framework (NECF). This issue is relevant to all Victorian distributors. If the Victorian Government decides to adopt NECF, each Victorian distributor would become subject to the relevant parts of Chapter 5A of the NER and the AER's National Electricity Connection Charge Guidelines. AusNet Services submitted that this change would require a reconsideration of service classification of customer connections.⁹

13.3 AER's assessment approach

The NER allow us to group distribution services when classifying them rather than treatment them as individual services.¹⁰

In making our classification decisions, we may:

⁷ Refer to attachment 14 – Control mechanism and attachment 16 – Alternative control services.

⁸ AusNet Services, *Regulatory proposal*, 30 April 2015, pp. 97 and 393; CitiPower, *Regulatory proposal*, 30 April 2015, p. 17; Jemena, *Regulatory proposal*, 30 April 2015, p. 35; Powercor, *Regulatory proposal*, 30 April 2015, p. 17; United Energy, *Regulatory proposal*, 30 April 2015, p. 3.

⁹ AusNet Services, *Regulatory proposal*, 30 April 2015, p. 158.

¹⁰ NER, cl. 6.2.1 (b).

- 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.¹¹ 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.¹²

For services we intend to classify as direct control, the NER require us to have regard to a further range of factors.¹³ 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:¹⁴

- 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.

¹¹ NER, cl. 6.2.1(c); NEL, s. 2F.

¹² NER, cl. 6.2.1(c).

¹³ NER, cl. 6.2.2(c).

¹⁴ NER, cll. 6.2.1(d) and 6.2.2(d).

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.

13.4 Reasons for preliminary decision

This section sets out the reasons for our preliminary decision on the distribution service classifications for the Victorian distributors. First, we set out our reasons for departing from our final F&A proposed approach to classify dedicated public lighting services as negotiated distribution services.

Second, while our preliminary decision, and our reasoning, on classification of services are otherwise unchanged from our 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 AMI 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, given their relevance to all Victorian distributors, we also address AusNet Services' concerns on 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.¹⁵ 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.¹⁶ In making this decision in the final F&A, we received a small number of submissions supporting such a change.¹⁷ Our decision aligned with United Energy's submission¹⁸ and the approach advocated by the Trans Tasman Energy Group (TTEG) on behalf of the Streetlight Group of Councils.¹⁹

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

For the reasons that follow, our preliminary decision is 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.²⁰
- 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.²¹

The NER provide that the classification of distribution services must be as set out in the relevant F&A unless we consider that unforeseen circumstances justify departing from the classification as set in that F&A.²²

Our decision to depart from our final F&A arose when the following information, summarised at a high level, came to light throughout June and July 2015:

¹⁵ AER, *Final framework and approach for the Victorian Electricity Distributors – Regulatory control period commencing 1 January 2016*, October 2014, pp. 66–68.

¹⁶ AER, *Final framework and approach for the Victorian Electricity Distributors – Regulatory control period commencing 1 January 2016*, October 2014, p. 63.

¹⁷ 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.

¹⁸ United Energy, *United Energy's response – AER's 2016–20 preliminary positions framework and approach*, July 2014, pp. 13–14.

¹⁹ 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.

²⁰ AER, *Final decision appendices – Victorian electricity distribution network services providers, distribution determination 2011–15*, October 2010, p. 2.

²¹ AER, *Final decision appendices – Victorian electricity distribution network services providers, distribution determination 2011–15*, October 2010, p. 3.

²² NER, cl. 6.12.3(b).

- the Municipal Association of Victoria raised concerns that numerous councils were unaware of our final F&A and the proposed change to negotiated service classification for dedicated public lighting services.²³
- we hosted a forum on public lighting to explain our decision to reclassify dedicated public lighting services as negotiated services.²⁴ At this forum, councils raised concerns about our proposed reclassification. The Victorian distributors also explained their concerns with the reclassification.
- we received 22 submissions on public lighting in response to the Victorian distributors' regulatory proposals. Of these, 18 opposed our final F&A classification.²⁵ Only four submissions supported the negotiated classification for dedicated public lighting services.²⁶ The City of Greater Geelong, despite its overall support, raised numerous concerns for our consideration.²⁷

We met separately with the Victorian distributors to assess whether there was scope to address the concerns raised with classifying dedicated public lighting services as negotiated services by the start of the 2016–20 regulatory control period.²⁸

We discuss the above circumstances in further detail below, with regard to the classification framework set out in the NER.²⁹ Based on the submissions we received,

²³ AER staff telephone conversation with the Municipal Association of Victoria, June 2015.

