

# Electricity Distribution Service Classification Guideline

September 2018

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Inquiries about this publication should be addressed to:

Australian Energy Regulator  
 GPO Box 520  
 Melbourne VIC 3001  
 Tel: 1300 585 165

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# 1 Introduction

Service classification determines the type of economic regulation, if any, that we apply to electricity distribution services provided by distribution network service providers (DNSPs). We set out our initial views about service classification in our 'framework and approach' (F&A) paper, which is published six months before a DNSP submits its regulatory proposal. Classification decisions are subsequently finalised or determined as part of the Distribution Determination we make for every DNSP, which is usually every 5 years.

The purpose of this Electricity Distribution Service Classification Guideline (Guideline) is to improve clarity, transparency and predictability in the distribution service classification process. It does this by applying the National Electricity Law (NEL), including the form of regulation factors<sup>1</sup> and the National Electricity Objective<sup>2</sup> (NEO), the National Electricity Rules (NER), and best practice regulation to develop baseline service groupings and classifications. The baseline can be readily adopted in future price determinations unless the particular circumstances of the DNSP, such as the jurisdictional settings that may be relevant, warrant a different classification. However, even in these cases the Guideline will inform our consideration of whether a departure is justified. Where a DNSP proposes a departure from the baseline, as part of the framework and approach stage, it may draw on the rationale set out in this Guideline to inform its application.

This Guideline provides a practical explanation of how the AER classifies distribution services. DNSPs provide services that are often very similar but are not identical, and rarely are they offered into markets with identical characteristics. For this reason, the Guideline focusses on a typical range of services.

The Guideline provides insight to our approach but it does not obviate the need to reconsider service classifications periodically in light of changes to the markets in which DNSPs operate. In the past decade, changes in technology, contestability of services offered by DNSPs and jurisdictional frameworks have been active drivers affecting those markets and markets will continue to evolve. The Guideline provides worked examples of our approach to service classification, which takes into account these changes and therefore the regulation of services provided by DNSPs.

The structure of the Guideline follows:

- Section 1 (this section) provides a brief overview.
- Section 2 introduces the baseline set of distribution services and how we arrange them into service groupings. It notes that the baseline is considered to be reflective of a typical DNSP although it may not be representative of any one particular DNSP in its entirety.
- Section 3 discusses our approach to the classification of distribution services with reference to the baseline services. In doing so we need to make some assumptions about the market in which the baseline services are offered in order to classify the

<sup>1</sup> The form of regulation factors are set out in section 2F of the NEL.

<sup>2</sup> The NEO is set out in section 7 of the NEL.

service. Identifying these assumptions helps explain the factors that influence our decisions about service classification.Heading 3 (section)

## 1.1 About this Guideline

This Guideline is made under clause 6.2.3A of the **NER**.

The objective of this Guideline is to set out and provide examples of the AER's approach to service classification with respect to:

- a) **Direct control services** or **negotiated distribution services** under clause 6.2.1(a) of the NER, and
- b) **Standard control services**<sup>3</sup> or **alternative control services** under clause 6.2.2(a) of the NER.

Classification forms part of a distribution determination and operates for the regulatory control period for which the distribution determination is made.<sup>4</sup>

The Guideline is not binding, but the AER must provide reasons if it decides to depart from the approach set out in this Guideline.<sup>5</sup>

### Commencement

This Guideline commences on 1 October 2018.

### Terms and definitions

In this Guideline, unless the contrary intention appears:

- A term in bold type that is expressly defined in the glossary of this Guideline has the meaning set out in the glossary.
- A term in bold type that is not expressly defined in the glossary of this Guideline has the same meaning it has in the NEL or the NER.
- The singular includes the plural, and vice versa.
- A reference to any legislation, legislative instrument or other instrument is a reference to that legislation or instrument as in force from time to time.
- Explanations in this Guideline about why certain information is required are provided for guidance only. They do not limit in any way the AER's objectives, functions or powers.
- For the purposes of the application of this Guideline in the Northern Territory, the reference to 'national electricity system' in section 7 of the NEL must be taken to mean a reference to a 'local electricity system' or to all 'local electricity systems', as the case requires.

<sup>3</sup> [Includes classification of regulated stand-alone power systems \(SAPS\) under NER cl. 6.2.1A.](#)

<sup>4</sup> NER, cl. 6.2.3.

<sup>5</sup> NER, cl. 6.2.8 (c).

### **Processes for revision**

The **AER** may amend or replace this **Guideline** from time to time in accordance with clause 6.2.3A of the **NER** and the **distribution consultation procedures**.<sup>6</sup>

### **Version history and effective date**

A version number and an effective date of issue will identify every version of this **Guideline**.

<sup>6</sup> NER, cl. 6.16.

## 2 Identifying the baseline distribution services

This section identifies the AER's preferred approach to the naming, describing and grouping of services prior to consideration of service classification.

Before a service offered by a DNSP can be classified, it needs to be identified, in terms of the name and description of the service. As the services offered by DNSPs vary, no single list of baseline services will adequately reflect all the services provided by a single DNSP. Consequently, each DNSP needs to identify the services it offers to consumers in order to enable service classification.

This section of the Guideline is concerned with how the baseline services are identified and described. By adopting the same approach to identifying the baseline services in the Guideline, this will enable a more consistent approach to service classification. However, we will accept alternative approaches where there are good reasons to depart from the approach set out in this Guideline.

### Services versus inputs

The NER only permits distribution services to be classified. Inputs to these services cannot be classified. Inputs include all of the capital and operating inputs that contribute to the provision of a service. Our approach to distinguishing between 'services' and 'inputs' is as follows:

- A service is the action of helping or doing work for someone. Typically, distribution services are provided by DNSPs to customers for payment. For examples, DNSPs publish price lists for the services they offer.
- An input can be distinguished from a service in that it is not offered to customers on a stand-alone basis. For example, DNSPs employ lawyers to provide internal legal advice but do not offer legal services.
- A service may involve using one or more inputs in providing that service to a customer. For example, a connection service may involve pole installation and vegetation pruning that are not offered on a standalone basis a two separate services.
- While a DNSP may incur costs in utilising an input, costs can only be recovered by offering services. Distribution services have prices, paid by distribution customers. Inputs usually do not. In some cases, the prices of inputs may be identified as a means of calculating a final price for a service—these types of services are sometimes referred to as 'quoted services'.
- A bundled service is often made up of several individual inputs that could be regarded as services. However, if a customer cannot purchase the individual services separately, then they are regarded as a single bundled service.
- If an activity was supplied as an input to a service, but then is unbundled from a service and subsequently offered to customers as a stand-alone activity, in return for payment, then the activity is a service. For example, metering was previously bundled into common distribution services with costs recovered through all customers' network

charges. However, following the introduction of metering contestability in many jurisdictions, metering charges were separated from network charges.

## 2.1 Services and groupings

For simplicity and where appropriate, we can classify services in groupings rather than individually, as permitted by the NER.<sup>7</sup> For example, 'Metering Services' is a service grouping, while 'Type 5 and 6 metering services' is a service. An individual services may also reflect a group of more detailed services. For example, types 5 meter services.

Referring to a grouping allows us to collect groups of services with common attributes that are often (but not always) classified similarly. Collectively, the groupings and individual services referred to in this Guideline make up the baseline services. The Guideline works through and classifies the services that make up the baseline of distribution services— see Appendix A.

Our approach to forming service groupings is embedded in the baseline services that make up the baseline. This approach will assist in creating greater consistency between DNSPs:

- A DNSP should maintain and regularly update its list of services based on the approach set out in this Guideline.
- A service grouping should be described in such a way as to encapsulate the nature of individual services that it constitutes.
- Service groupings are not limited to the individual services attributed to a grouping. Rather, a grouping should be described to encompass common attributes. That is, the list of services that sit beneath a service grouping is not intended to be exhaustive.

In describing a service or service groupings, our approach is:

- The description should relate to the nature of the activities performed by the DNSP in providing the service to a customer.
- The description should not reflect the mechanism by which costs incurred by the DNSP may be recovered (for example 'quoted services').
- The description should not describe the purpose of providing the service.
- A DNSP should adopt the description set out in this Guideline unless the description is inaccurate with respect to the service it offers. A simple preference for alternative wording is not acceptable.

## 2.2 Baseline service groupings

The baseline service groups below reflect a typical DNSP. This list<sup>8</sup> is based on our experience in classifying services for DNSPs across the jurisdictions.

The baseline service groupings are described below by their initial classification decision:

<sup>7</sup> See NER, cll. 6.2.1(b) and 6.2.2(b).

<sup>8</sup> For the full list of activities and services see Appendix A.



### 2.2.1 Direct control services

#### a) Common distribution services

Effectively a single service, this grouping relates to the conveyance or flow of electricity through the network<sup>9</sup> for consumers (and includes activities that relate to maintaining network integrity). The common distribution service is the bundle of distribution activities used by customers, relating to their use of the shared network.

#### b) Network ancillary services

These services are best described as those offered to customers and/or third parties that are related to common distribution services. While they are related, these services do not form part of the bundled common distribution service because not all customers request or require these services.

#### c) Metering services

This grouping of services relates to the measurement of electricity supplied to and from customers through the distribution system (excluding meters on the network's side).

#### d) Connection services

This grouping includes activities relating to the electrical or physical connection of a customer to the distribution network.

#### e) Public lighting services

This grouping relates to lighting services provided by means of or in connection with a DNSP's distribution system.

### 2.2.2 Negotiated distribution services

Negotiated distribution services is not a service grouping. Rather, this is a classification for services that have prices set by the parties to the negotiation. Beyond the initial classification decision,<sup>10</sup> the AER is involved only in approving the negotiating framework and in resolving disputes. There are relatively few negotiated services in the NEM. One example is was public lighting in South Australia. As part of the next SA Power Networks' F&A paper for the 2020-25 regulatory period, we reclassified public lighting as an alternative control service. Public lighting was reclassified as an alternative control service on the basis that provision of the service met the criteria for a direct control service, and further to be classified as alternate control.<sup>11</sup>

### 2.2.3 Services that are not classified

We may decide not to classify a distribution service because revenue regulation is not required. For example, a service might be offered in well-established competitive markets. By default, this service would become an 'unregulated distribution service'.

<sup>9</sup> [Deemed to include the flow of electricity through regulated SAPS under NER cl. 6.2.1A.](#)

<sup>10</sup> Under NER, cl. 6.2.1(a).

<sup>11</sup> <https://www.aer.gov.au/system/files/AER%20-%20SA%20Power%20Networks%202020-25%20-%20Final%20framework%20and%20approach%20-%20July%202018.pdf>, p.35.

We might also decide that a service is not a distribution service because it is not provided by means of or in connection with a distribution system. That is, it is a 'non-distribution service'.

Under the NER, we are not required to list services that are not classified. This is because classification is concerned with the decision to regulate rather than not to regulate.<sup>12</sup>

Nevertheless, in some circumstances we may identify that a service is an 'unregulated distribution service' or a 'non-distribution service' if we consider this will provide greater clarity to stakeholders. We will do this on a case-by-case basis or if requested by stakeholders.

#### **2.2.4 Summary**

By encouraging DNSPs to name, describe and group services consistent with our baseline list of services, the AER seeks to promote consistency within and across jurisdictions as well as administrative simplicity and transparency. A DNSP should adopt these service groupings, as well as the service or activities that constitute the service group, along with the description, unless it considers a service is not relevant to, or is inappropriate for the actual services it provides. Appendix A sets out the baseline distribution services. This list sets out the service groupings and a description of each grouping, along with the names and description of the activities and services that constitute each service grouping.

Where a DNSP proposes variations of the grouping and/or service grouping descriptions, it should provide reasons and examples at the time the AER is developing its F&A or in its *classification proposal*.<sup>13</sup>

Any list of non-distribution services may not be comprehensive. Such listing aims only to provide clarity where the status of a particular service is unclear. In the absence of the AER granting a distribution ring-fencing waiver, a DNSP may not provide non-distribution services.<sup>14</sup>

<sup>12</sup> NER, cl. 6.2.1(a).

<sup>13</sup> Referred to in NER, cl. 6.8.2(c).

<sup>14</sup> AER, *Ring-fencing Guideline, Electricity Distribution*, October 2017, section 3.1.

### 3 Classifying services and service groupings

The approach the AER must follow when we classify services is set out in clauses 6.2.1, 6.2.1A and 6.2.2 of the NER. We must consider a number of factors at each step.

#### Step 1: Is it a distribution service?

First we must be satisfied a service is indeed a 'distribution service' (step 1 in figure 1). A *distribution service* is defined in the NER<sup>15</sup> in the same way as the NEL defines an electricity network service;<sup>16</sup> as a service that is provided by means of, or in connection with, a distribution system. A DNSP is generally not permitted to offer non-distribution services.<sup>17</sup>

Our approach in using this test is simply to discern between distribution and non-distribution services based on whether or not the proposed service is consistent with the relevant legislation. We also are mindful of previous regulatory practices in regard to a particular service.

#### Step 2: Should it be a direct control or negotiated distribution service?

Second, we consider whether economic regulation of the service is necessary (step 2). We make this decision having regard to a range of factors,<sup>18</sup> which include:

- 1) *the form of regulation factors;*<sup>19</sup> and
- 2) *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); and*
- 3) *the desirability of consistency in the form of regulation for similar services (both within and beyond the relevant jurisdiction); and*
- 4) *any other relevant factor.*

The form of regulation factors outline the circumstances where the market for a particular service may not operate efficiently. For example, restrictions on market entry, the existence of market power by a business, the absence of substitute services or information asymmetry are typical causes of market failure which could lead to inefficient monopoly pricing and indicate that regulatory intervention should be considered.

If the service is offered in a competitive environment, economic regulation is not likely to be required. However, DNSPs regularly offer services to customers where only one distribution licence is available or where ownership and control of its infrastructure prevents or restricts alternative suppliers.

<sup>15</sup> NER, Chapter 10 Glossary

<sup>16</sup> NEL, Definitions, p.26

<sup>17</sup> A DNSP may apply to the AER for a waiver under our Ring-fencing Guideline or alternatively it may offer the service through a separate legal entity.

<sup>18</sup> See NER, cl. 6.2.1(c)(1-4).

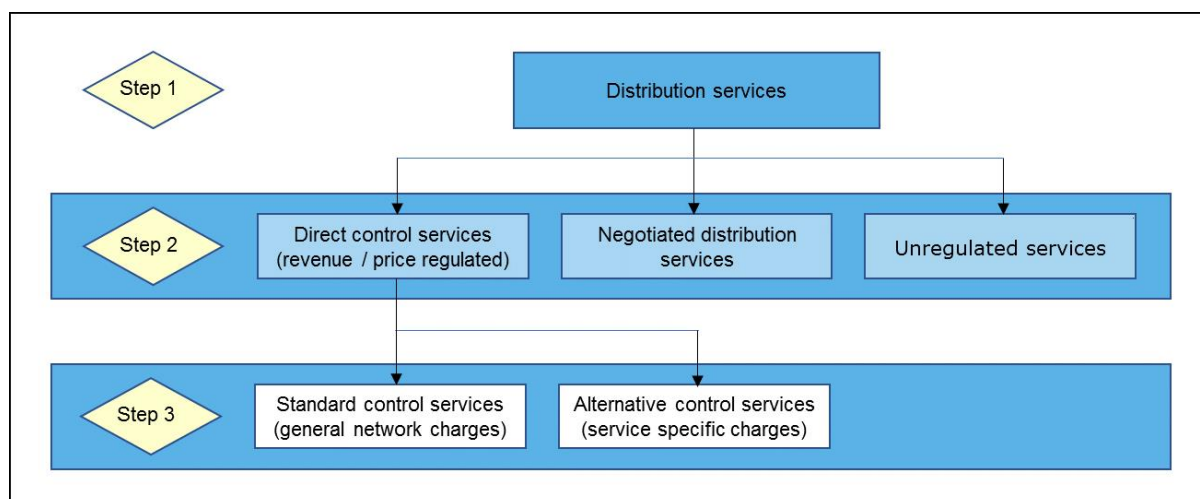
<sup>19</sup> NEL, see Part 1, section 2F.