²⁴ The forum was held on 22 June 2015 and was attended by approximately 70 people.

²⁵ Glen Eira City Council, *Electricity Distribution Price Review Submission*, 10 July 2015; City of Greater Dandenong, *Proposes changes to regulation of public lighting*, 10 July 2015; City of Casey, *Submission AER Public Lighting*, 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 Mooney Valley, *Changes to the regulation of distributor charges for street lighting*, 7 July 2015; East Gippsland Shire Council, *Submission Negotiation for Dedicated Public Lights*, 13 July 2015; Hume City Council, *Proposed Deregulation of Maintenance Costs for Streetlights on Dedicated Poles in Victoria*, 13 July 2015; Latrobe City Council, *AER and dedicated public lighting*, 13 July 2015; Municipal Association of Victoria, *Dedicated public lighting assets*, 13 July 2015; VicRoads, *Final Framework and Approach for the Victorian Electricity Distribution Network Service Providers*, 13 July 2015; Victorian Greenhouse Alliances, *Local Government Response to the Victorian Electricity Distribution Price Review 2016–20*, 13 July 2015; Yarra Ranges Council, *Submission AER regulation of dedicated street lighting*, 13 July 2015; Indigo Sire Council, *Submission on proposed Negotiated Distribution Service Criteria*, 23 July 2015; Murrindindi Shire Council, *Submission on proposed changes to regulation of public lighting*, 17 July 2015; Gannawarra Shire Council, *Submission on proposed negotiation process for dedicated public lighting*, 16 July 2015; Cardinia Shire Council, *Submission on proposed Negotiated Distribution Service Criteria*, 1 July 2015; CitiPower and Powercor, *Submission in response to the AER's public lighting forum*, 13 July 2015.

²⁶ City of Greater Geelong, *Proposed Negotiated Distribution Service Criteria*, 13 July 2015; Citelum, *Submission on proposed Negotiated Distribution Service Criteria*, 24 June 2015; Streetlight Group (prepared by TTEG), *Submission on Vic DNSPs regulatory proposals and AER's proposed negotiated service criteria*, 21 July 2015; TTEG, *Submission on Vic DNSPs regulatory proposals and AER's proposed negotiated service criteria*, 21 July 2015.

²⁷ City of Greater Geelong, *Proposed Negotiated Distribution Service Criteria*, 13 July 2015.

²⁸ AER staff discussion with Victorian distributors, 22 July 2015.

²⁹ NER, cll. 6.2.1 and 6.2.2. We describe this framework and our assessment approach in section 13.3 of this attachment.

we consider that we are justified in departing from the classification of dedicated public lighting services as negotiated services as set out in our final F&A.³⁰

Sixteen³¹ of the 22 submissions received stated that a negotiated service classification for dedicated public lighting services would likely result in:

- an administratively complex process leading to high transaction costs for public lighting customers, the Victorian distributors and consumers (as ratepayers).³²
- unfair advantages to the distributors as councils submitted that they lack bargaining power.³³ Some councils submitted that they already struggle to negotiate suitable public lighting outcomes with the distributors for those services that are negotiable or where alternative arrangements to those set out in public lighting code can be made.³⁴
- similar disputes to those occurring in South Australia where councils and the distributor have been unable to agree on price-service outcomes despite several years of negotiations.³⁵ Six submissions stated that should negotiations reach an impasse, mediation and arbitration are costly and time consuming.³⁶
- councils having limited time and resources to overcome the above concerns and to fully understand the implication of a negotiated services regime before the 2016–20 regulatory control period commenced.³⁷

³⁰ NER, cl. 6.12.3(b).

³¹ Glen Eira City Council, *Electricity Distribution Price Review Submission*, 10 July 2015; City of Greater Dandenong, *Proposes changes to regulation of public lighting*, 10 July 2015; City of Greater Bendigo, *Response to Victorian Electricity Distribution Price Review 2016-2020 public lighting proposed change*, 13 July 2015; City of Mooney Valley, *Changes to the regulation of distributor charges for street lighting*, 7 July 2015; East Gippsland Shire Council, *Submission Negotiation for Dedicated Public Lights*, 13 July 2015; Hume City Council, *Proposed Deregulation of Maintenance Costs for Streetlights on Dedicated Poles in Victoria*, 13 July 2015; Latrobe City Council, *AER and dedicated public lighting*, 13 July 2015; Municipal Association of Victoria, *Dedicated public lighting assets*, 13 July 2015; VicRoads, *Final Framework and Approach for the Victorian Electricity Distribution Network Service Providers*, 13 July 2015; Victorian Greenhouse Alliances, *Local Government Response to the Victorian Electricity Distribution Price Review 2016–20*, 13 July 2015; Indigo Sire Council, *Submission on proposed Negotiated Distribution Service Criteria*, 23 July 2015; Murrindindi Shire Council, *Submission on proposed changes to regulation of public lighting*, 17 July 2015; Gannawarra Shire Council, *Submission on proposed negotiation process for dedicated public lighting*, 16 July 2015; CitiPower and Powercor, *Submission in response to the AER's public lighting forum*, 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.

³² NER, cl. 6.2.2(c)(2).

³³ NER, cl. 6.2.1(c)(1), NEL, s. 2F(d).

³⁴ City of Casey, *Submission AER Public Lighting*, 13 July 2015; Latrobe City Council, *AER and dedicated public lighting*, 13 July 2015.

³⁵ This dispute is currently before an independent arbitrator.

³⁶ City of Greater Dandenong, *Proposes changes to regulation of public lighting*, 10 July 2015; Municipal Association of Victoria, *Dedicated public lighting assets*, 13 July 2015; Victorian Greenhouse Alliances, *Local Government Response to the Victorian Electricity Distribution Price Review 2016–20*, 13 July 2015; Indigo Sire Council, *Submission on proposed Negotiated Distribution Service Criteria*, 23 July 2015; Murrindindi Shire Council, *Submission on proposed changes to regulation of public lighting*, 17 July 2015; City of Mooney Valley, *Changes to the regulation of distributor charges for street lighting*, 7 July 2015.

³⁷ NEL, s. 2F(g).

CitiPower and Powercor further submitted that it is unclear what benefits can be expected from classifying dedicated public lighting services as negotiated services that cannot already be achieved under the Victorian Public Lighting Code. For example, the code includes the ability for parties to negotiate on the specification and installation of new technologies and non-standard fittings. There is no need to alter service classification for parties to derive the benefits of these types of negotiated settlements.³⁸

During our recent discussions with the Victorian distributors, they all noted that as the public lighting asset owners—and due to the safety obligations imposed on them—they could not contract out their obligations to councils or other third parties to operate the public lighting system.³⁹ This is because of safety obligations imposed by Energy Safe Victoria.

While councils acknowledge that there are a range of public lighting services that distributors and councils are already able to negotiate, they are concerned that removing regulated charges removes an important safeguard. That is, councils are not confident that they can negotiate price-service outcomes that are in their interest and want the certainty of an AER approved regulated price.

Conversely, TTEG's own submission and TTEG's separate submission on behalf of the Street Light Group⁴⁰ submitted that dedicated public lighting services should be classified as negotiated services. Citelum and TTEG submitted that all public lighting services could be classified as negotiated services or even unclassified.⁴¹ However, TTEG also stated that '*many councils have little (if any) knowledge of the regulatory process and what the negotiated classification actually means*'.⁴² The Street Light Group also submitted that the disparity in understanding this issue was evident at the AER public lighting forum on 22 June 2015.⁴³

Despite TTEG's acknowledgement that councils have limited knowledge of negotiated services, TTEG points to the negotiated classification of some public lighting services

³⁸ CitiPower and Powercor, *Submission in response to the AER's public lighting forum*, 13 July 2015, p. 4.