If we decide that regulation is necessary, we need to classify the service either as a direct control or a negotiated service. Under the Ring-fencing Guideline, a DNSP may provide direct control services, but must not provide other services.<sup>20</sup> Other services are deemed to include negotiated services.<sup>21</sup> Where negotiated services are provided, they must be provided by a functionally separate affiliate of the DNSP.

### Step 3: Standard control or alternative control service?

Finally, having determined that a service should be classified as direct control, the next step, under clause 6.2.2 of the NER, is to further classify it as either a standard control service or alternative control service (step 3).<sup>22</sup> Standard control services are often bundled together and form the basic charges for use of the distribution system. Alternative control services are only used or requested by certain customers, such as a customer requested electricity pole relocation.

**Figure 1 Distribution service classification process**



Source: AER

In classifying a **direct control service** as a **standard control service** or an alternative control service at step three, we must have regard to:<sup>23</sup>

- *the potential for development of competition in the relevant market and how our classification might influence that potential; and*
- *the possible effects of the classification on administrative costs; and*
- *the regulatory approach (if any) applicable in the preceding regulatory control period; and*
- *the desirability of a consistent regulatory approach to similar services (both within and beyond the relevant jurisdiction); and*

<sup>20</sup> Electricity Distribution Ring-fencing Guideline, s. 3.1, p. 11

<sup>21</sup> Electricity Distribution Ring-fencing Guideline, s. 1.4, p. 8.

<sup>22</sup> NER, cl. 6.2.2(a).

<sup>23</sup> NER, cl. 6.2.2(c)(1-6).

- *the extent the costs of providing the relevant service are directly attributable to the person to whom the service is provided; and*
- *any other relevant factor.*

All of these factors are important in our decision making. In the particular circumstances relevant to each service, however, some may be more important than others. For example, when classifying a service as alternative control, we are likely to give primacy to the level of or potential for competition in the market, as well as to whether the costs of providing the service can be attributable to the person to whom the service is provided. The other factors for consideration then may reinforce the decision. Worked examples of this approach are set out in appendix B of the Guideline.

### 3.1 Classifying the baseline services

Having identified the baseline service groupings in section 2, we demonstrate our approach to service classification by applying the rules to the baseline services. To provide further assistance to stakeholders, appendix B provides worked examples setting out in detail our application of the NER requirements<sup>24</sup> we must take into consideration when we classify distribution services.

The baseline services list set out in this Guideline uses a set of given market assumptions. These may or may not reflect the conditions within which individual DNSPs may be operating. Where markets within jurisdictions match those provided by the baseline list, we would expect similar classification outcomes. The baseline services list is not however a benchmark for classification purposes, a default to which we may resort, nor is it aspirational. It simply serves to provide a reference point to provide transparency, clarity and some predictability to our approach to the classification process.

#### Common distribution service—standard control

- This is the bundled distribution service provided to customers that use the shared distribution network. The activities for the **common distribution service** in the baseline list of services include:
- the planning, design, repair, maintenance, construction and operation of the distribution network
- the relocation of assets that form part of the distribution network but not relocations requested by a third party (including a customer)
- works to fix damage to the network (including recoverable works caused by a customer or third party)
- support for another network during an emergency event
- procurement and provision of network demand management activities for distribution purposes
- activities related to the use of distribution assets as ‘shared assets’<sup>25</sup>

<sup>24</sup> See clauses 6.2.1, 6.2.1A and 6.2.2 of the NER

<sup>25</sup> NER, cl. 6.4.4

- emergency disconnect for safety reasons and work conducted to restore a failed component of the distribution system to an operational state upon investigating a customer outage
- rectification of simple customer fault relating to a life support customer or where there are public health and safety issues the distributor is able to address
- establishment and maintenance of National Metering Identifiers (NMIs) in market and/or network metering systems, and other market and regulatory obligations
- ongoing inspection of private electrical works (not part of the shared network) required under legislation for safety reasons
- Bulk supply point metering – activities relating to monitoring the flow of electricity through the distribution network.
- work related to a regulated stand-alone power system (SAPS) deployment, operation (fault and emergency) and maintenance and customer conversion activities.

These distribution activities are provided by the DNSP operating as a natural monopoly. Barriers to entry, such as the requirement for exclusive licences to operate in certain areas, prevent competition for the common distribution service. As previously mentioned, we also take into account the previous classification of each service, the desirability for consistency, as well as any other relevant factor. Consequently, the common distribution service should be regulated as a **direct control** service.

Taking into account all the factors in clause 6.2.2 (c) and 6.2.1A of the NER, the appropriate classification is **standard control** because:

- All customers benefit from the common distribution service.
- The classification is administratively efficient, and consistent with previous regulatory approaches for many DNSPs' services.
- The classification promotes a consistent regulatory approach to similar services within and across jurisdictions.

### **Network ancillary services – alternative control**

Network ancillary services are often closely related to the common distribution service because they relate to use or access to the shared network. The services are typically only required by some customers, and from time to time, and include:

- Access permits, oversight and facilitation—these activities allow third parties to access areas of a DNSP's network subject to DNSP approval.
- Sale of approved materials or equipment—these activities include the sale of approved materials/equipment to third parties for connection assets that are gifted back to the DNSP to become part of the shared distribution network.
- Notices of arrangement and completion notices—these activities allow property developers to show they have met their legal obligations with respect to network connection installations.

- Network related property services—DNSPs provide information that customers may require prior to applying to undertake further work affecting the network.
- Network safety services— these include activities like traffic control or fitting of safety devices (e.g. tiger tails) to ensure the public safety around the network is maintained.
- Customer requested planned interruption—occasionally a customer will seek a planned outage at a time that better suits their needs (for example, at night instead of during day).
- Attendance at customers' premises to perform a statutory right where access is prevented—includes follow up attendance at a customer's premises to perform a statutory right where access was prevented or declined by the customer on the initial visit. This includes the costs of arranging, and the provision of, a security escort or police escort (where the cost is passed through to the distributor).
- Inspection and auditing services—typically, the activities sitting under this service relate to testing or reviewing the compliance of third party work to ensure that DNSP safety requirements are met.
- Provision of training to third parties for network related access—self-explanatory, the DNSP training activities provided to third parties for safe access to the network.
- Authorisation and approval of third party service providers design, work and materials—sometimes third parties wish to use material they have sourced rather than those supplied by the DNSP. The activities involve approval/acceptance of these materials by the DNSP for network safety reasons.
- Security lights—similar to public lighting, these are lighting services provided to customers by means of the network as a location for the equipment. The security lights are attached to network infrastructure to provide light and thereby improve the security of private premises.
- Customer or third party initiated network asset relocations/re-arrangements—requests by customers and other third parties to relocate, alter or improve network assets to suit specific needs.
- Customer requested provision of electricity network data—preparation of data for customer use.
- Third party funded network alterations or other improvements—includes alterations or other improvements to the shared distribution network to enable third party infrastructure to be installed on the shared distribution network.

The appropriate classification is alternative control, with prices set for these services based on their cost of supply to customers. This is because:

- These services are closely related to the provision of the common distribution service, but are only required by an identifiable subset of all customers.
- The classification is administratively efficient and consistent with previous regulatory approaches for many DNSPs' services.
- The classification promotes a consistent regulatory approach to similar services within and across jurisdictions.

- The classification may foster the future development of competition for these services.