³⁹ AER staff discussion with Victorian distributors, 22 July 2015. NEL, cl. 6.2.1(c)(1), NEL, s. 2F(a). While third party providers of public lighting services exist (NEL, s 2F(e)), providing substitute providers for public lighting customers, the legislative and regulatory barriers prevent them from operating unfettered.

⁴⁰ TTEG, *Submission on Vic DNSPs regulatory proposals and AER's proposed negotiated service criteria*, 21 July 2015; Streetlight Group (prepared by TTEG), *Submission on Vic DNSPs regulatory proposals and AER's proposed negotiated service criteria*, 21 July 2015. East Gippsland Council, Greater Dandenong Council, City of Glen Eira Council, Latrobe City Council and Yarra Ranges Council are listed as members of the Street Lighting Group in its submission. However, each of these councils has provided an independent submission disagreeing with the views of the Street Lighting Group submission. We have taken the independent council submissions to be the views of those respective councils.

⁴¹ Citelum, *Submission on proposed Negotiated Distribution Service Criteria*, 24 June 2015, p. 1; TTEG, *Submission on Vic DNSPs regulatory proposals and AER's proposed negotiated service criteria*, 21 July 2015, p. 1.

⁴² TTEG, *Submission on Vic DNSPs regulatory proposals and AER's proposed negotiated service criteria*, 21 July 2015, p. 1.

⁴³ Streetlight Group (prepared by TTEG), *Submission on Vic DNSPs regulatory proposals and AER's proposed negotiated service criteria*, 21 July 2015, p. 3.

in South Australia as being a success.⁴⁴ TTEG negotiates on behalf of a number of South Australian councils. However, several submissions pointed to the South Australian negotiated classification as an example of the negotiated regime failing in practice.⁴⁵ The magnitude of issues experienced in South Australia's public lighting negotiated regime have only recently emerged with the Victorian Greenhouse Alliance obtaining a statement from the Local Government Association of South Australia on the timeline of events.⁴⁶ In short, that the parties have been in negotiations for several years in regard to service levels and prices for existing public lighting services.

As the regulator, we are not involved in, and therefore not informed of the outcome of, negotiations between parties under a negotiated services regime. While we set out a negotiating framework and criteria at each determination, it is for the parties to conduct negotiations independent of the regulator. We will only be alerted where negotiations stall and parties seek dispute resolution.

In the case of public lighting in South Australia, we referred the parties to arbitration after they came to us seeking assistance. We understand the dispute process is currently being facilitated by a panel of nominated experts and lawyers. While we have retained the negotiated classification in South Australia for the 2015–20 regulatory control period, we note that some late concerns about the regime were raised by Unley City Council and the Local Government Association of South Australia.⁴⁷

In light of the submissions received, we identify that there are disparities in the capacities of stakeholders to negotiate efficient public lighting outcomes.⁴⁸ Further, we consider the submissions to reveal that changing the classification of dedicated public lighting services from alternate control services to negotiated services is likely to create an administratively complex process. This may lead to high transaction costs for public lighting customers, the Victorian distributors and consumers (as ratepayers).⁴⁹ The NER provide that we must act on the basis that, unless a different classification is clearly more appropriate, there should be no departure from a previous classification. Based on the above information, we do not consider that classifying dedicated public lighting services as negotiated services is more appropriate than the current alternative

⁴⁴ TTEG, *Submission on Vic DNSPs regulatory proposals and AER's proposed negotiated service criteria*, 21 July 2015, p. 6.