### Metering services

The metering services grouping involves activities relating to the measurement of electricity supplied to and from customers through the shared distribution system. Residential and small business meters were exclusively provided by DNSPs. However, the introduction of metering contestability<sup>26</sup> means that a DNSP's role is mostly limited to maintaining legacy meters (i.e. type 5 and 6 meters) until these are replaced by new meters by retailers or other metering providers. For example, where a customer moves to new premises (new connections), elects to move to a smart meter or the old meter needs replacing.

For the baseline metering services group, we assume that metering contestability is in operation and that meters in need of repair or replacement will be serviced by a metering provider that is not a DNSP.<sup>27</sup> Contestable type 1 to 4 meters are included in the baseline list of services as a worked example to demonstrate our approach to classifying contestable distribution services. We do note however, that DNSPs do not provide these services, and in ordinary circumstances will not feature in a DNSP's service list. A notable exception is Victorian DNSPs. In 2017, the Victorian Government deferred metering competition in Victoria through an Order-In-Council.<sup>28</sup> In addition, certain DNSPs continue to provide these services, on a temporary basis under a waiver from their ring-fencing obligations. Ordinarily, metering services therefore include:

- Type 5 and 6 meter maintenance, reading and data services—these activities relate to legacy meters installed prior to the introduction of metering contestability.
- Auxiliary metering services—a range of activities including off-cycle meter reads, customer requested meter tests, works to reseal a meter, adjustments to a load control device and emergency maintenance of failed metering equipment not owned by the distributor (contestable meters).
- Legacy meter recovery and disposal—following the replacement of a type 5 or 6 meter by a metering provider, a DNSP may be requested to recover and dispose of a redundant meter from a customer's premises.

The services above are distribution services because they are provided in connection with a distribution system.<sup>29</sup> We classify these services as **alternative control services** because:

- They are provided to individual customers, rather than to all customers.
- The classification is administratively efficient, and consistent with previous regulatory approaches for many DNSPs' services.

<sup>26</sup> Metering contestability does not apply in all jurisdictions. As a result, we expect there will be departures from this guideline where type 5 and 6 metering continues to be provided by DNSPs, including advanced metering infrastructure in Victoria.

<sup>27</sup> With the exception of Victoria.

<sup>28</sup> Victorian Government Order-In-Council, No. S 346, 12 October 2017.

<sup>29</sup> *Ergon Energy Corporation v Australian Energy Regulator*, FCA 393 (19 April 2012).



- The classification promotes a consistent regulatory approach to similar services within and across jurisdictions.

The metering activities below are distinct in that while they are metering services, they are not performed for individual customers or do not impose costs on any one particular customer.

- Type 7 metering services—type 7 meters are a special case in that there is no physical meter. The activity performed by a DNSP at a type 7 metering installation is a simple estimate of energy use at an installation based on the nature and expected use of a load. For example, public lighting does not require a meter, as the load is estimated by the type and number of hours a luminaire is in operation.

While this service is a distribution service, type 7 metering effectively impose no costs attributable to particular customers, and there is no potential for competition to develop. As a result, we classify it as standard control.

### **Connection services<sup>30</sup>—activities relating to the electrical or physical connection of a customer to the network**

In connecting a customer to a distribution network, costs may be imposed on the distribution system beyond the immediate connection point. For example, a new property development may require a network extension or a large customer connection may require a distributor to strengthen (augment) the network. Consequently, the scope of connection services vary.

Inevitably, customers pay for all connection costs. However, our experience in classifying connection services<sup>31</sup> demonstrates that whether these costs are attributed to a connecting customer, to a subset of customers located around a connection point or are recovered from all network customers depends on a number of factors. These factors include:

- the extent to which a connection is contestable and may therefore be performed by an entity other than a DNSP (noting that contestability is a jurisdictional prerogative);
- the specific nature (size and location) of a connection for a particular customer or group of customers; and,
- operational and other jurisdiction specific requirements.

Jurisdictions where connections are not contestable typically require classifications that reflect greater regulatory intervention. For example, a jurisdiction with non-contestable connections is likely to require connection services to be classified as direct control.

There are more jurisdictional differences in relation to connection services than for most other distribution services. The framework we outline in this Guideline provides the required flexibility to accommodate these differences.

<sup>30</sup> When discussing connections we must consider how Connection policies and chapter 5A of the NER impact the regulation of connection services. For this reason, we can never fully deal with classification of connection services in the classification guideline.

<sup>31</sup> NER, cl. 6.2.2(c) 6).

For the baseline connection services, we assume there is no contestability in the provision of connection services. However, we assume that new real estate developments are contestable, as this is commonplace across the NEM.

The baseline connection services grouping adopts terminology for connection services from Chapter 5A of the NER. This allows better integration of the classification of connection services with the connection policies of the DNSPs. Connection services within the baseline list includes:

- Basic connections<sup>32</sup>—a simple connection of a customer to the network, involves no or minimal extension or augmentation.
- standard connections<sup>33</sup>—a connection to the network, that is not a basic connection service. May involve extension and/or augmentation.
- negotiated connections<sup>34</sup>—connections that meet the specific requirements of a customer and the distributor, may involve network extension or augmentation.

Some DNSPs have identified different components of connections, i.e. premises, extension and augmentations. We consider these as cost components of the three major connection services, and not stand alone services in their own right. However, we also acknowledge that under certain circumstances these components may receive a different classification, or not be classified at all.

When applied to each distributor's circumstance, the framework outlined in this Guideline should be adapted for different customer classes, i.e. small customers and large customers (as defined in the National Energy Retail Law), real estate developers, as well as embedded generators, and micro-embedded generators as defined in the NER. Figure 1 below demonstrates how the terminology from Chapter 5A of the NER interacts with the different connection components to form a framework for connections to be classified. This framework can also be adapted for connections made under Chapter 5 of the NER.

<sup>32</sup> This service is based on the description of a basic connection service provided in Chapter 5a (5A.A.1) of the NER.

<sup>33</sup> This service is based on the description of a standard connection service provided in Chapter 5a (5A.A.1) of the NER.

<sup>34</sup> This service is based on the description of a negotiated connection contract provided in Chapter 5a Part c (5A.C.1) of the NER.

**Figure 2 Framework for connections**

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

### Classification considerations - other factors

In classifying connections, we must apply clauses 6.2.1 and 6.2.2 of NER. Clauses 6.2.1(c)(4) and 6.2.2(c)(6) enable us to have regard to ‘any other relevant factor’.

Taking into account the regulatory context, including the National Electricity Objective<sup>35</sup>, Chapter 5A of the NER – connection charge principles<sup>36</sup> and Chapter 6 of the NER– network pricing objective and pricing principles<sup>37</sup> we have identified the following additional factors that are relevant to classifying connections:

- the desirability of customers being able to choose their service provider, where allowed by jurisdictional regulation, to promote the development of competition and contestable markets in order to ensure efficient costs and prices – both now and in the future.
- the desirability of driving effective competition where it is feasible and of providing effective regulation where competition is not feasible.<sup>38</sup>
- the desirability of efficient connection to the network, to promote clarity and transparency for customers about when and how they are required to pay for their connection. To promote efficient user-pays charging, where a DNSP can attribute the full costs of a connection or its component to a particular customer, it should do so.
- the desirability of equitable customer outcomes, both now and over time
- the desirability of regulatory good practice (in terms of the classification being clear, predictable, transparent, workable, etc.).

<sup>35</sup> Section 7, National Electricity Law

<sup>36</sup> NER clause 5A.E.1

<sup>37</sup> NER clause 6.18.5

<sup>38</sup> AER Strategic Statement: <https://www.aer.gov.au/publications/corporate-documents/aer-strategic-statement>

In general, our approach is that customers should pay their dedicated costs, with the cost revenue test applying where the benefits of an extension or augmentation to the network are shared with other users of the network. A capital contribution, which takes account of the incremental revenue generated by the connection, ensures that customers who require extensions or augmentation to complete the connection pay an appropriate contribution to those costs. This approach separates the price for the connection service to the premises from the DUOS charges attributable to standard control services.

These factors are used in establishing the baseline for connection services, and should be taken into account by DNSPs when proposing departures from the baseline.

### Baseline connection service classifications

We have applied clause 6.2.1 and 6.2.2, including the proposed other relevant factors, to arrive at baseline classifications for connection services, along with their components, in appendix B.

As noted above, this framework enables DNSPs to propose departures from the baseline, if justified on the basis of considerations in clauses 6.2.1 and 6.2.2, including the other relevant factors for connection services.

Figure 2 below, demonstrates the baseline classification for connection services for small and large customers, property developers and embedded generators, given the jurisdictional assumptions outlined below. Further detail is provided in appendix B. In practice, in some jurisdictions, each customer type may be classified separately. However, in other cases, a single approach table is all that is needed. DNSPs should adopt the approach that fits their jurisdictional and operational requirements.

**Figure 3 Baseline connection services**

Baseline	Premises	Extension	Augmentation
<b>Basic connection service</b>	ACS	n.a.	n.a.
<b>Standard connection service</b>	ACS	SCS – apply cost revenue test to extension and augmentation costs to determine capital contribution, if any	
<b>Negotiated connection</b> (includes property developers, embedded generators and connection made under chapter 5)	ACS	SCS – apply cost revenue test to extension and augmentation costs to determine capital contribution, if any	

Assumptions:

Basic connections are below the augmentation threshold and do not incur extension or augmentation costs.

- A small customer is not a large customer (as defined in the National Electricity Retail Law)<sup>39</sup> and not a property developer
- Premises connection costs are dedicated customer connection costs and are directly attributable.

Other connection services fall under the following two services:

Connection application and management services—activities associated with requesting and managing connections such as requests for premises connection, premises de-energisation or re-energisation, temporary connections (such as a builder's connection), customer overhead line replacements or re-location, customer requested upgrades to their connection (such as undergrounding) and calculation of site specific loss factors when required under the NER.

Enhanced connection services—activities to provide customers with a higher standard of electricity supply that exceeds the minimum technically feasible standard. These include activities where customers request higher levels of reliability or three-phase electricity.

We classify both these services as **alternative control** because:

- The services are provided to individual customers upon request, rather than to all customers.
- The classification is administratively efficient, and consistent with previous regulatory approaches for many DNSPs' services.
- The classification promotes a consistent regulatory approach to similar services within and across jurisdictions.

### Public lighting services

These services relate to the provision of public lighting where this is provided in connection with a distribution system.<sup>40</sup> The activities include installation and/or maintenance of public lighting equipment. Public lighting is a distribution service typically provided to local government councils or road operators and we usually classify it as **alternative control** because:

- The services are provided to individual customers, such as councils and road operators, upon request, rather than to all customers.
- The classification is administratively efficient.
- Once applied, the classification promotes a consistent regulatory approach within and across jurisdictions.

<sup>39</sup> NERL cl.5(2)

<sup>40</sup> *Ergon Energy Corporation v Australian Energy Regulator*, FCA 393 (19 April 2012).

- The classification may foster the future development of competition for the services.

## 3.2 Services that are not classified

### Unregulated distribution services

Unregulated distribution services are distribution services by definition, because they are provided "by means of, or in connection with, a distribution system". Unregulated services is the term we use to describe distribution services which we have not classified as either direct control or negotiated services.<sup>41</sup> It is not a service classification within the current service classification framework. DNSPs may provide certain distribution services on an unregulated basis, which are also potentially provided by other service providers in a competitive market. Under ring-fencing obligations, if DNSPs are to provide these services, they must functionally separate the provision of direct control services from the provision of other services.<sup>42</sup> For example, type 1-4 metering services are contestable and are therefore unregulated. While the services satisfy the definition of a distribution service, a DNSP faces restrictions with respect to use of its brand as well as restrictions on staff and office sharing.

### Non-distribution services

Non-distribution services are, as their name indicates, services which are not provided "by means of, or in connection with, a distribution system". Non-distribution services are not regulated or classified under the NER. As a result, they cannot be provided by DNSPs, except in limited circumstances, without a waiver from ring-fencing obligations.

<sup>41</sup> AER, *Electricity distribution ring-fencing guideline explanatory statement*, November 2016, p. 13.

<sup>42</sup> See section 3 of the AER's Ring-fencing Guideline, October 2016.

## 4 Other classification issues

### 4.1 Services identified within a regulatory period

A new service identified by a DNSP within a regulatory control period may be considered to form part of a service grouping if the new service is clearly consistent with the service grouping description.

A new service identified within a regulatory control period that does not fit within an existing service grouping will be treated as an 'unregulated distribution service' until considered by the AER at the next regulatory determination.

### 4.2 Departures from the baseline

A DNSP may propose alternative or additional service groups, services and service classifications to those included in the baseline. When doing so, a DNSP must provide reasons for doing so, for example, due to a jurisdictional legislative obligation or other reason. A simple preference for alternative wording is not acceptable.

In proposing departures from the baseline service groupings and classifications, DNSPs are encouraged to explain how the considerations set out in the NER<sup>43</sup> would lead to a different outcome from that assumed in developing the baseline positions in this Guideline, such that alternative or additional services, service groups or classifications are justified.

For example, a DNSP may identify that in the particular circumstances of that DNSP and developments in the markets in which it operates:

- application of the **form of regulation factors** would lead to a result that differs from the assumptions underpinning the baseline, as set out in appendix B
- service groupings or descriptions differ in the relevant jurisdiction, and the benefits of consistency are not outweighed by the detriments of change
- the baseline differs from the form of regulation and classification previously applicable to the relevant services, and the DNSP demonstrates that the divergence is not warranted
- the potential for development of competition in the relevant market, or how the classification might influence that potential, differs from the baseline assumptions, or
- any other relevant factors to be considered.

<sup>43</sup> NER, cl. 6.2.1(c) and 6.2.2(d).

## Glossary

Shortened form or term	Extended form or definition
AER	Australian Energy Regulator
Alternative control	Defined within the NER as a "distribution service that is a direct control service but not a standard control service"
Classification proposal	Document referred to in clause 6.8.2(c) of the NER as an "element" that must be included in a DNSP's regulatory proposal
DNSP	Distribution Network Service Provider (refers to the Electricity Network)
Direct control service	Defined within the NER as "A distribution service that is a direct control network service within the meaning of section 2B of the Law"
Distribution service	An electricity distribution service provided by means of, or in connection with, a distribution system, as defined in the NER.
F&A	Framework and Approach
Negotiated distribution service	Defined within the NER as a "distribution service that is a negotiated network service within the meaning of section 2C of the Law"
NEL	National Electricity Law
NER	National Electricity Rules
network device	Apparatus or equipment that: <ul style="list-style-type: none"> <li>(a) enables a <i>Local Network Service Provider</i> to monitor, operate or control the <i>network</i> for the purposes of providing <i>network services</i>, which may include switching devices, measurement equipment and control equipment;</li> <li>(b) is located at or adjacent to a <i>metering installation</i> at the <i>connection point</i> of a <i>retail customer</i>; and</li> <li>(c) does not have the capability to generate electricity.</li> </ul>
<a href="#">SAPS</a>	<a href="#">Stand-alone power systems</a>
Standard control service	Defined within the NER as "A direct control service that is subject to a control mechanism based on a Distribution Network Service Provider's total revenue requirement"
The Guideline	The Electricity Distribution Service Classification Guideline



## Appendix A: Baseline services list

Service grouping	Further description
<p>Common distribution service—<b>use of the distribution network for the conveyance/flow of electricity (including services relating to network integrity)</b></p>	
<p>1 Common distribution service</p>	<p>The suite of activities that includes, but is not limited to, the following:</p> <ul style="list-style-type: none"> <li>• the planning, design, repair, maintenance, construction, and operation of the distribution network</li> <li>• the relocation of assets that form part of the distribution network but not relocations requested by a third party (including a customer)</li> <li>• works to fix damage to the network (including recoverable works caused by a customer or third party)</li> <li>• support for another network during an emergency event</li> <li>• procurement and provision of network demand management activities for distribution purposes</li> <li>• activities related to 'shared asset facilitation' of distributor assets</li> <li>• emergency disconnect for safety reasons and work conducted to restore a failed component of the distribution system to an operational state upon investigating a customer outage</li> <li>• rectification of simple customer fault relating to a life support customer or other critical health and safety issues the distributor is able to address</li> <li>• establishment and maintenance of National Metering Identifiers (NMIs) in market and/or network metering systems, and other market and regulatory obligations</li> <li>• ongoing inspection of private electrical works (not part of the shared network) required under legislation for safety reasons</li> <li>• Bulk supply point metering – activities relating to monitoring the flow of electricity through the distribution network.</li> </ul>