⁴⁵ City of Greater Dandenong, *Proposes changes to regulation of public lighting*, 10 July 2015; Municipal Association of Victoria, *Dedicated public lighting assets*, 13 July 2015; Victorian Greenhouse Alliances, *Local Government Response to the Victorian Electricity Distribution Price Review 2016–20*, 13 July 2015; Indigo Sire Council, *Submission on proposed Negotiated Distribution Service Criteria*, 23 July 2015; Murrindindi Shire Council, *Submission on proposed changes to regulation of public lighting*, 17 July 2015; City of Mooney Valley, *Changes to the regulation of distributor charges for street lighting*, 7 July 2015; CitiPower and Powercor, *Submission in response to the AER's public lighting forum*, 13 July 2015, p. 4.

⁴⁶ Victorian Greenhouse Alliances, *Local Government Response to the Victorian Electricity Distribution Price Review 2016–20*, 13 July 2015, p.11.

⁴⁷ The City of Unley, *Submission on SA Power Networks' regulatory proposal*, 22 December 2014; Local Government Association of SA, *Submission on SA Power Networks' regulatory proposal*, 5 February 2015.

⁴⁸ NER, cl. 6.2.2(c)(1).

⁴⁹ NER, cll. 6.12.3(b) and 6.2.2(c)(2).

control services classification.⁵⁰ We agree with CitiPower and Powercor that the barriers that currently exist to achieving more efficient public lighting outcomes will not be addressed now by a change in service classification alone.⁵¹

Several submissions call 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.⁵² 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.

13.4.2 Metering – transition to regulation under the NER

In 2006, the Victorian Government mandated the roll out of advanced metering infrastructure (AMI) to Victorian residential and small business customers using up to 160 MWh of electricity per annum.⁵³ 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.⁵⁴ 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.⁵⁵ Aspects of the AMI Order will continue to apply until 1 January 2021.⁵⁶

As competition to 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

⁵⁰ NER, cl. 6.2.1(c)(3), 6.2.1(d), 6.2.2(c)(3) and 6.2.2(d).

⁵¹ CitiPower and Powercor, *Submission in response to the AER's public lighting forum*, 13 July 2015, p. 4.

⁵² 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.

⁵³ 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>.

⁵⁴ 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.

⁵⁵ 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.

⁵⁶ NER, cl. 11.17.6.

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:

The NER mandates that smart metering in Victoria be classified as an alternative control service in the 2016–20 regulatory control period...⁵⁷

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.⁵⁸ This unclassified service will only be offered once metering becomes fully competitive.

All Victorian distributors adopted our proposed classification of metering services.⁵⁹

However, each of the Victorian distributors, despite adopting our classification, 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 appears relatively high for some distributors, there is a risk that this approach may create barriers to entry once metering services are subject to competition. Different cost allocation approaches by distributors for metering services may also have implications for the transparency of opex benchmarking. Vector Limited and Origin do not support the allocation of certain metering services to standard control services.⁶⁰ A detailed discussion of this issue is in attachment 7 (opex).

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

⁵⁷ AEMC, *Competition in metering and related services – rule change, Stakeholder workshop 5*, 9 October 2014, p.30.

⁵⁸ A 'new customer' includes an existing customer who elects to replace an existing meter.

⁵⁹ AusNet Services, *Regulatory proposal*, 30 April 2015, p. 393; CitiPower, *Regulatory proposal*, 30 April 2015, p. 17; Jemena, *Regulatory proposal*, 30 April 2015, p. 35; Powercor, *Regulatory proposal*, 30 April 2015, pp. 17 and 277; United Energy, *Regulatory proposal*, 30 April 2015, p. 151.

⁶⁰ Vector Limited, *Submission on the AER's issues paper on Victorian electricity distribution pricing review for 2016–20*, 13 July 2015, p. 2; Origin, *Submission to Victorian electricity distributors regulatory proposals*, 13 July 2015, p. 6.

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

Current classification	AER's preliminary 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 – unclassified (subject to AMI CROIC)	<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 analysis.