Service grouping	Further description
	<ul style="list-style-type: none"> <li>• <a href="#"><u>work related to a regulated stand-alone power system (SAPs) deployment, operation (fault and emergency) and maintenance and customer conversion activities.</u></a></li> </ul>
<p>Network ancillary services—customer and third party initiated services related to the common distribution service</p>	
<p>2 Access permits, oversight and facilitation</p>	<p>Activities include:</p> <ul style="list-style-type: none"> <li>• a distributor issuing access permits or clearances to work to a person authorised to work on or near distribution systems including high and low voltage</li> <li>• a distributor issuing confined space entry permits and associated safe entry equipment to a person authorised to enter a confined space</li> <li>• a distributor providing access to switch rooms, substations and other network equipment to a non-Local Network Service Provider party who is accompanied and supervised by a distributor's staff member. May also include a distributor providing safe entry equipment (fall-arrest) to enter difficult access areas.</li> <li>• specialist services (which may involve design related activities and oversight/inspections of works) where the design or construction is non-standard, technically complex or environmentally sensitive and any enquiries related to distributor assets</li> <li>• facilitation of generator connection and operation of the network</li> <li>• facilitation of activities within clearances of distributor's assets, including physical and electrical isolation of assets.</li> </ul>
<p>3 Sale of approved materials or equipment</p>	<p>Includes the sale of approved materials/equipment to third parties for connection assets that are gifted back to the DNSP to become part of the shared distribution network.</p>
<p>4 Notices of arrangement and completion notices</p>	<p>Examples include:</p> <ul style="list-style-type: none"> <li>• Work of an administrative nature where a local council requires evidence in writing from the distributor that all necessary arrangements have been made to supply electricity to a development. This includes: receiving and checking subdivision plans, copying subdivision plans, checking and</li> </ul>

Service grouping	Further description
	<p>recording easement details, assessing supply availability, liaising with developers if errors or changes are required, and preparing notifications of arrangement.</p> <ul style="list-style-type: none"> <li>• Provision of a completion notice (other than a notice of arrangement). This applies where the real estate developer requests the distributor to provide documentation confirming progress of work. Usually associated with discharging contractual arrangements (e.g. progress payments) to meet contractual undertakings.</li> </ul>
<p>5 Network related property services</p>	<p>Activities include:</p> <ul style="list-style-type: none"> <li>• Network related property services such as property tenure services relating to providing advice on, or obtaining: deeds of agreement, deeds of indemnity, leases, easements or other property tenure in relation to property rights associated with a connection or relocation.</li> <li>• Conveyancing inquiry services relating to the provision of property conveyancing information at the request of a customer.</li> </ul>
<p>6 Network safety services</p>	<p>Examples include:</p> <ul style="list-style-type: none"> <li>• provision of traffic control and safety observer services by the distributor or third party where required</li> <li>• fitting of tiger tails and aerial markers</li> <li>• third party request for de-energising wires for safe approach</li> <li>• high load escorts.</li> </ul>
<p>7 Customer requested planned interruption</p>	<p>Examples include:</p> <ul style="list-style-type: none"> <li>• where the customer requests to move a distributor planned interruption and agrees to fund the additional cost of performing this distribution service outside of normal business hours</li> <li>• customer initiated network outage (e.g. to allow customer and/or contractor to perform maintenance on the customer's assets, work close or for safe approach which impacts other networks users).</li> </ul>

Service grouping	Further description
8 Attendance at customers' premises to perform a statutory right where access is prevented	A follow up attendance at a customer's premises to perform a statutory right where access was prevented or declined by the customer on the initial visit. This includes arranging, and the provision of, a security escort or police escort (where the cost is passed through to the distributor).
9 Inspection and auditing services	<p>Activities include:</p> <ul style="list-style-type: none"> <li>• inspection and reinspection by a distributor, of gifted assets or assets that have been installed or relocated by a third party</li> <li>• investigation, review and implementation of remedial actions that may lead to corrective and disciplinary action of a third party service provider due to unsafe practices or substandard workmanship</li> <li>• auditing of a third party service provider's work practices in the field</li> <li>• re-test at a customer's installation, where the installation fails the initial test and cannot be connected.</li> </ul>
10 Provision of training to third parties for network related access	Training services provided to third parties that result in a set of learning outcomes that are required to obtain a distribution network access authorisation specific to a distributor's network. Such learning outcomes may include those necessary to demonstrate competency in the distributor's electrical safety rules, to hold an access authority on the distributor's network and to carry out switching on the distributor's network. Examples of training might include high voltage training, protection training or working near power lines training.
11 Authorisation and approval of third party service providers' design, work and materials	<p>Activities include:</p> <ul style="list-style-type: none"> <li>• authorisation or re-authorisation of individual employees and subcontractors of third party service providers and additional authorisations at the request of the third party service providers (excludes training services)</li> <li>• acceptance of third party designs and works</li> </ul>

Service grouping		Further description
		<ul style="list-style-type: none"> <li>assessing an application from a third party to consider approval of alternative material and equipment items that are not specified in the distributor’s approved materials list.</li> </ul>
12	Security lights	<p>Provision, installation, operation, and maintenance of equipment mounted on distribution equipment used for security services, e.g. nightwatchman lights.</p> <p>Note: excludes connection services.</p>
13	Customer initiated network asset relocations/re-arrangements	Relocation of assets that form part of the distribution network in circumstances where the relocation was initiated by a third party (including a customer).
14	Customer requested provision of electricity network data	Data requests by customers or third parties including requests for the provision of electricity network data or consumption data outside of legislative obligations.
15	Third party funded network alterations or other improvements	<p>Alterations or other improvements to the shared distribution network to enable third party infrastructure (e.g. NBN Co telecommunications assets) to be installed on the shared distribution network.</p> <ul style="list-style-type: none"> <li>This does not relate to upstream distribution network augmentation.</li> </ul>
<p><b>Metering services—activities relating to the measurement of electricity supplied to and from customers through the distribution system (excluding network meters)</b></p>		
16	Type 1 to 4 customer metering services	Type 1 to 4 customer metering installations <sup>44</sup> and supporting services are competitively available.
17	Types 5 and 6 meter maintenance, reading and data services (legacy meters)	<p>Activities include:</p> <ul style="list-style-type: none"> <li>Meter maintenance covers works to inspect, test, and maintain metering installations.</li> <li>Meter reading refers to quarterly or other regular reading of metering installations including field visits and remotely read meters.</li> </ul>

<sup>44</sup> Includes the instrument transformer, as per the definition of a ‘metering installation’ in Chapter 10 of the NER.