13.4.3 Exit fees

In developing the rules with respect to competition in metering, the AEMC recognises that large exit fees for customers wishing to switch to alternative meter providers may hinder development of a competitive market for metering services.⁶¹ The AEMC's work program on the COAG⁶² rule change proposal remains in progress with a final decision due in November 2015. However, the AMI Order states that an exit fee must be paid to each distributor where 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:

⁶¹ AEMC, *Draft Rule Determination: National Electricity Amendment (Expanding competition in metering and related services) Rule 2015*, 26 March 2015.

⁶² Council of Australian Governments.

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.

This clause limits our discretion, but we acknowledge Vector Limited's submission that we should remove metering exit fees in Victoria for 2016–20.⁶³ Any fee determined will need to comply with this clause in calculating an exit fee or a restoration fee.⁶⁴ 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.⁶⁵

Specifically, the Victorian distributors have proposed that a meter exit fee is to be paid by a retailer to the respective distributor where:⁶⁶

- 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, under 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 to customers switching to an alternative metering provider.⁶⁷ The method and

⁶³ Vector Limited, *Submission on the AER's issues paper on Victorian electricity distribution pricing review for 2016–20*, 13 July 2015, p. 2. Vector Limited also opposed the imposition of 'administration fees' proposed by the Victorian distributors for the transfer of customers to another metering service provider.

⁶⁴ 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.

⁶⁵ 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.

⁶⁶ AusNet Services, *Regulatory proposal*, 30 April 2015, p. 397.

⁶⁷ AER, *Final framework and approach for the Victorian Electricity Distributors – Regulatory control period commencing 1 January 2016*, October 2014 p.128.

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

In its regulatory proposal AusNet Services raised that the Victorian Government is currently considering whether to adopt the NECF.⁶⁸ While AusNet Services was the only Victorian distributor to note this, the issue affects all five Victorian distributors.

We regulate new customer connections requiring augmentation as standard control services. However, the Essential Service Commission of Victoria oversees Victorian Electricity Industry Guideline 14 relating to new connections requiring augmentation. The Victorian Government has indicated that it will transition to NECF by 31 December 2015.⁶⁹

AusNet Services submitted a shift from Guideline 14 to NECF will require a reconsideration of the service classification.⁷⁰ Our preliminary decision is to continue classifying new connections requiring augmentation as direct control and standard control services on the basis that they will continue to be subject to Guideline 14 or, if the Victorian Government adopts NECF, the AER's Connection Guideline.⁷¹

Our reason for retaining a standard control classification is that 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 be paying 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.⁷² If there were to be a material departure in the circumstances for a transition to the NECF from the approach outlined here, we may give this matter further consideration. However, AusNet Services has not provided supporting information to demonstrate a change in circumstances has occurred or will occur.

13.5 Minor additions to table of service descriptions

As noted above, our preliminary determination is to classify services consistently for all Victorian electricity distributors. Therefore, one table of services at appendix A will apply to all Victorian distributors for the 2016–20 regulatory control period.

⁶⁸ AusNet Services, *Regulatory proposal*, 30 April 2015, p. 158.

⁶⁹ Victorian Government, *Energy Statement*, October 2014, p. 20.

⁷⁰ AusNet Services, *Regulatory proposal*, 30 April 2015, p. 158.

⁷¹ AER, *Final framework and approach for the Victorian Electricity Distributors – Regulatory control period commencing 1 January 2016*, October 2014 p. 39.

⁷² AER, *Final framework and approach for the Victorian Electricity Distributors – Regulatory control period commencing 1 January 2016*, October 2014 p. 39.

For this reason, the minor additions to appendix A reflect services currently provided by a number of the Victorian distributors and are included for clarity. These services are:

- Manual meter read charge — under the AMI Order in Council, a distributor may apply to us for the determination of a manual meter charge. This charge may be levied except in circumstances where customers meet exemption criteria.⁷³
- Customer access to metering data — under the AMI Order in Council, a distributor may impose a charge for providing a small customer with access to interval metering data if the request is not the first request made by the small customer within the preceding year, or the interval data relates to a period prior to the preceding two years.⁷⁴
- Prescribed metering services (public lighting) — a charge for reading meter data for a type 7 meter.⁷⁵

Consistent with our final F&A, we are satisfied that these three services should be included and classified as alternative control services:

- the costs of these services can be attributed to an individual customer⁷⁶
- classifying these three services as alternative control services is consistent with the current regulatory approach and would be a continuation of how these services are treated in the 2011–15 regulatory control period.⁷⁷ Therefore, there will be no administrative impact on the distributors or network users.⁷⁸

Appendix A includes these services in coloured text. The revisions do not impact our preliminary determination on the classification of services.

⁷³ This service was proposed by CitiPower, *Regulatory proposal*, 30 April 2015, p. 290 and Powercor, *Regulatory proposal*, 30 April 2015, p. 300. They refer to cl. 14AAB of the AMI Order in Council.

⁷⁴ This service was proposed by CitiPower, *Regulatory proposal*, 30 April 2015, p. 290 and Powercor, *Regulatory proposal*, 30 April 2015, p. 300. They refer to AMI Tariffs, Order cl. 11.

⁷⁵ This service was proposed by United Energy, *Regulatory proposal*, 30 April 2015, p. 164. United Energy stated that all Victorian distributors currently charge for this service.

⁷⁶ NER, cl. 6.2.2(c)(5).

⁷⁷ NER, cl. 6.2.2(c)(3) and (4).

⁷⁸ NER, cl. 6.2.2(c)(2).

A AER preliminary decision on classification of distribution services in Victoria

Service group	AER's preliminary decision – classification 2016–20	Current classification 2011–15
AER service group—network services		
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
AER service group—connection services		
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)
Supply enhancement at customer request	Unclassified	Alternative control (quoted)

Service group	AER's preliminary decision – classification 2016–20	Current classification 2011–15
Customer initiated undergrounding and/or rearrangement of distribution assets serving that customer ⁷⁹	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 ⁸⁰	Alternative control (fee-based) ⁸¹	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) ⁸²	Alternative control (fee-based)	Alternative control (fee-based)
PV & small generator installation pre-approval (>5kW) ⁸³	Alternative control (fee-based)	Alternative control (fee-based)

⁷⁹ This classification applies where a customer contribution is calculated and applied in accordance with ESCV Guideline 14 or, if chapter 5A of the NER applies, the AER's National Energy Connection Charge Guideline.

⁸⁰ 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.

⁸¹ 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.

⁸² 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;

⁸³ 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.

Service group	AER's preliminary decision – classification 2016–20	Current classification 2011–15
AER service group—metering services		
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
AER service sub-group—regulated metering services for type 5, 6 and smart meters		
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 ⁸⁴
Meter restoration services	Alternative control	Unclassified ⁸⁵
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)

⁸⁴ These services were not regulated by us during the 2011–15 regulatory control period, they were regulated under the AMI Order.

⁸⁵ 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 preliminary decision – classification 2016–20	Current classification 2011–15
Re-test of type 5 and 6 metering installations (including smart meters) for first tier customers with annual consumption greater than 160 MWh ⁸⁶	Alternative control (fee-based)	Alternative control (fee-based)
Customer to access metering data	Alternative control	Alternative control
AER service sub-group—unregulated metering services for type 5, 6 and smart meters		
Installation, operation, repair & maintenance, and replacement of type 5-6 metering installations (including smart meters) to new customers ⁸⁷	Unclassified	New service for 2016–20
AER service group—public lighting services		
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
AER service group—ancillary services		
Fault response - not distributor fault ⁸⁸	Alternative control (fee-based)	Alternative control (fee-based)
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)

⁸⁶ 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.

⁸⁷ A 'new customer' includes an existing customer who elects to replace an existing meter.

⁸⁸ 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 preliminary decision – classification 2016–20	Current classification 2011–15
Reserve feeder maintenance	Alternative control (quoted)	Alternative control (fee-based)
Temporary supply services ⁸⁹	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
Installation, repair, and maintenance of watchman lights	Unclassified	Unclassified

⁸⁹ 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.