Service grouping	Further description
	<ul style="list-style-type: none"> <li>• Metering data services includes, for example: services that involve the collection, processing, storage and delivery of metering data, the provision of metering data in accordance with regulatory obligations, remote or self-reading at difficult to access sites, and the management of related NMI Standing Data in accordance with the NER.</li> </ul>
<p>18 Auxiliary metering services (Type 5 to 7 metering installations)</p>	<p>Activities include:</p> <ul style="list-style-type: none"> <li>• off-cycle meter reads for type 5 and 6 meters</li> <li>• requests to test, inspect and investigate, or alter an existing type 5 or 6 metering installation</li> <li>• testing and maintenance of instrument transformers for type 5 and 6 metering purposes</li> <li>• type 5 to 7 non-standard metering services</li> <li>• works to re-seal a type 5 or 6 meter due to customer or third party action (e.g. by having electrical work done on site)</li> <li>• change distributor load control relay channel on request that is not a part of the initial load control installation, nor part of standard asset maintenance or replacement.</li> </ul>
<p>19 Meter recovery and disposal – type 5 and 6 (legacy meters)</p>	<p>Activities include the removal and disposal of a type 5 or 6 metering installation:</p> <ul style="list-style-type: none"> <li>• at the request of the customer or their agent, where an existing type 5 or 6 metering installation remains installed at the premises and a replacement meter is not required</li> <li>• at the request of the customer or their agent, where a permanent disconnection has been requested where it has not been removed and disposed of by the incoming metering provider.</li> </ul>
<p>20 Type 7 metering services</p>	<p>Administration and management of type 7 metering installations in accordance with the NER 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.</p>

Service grouping	Further description
Connection services <sup>45</sup> —services relating to the electrical or physical connection of a customer to the network	
21 Basic connection services <sup>46</sup>	<p>Means a <i>connection service</i><sup>47</sup> related to a <i>connection</i> (or a proposed <i>connection</i>) between a <i>distribution system</i> and a <i>retail customer's</i> premises (excluding a non-registered <i>embedded generator's</i> premises) in the following circumstances:</p> <p>(a) either:</p> <p style="padding-left: 40px;">(1) the <i>retail customer</i> is typical of a significant class of <i>retail customers</i> who have sought, or are likely to seek, the service; or</p> <p style="padding-left: 40px;">(2) the <i>retail customer</i> is, or proposes to become, a <i>micro embedded generator</i>; and</p> <p>(b) the provision of the service involves minimal or no <i>augmentation</i> of the <i>distribution network</i>; and</p> <p>(c) a <i>model standing offer</i> has been approved by the <i>AER</i> for providing that service as a <i>basic connection service</i>.</p>
22 Standard connection services <sup>48</sup>	Means a <i>connection service</i> (other than a <i>basic connection service</i> ) for a particular class (or sub-class) of <i>connection applicant</i> and for which a <i>model standing offer</i> has been approved by the <i>AER</i> .
23 Negotiated connection services <sup>49</sup>	Means a connection service (other than a basic connection service) for which a DNSP provides a <i>connection offer</i> for a negotiated <i>connection contract</i> .

<sup>45</sup> When discussing connections, we must consider how connection policies and chapter 5A of the NER impact the regulation of connection services. For this reason, we are unable to address the classification of connection services in the classification guideline completely.

<sup>46</sup> Basic connection service can be broken into sub-services which includes the premises and/or extensions and augmentation if required.

<sup>47</sup> Italics denotes definitions in Chapter 5A of the NER.

<sup>48</sup> Standard connections can be further broken down into sub-services which include the components premises, extensions and augmentations when required.

<sup>49</sup> Negotiated connections can be further broken down into sub-services which include the components premises, extensions and augmentations when required.

Service grouping	Further description
<p>24 Connection application and management services</p>	<p>Works initiated by a customer or retailer which are specific to the connection point. This includes, but is not limited to:</p> <ul style="list-style-type: none"> <li>• Connection application related services</li> <li>• de-energisation</li> <li>• re-energisation</li> <li>• temporary connections (of a size less than the shared network augmentation threshold) as a basic connection service e.g. builder’s supply, fetes, etc.</li> <li>• remove or reposition connection</li> <li>• 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</li> <li>• protection and power quality assessment</li> <li>• supply enhancement (e.g. upgrade from single phase to three phase)</li> <li>• customer requested change requiring primary and secondary plant studies for safe operation of the network (e.g. change protection settings)</li> <li>• upgrade from overhead to underground service</li> <li>• rectification of illegal connections or damage to overhead or underground service cables</li> <li>• calculation of a site specific distribution loss factor on request in respect of a generating unit up to 10 MW or a connection point for an end-user with actual or forecast load up to 40 GWh per annum capacity, as per clause 3.6.3(b1) of the NER</li> <li>• power factor correction.</li> </ul>
<p>25 Enhanced connection services</p>	<p>Other or enhanced connection services provided at the request of a customer or third party that include those that are:</p> <ul style="list-style-type: none"> <li>• provided with higher quality of reliability standards, or lower quality of reliability standards</li> </ul>



Service grouping	Further description
	<p>(where permissible) than required by the NER or any other applicable regulatory instruments</p> <ul style="list-style-type: none"> <li>• in excess of levels of service or plant ratings required to be provided by the distributor</li> <li>• for large embedded generators (30 kW 3 phase or above and 5 kW 1 phase or above).</li> </ul>
<p><b>Public lighting services—lighting services provided in connection with a distribution network</b></p>	
<p>26 Public lighting</p>	<ul style="list-style-type: none"> <li>• Includes the provision, construction and maintenance of public lighting and emerging public lighting technology.</li> </ul>

## Appendix B– Applying NER cl. 6.2.1 and 6.2.2 to the baseline services list - (appendix A)

Baseline list of distribution services					
	Service name	Is it a distribution service?  (NER/NEL definition)	Relevant criteria, Classification: DCS/Negotiated/Unregulated	Relevant criteria for further classification: ACS or SCS	Departure
1	<b>Common distribution Service (CDS)</b>	<input checked="" type="checkbox"/> Satisfies the definition of a distribution service	<p>6.2.1(c):</p> <p><i>(1) the form of regulation factors:</i></p> <p><i>(a) the presence and extent of any barriers to entry in a market for electricity network services</i></p> <ul style="list-style-type: none"> <li>• Only a licenced DNSP can provide this service</li> </ul> <p>➤ Direct Control Service (DCS) classification is appropriate</p>	<p>6.2.2 (c):</p> <p><i>(5) the extent the costs of providing the relevant service are directly attributable to the person to whom the service is provided;</i></p> <ul style="list-style-type: none"> <li>• The service is shared by all users of the network</li> </ul> <p>➤ Standard Control Service (SCS) is the appropriate classification</p>	Change is unlikely but some activities may be altered to suit jurisdictional obligations, or there may be changes to the contestability of some elements of the service.
<b>Network ancillary services</b>					

2	Access permits, oversight and facilitation	<input checked="" type="checkbox"/> Satisfies the definition of a distribution service	<p>6.2.1(c):</p> <p><i>(1) the form of regulation factors:</i></p> <p><i>(a) the presence and extent of any barriers to entry in a market for electricity network services</i></p> <ul style="list-style-type: none"> <li>• Closely linked to the CDS and can only be provided by a DNSP</li> </ul> <p>➤ DCS is the appropriate classification</p>	<p>6.2.2 (c)</p> <p><i>(5) the extent the costs of providing the relevant service are directly attributable to the person to whom the service is provided</i></p> <ul style="list-style-type: none"> <li>• This service is provided to a subset of customers who are identifiable</li> </ul> <p>➤ Alternative Control Service (ACS) is the appropriate classification</p>	<p>Many services will not change however, there may be differences between jurisdictions reflecting the different obligations of some DNSPs.</p>
3	Sale of approved materials or equipment	<input checked="" type="checkbox"/> Satisfies the definition of a distribution service	<p>6.2.1(c):</p> <p><i>(1) the form of regulation factors</i></p> <p><i>(a) the presence and extent of any barriers to entry in a market for electricity network services</i></p> <ul style="list-style-type: none"> <li>• DNSP purchasing of components that fit/connect to DNSP assets (e.g. fuses) may be determined by the DNSP</li> </ul>	<p>6.2.2 (c)</p> <p><i>(5) the extent the costs of providing the relevant service are directly attributable to the person to whom the service is provided</i></p> <ul style="list-style-type: none"> <li>• Only a limited number of identified customers</li> </ul>	<p>Arrangements to purchase materials to be used in network assets may change over time.</p>

			➤ DCS is the appropriate classification	➤ ACS is the appropriate classification	
4	Notices of arrangement and completion notices	<input checked="" type="checkbox"/> Satisfies the definition of a distribution service	<p>6.2.1(c):</p> <p><i>(1) the form of regulation factors:</i></p> <p><i>(a) the presence and extent of any barriers to entry in a market for electricity network services</i></p> <ul style="list-style-type: none"> <li>• Only a licenced DNSP can confirm or certify that works have been completed. E.g. where councils require certification of works.</li> </ul>	<p>6.2.2 (c)</p> <p><i>(5) the extent the costs of providing the relevant service are directly attributable to the person to whom the service is provided</i></p> <ul style="list-style-type: none"> <li>• Only a limited number of identifiable customers</li> </ul>	Change is unlikely as those services will be required from parties from time to time.
5	Network related property services	<input checked="" type="checkbox"/> Satisfies the definition of a distribution service	<p>6.2.1(c):</p> <p><i>(1) the form of regulation factors:</i></p>	<p>6.2.2 (c)</p> <p><i>(5) the extent the costs of providing the relevant service are directly</i></p>	No change likely.

			<p><i>(a) the presence and extent of any barriers to entry in a market for electricity network services</i></p> <ul style="list-style-type: none"> <li>• Only a DNSP has access to the information requested when undertaking this service</li> </ul> <p>➤ DCS is the appropriate classification</p>	<p><i>attributable to the person to whom the service is provided</i></p> <ul style="list-style-type: none"> <li>• This service is provided to a subset of customers who are identifiable</li> </ul> <p>➤ ACS is the appropriate classification</p>	
6	Network safety services	<input checked="" type="checkbox"/> Satisfies the definition of a distribution service	<p>6.2.1(c):</p> <p><i>(1) the form of regulation factors:</i></p> <p><i>(a) the presence and extent of any barriers to entry in a market for electricity network services</i></p> <ul style="list-style-type: none"> <li>• Only a DNSP can perform this role on its network</li> </ul> <p>➤ DCS is the appropriate classification</p>	<p>6.2.2 (c)</p> <p><i>(5) the extent the costs of providing the relevant service are directly attributable to the person to whom the service is provided</i></p> <ul style="list-style-type: none"> <li>• This service is provided to a subset of customers who are identifiable</li> </ul> <p>➤ ACS is the appropriate classification</p>	<p>Change is unlikely. The services offered are potentially contestable, however each DNSP has a responsibility to provide services which ensure a safe network for the community.</p>

7	Customer requested Planned interruption	☑ Satisfies the definition of a distribution service	<p>6.2.1(c):</p> <p><i>(1) the form of regulation factors</i></p> <p><i>(a) the presence and extent of any barriers to entry in a market for electricity network services</i></p> <ul style="list-style-type: none"> <li>• Only a DNSP can provide planned interruptions to its network</li> </ul> <p>➤ DCS is the appropriate classification</p>	<p>6.2.2 (c)</p> <p><i>(5) the extent the costs of providing the relevant service are directly attributable to the person to whom the service is provided</i></p> <ul style="list-style-type: none"> <li>• Only a limited number of identifiable customers</li> </ul> <p>➤ ACS is the appropriate classification</p>	Change is unlikely. Each DNSP has responsibility for the safe operation of its network.
8	Attendance at customers' premises to perform a statutory right where access is prevented	☑ Satisfies the definition of a distribution service	<p>6.2.1(c):</p> <p><i>(1) the form of regulation factors:</i></p> <p><i>(a) the presence and extent of any barriers to entry in a market for electricity network services</i></p> <ul style="list-style-type: none"> <li>• A DNSP has responsibilities and rights of access to perform works on its network</li> </ul> <p>➤ DCS is the appropriate classification</p>	<p>6.2.2 (c)</p> <p><i>(5) the extent the costs of providing the relevant service are directly attributable to the person to whom the service is provided</i></p> <ul style="list-style-type: none"> <li>• Only a limited number of identifiable customers</li> </ul> <p>➤ ACS is the appropriate classification</p>	Change is unlikely. Each DNSP has responsibility for the safe operation of its network.

9	Inspection and auditing services	☑ Satisfies the definition of a distribution service	<p>6.2.1(c):</p> <p><i>(1) the form of regulation factors:</i></p> <p><i>(a) the presence and extent of any barriers to entry in a market for electricity network services</i></p> <ul style="list-style-type: none"> <li>• Closely related to activities within the CDS</li> <li>• A DNSP has responsibility for assets connected to its network</li> </ul> <p>➤ DCS is the appropriate classification</p>	<p>6.2.2 (c)</p> <p><i>(5) the extent the costs of providing the relevant service are directly attributable to the person to whom the service is provided</i></p> <ul style="list-style-type: none"> <li>• Only a limited number of identifiable customers</li> </ul> <p>➤ ACS is the appropriate classification</p>	Change is unlikely.
10	Provision of training to third parties for network related access	☑ Satisfies the definition of a distribution service	<p>6.2.1(c):</p> <p><i>(1) the form of regulation factors:</i></p> <p><i>(a) the presence and extent of any barriers to entry in a market for electricity network services</i></p> <ul style="list-style-type: none"> <li>• Only a DNSP can approve third parties to access its networks</li> </ul>	<p>6.2.2 (c)</p> <p><i>(5) the extent the costs of providing the relevant service are directly attributable to the person to whom the service is provided</i></p> <ul style="list-style-type: none"> <li>• Only a limited number of identifiable customers</li> </ul>	Change is unlikely. Each DNSP has statutory obligations for the safe operation of its network.

				➤ ACS is the appropriate classification	
			➤ DCS is the appropriate classification		
11	Authorisation and approval of third party service providers' design, work and materials	<input checked="" type="checkbox"/> Satisfies the definition of a distribution service	<p>6.2.1(c):</p> <p><i>(1) the form of regulation factors:</i></p> <p><i>(a) the presence and extent of any barriers to entry in a market for electricity network services</i></p> <ul style="list-style-type: none"> <li>• Only a DNSP can approve the materials, design of works and third parties to access their networks</li> </ul> <p>➤ DCS is the appropriate classification</p>	<p>6.2.2 (c)</p> <p><i>(5) the extent the costs of providing the relevant service are directly attributable to the person to whom the service is provided</i></p> <ul style="list-style-type: none"> <li>• This service is provided to a subset of customers who are identifiable</li> </ul> <p>➤ ACS is the appropriate classification</p>	Change is unlikely. Each DNSP has statutory obligations for the safe operation of its network.
12	Security lights	<input checked="" type="checkbox"/> Satisfies the definition of a distribution service	<p>6.2.1(c):</p> <p><i>(1) the form of regulation factors:</i></p>	<p>6.2.2 (c)</p> <p><i>(5) the extent the costs of providing the relevant service are directly</i></p>	Some change is possible. Services in some jurisdictions may become



			<p><i>(a) the presence and extent of any barriers to entry in a market for electricity network services</i></p> <ul style="list-style-type: none"> <li>• Only a DNSP can approve the materials and third parties to access its network</li> </ul> <p>➤ DCS is the appropriate classification</p>	<p><i>attributable to the person to whom the service is provided</i></p> <ul style="list-style-type: none"> <li>• This service is provided to a subset of customers who are identifiable</li> </ul> <p>➤ ACS is the appropriate classification</p>	<p>contestable, or increase in, contestability over time.</p>
13	Customer initiated network asset relocations/re-arrangements	<input checked="" type="checkbox"/> Satisfies the definition of a distribution service	<p>6.2.1(c):</p> <p><i>(1) the form of regulation factors:</i></p> <p><i>(a) the presence and extent of any barriers to entry in a market for electricity network services</i></p> <ul style="list-style-type: none"> <li>• Each DNSP controls access to its network asset</li> </ul>	<p>6.2.2 (c)</p> <p><i>(5) the extent the costs of providing the relevant service are directly attributable to the person to whom the service is provided</i></p> <ul style="list-style-type: none"> <li>• This service is provided to a subset of customers who are identifiable</li> </ul> <p>➤ ACS is the appropriate classification</p>	<p>This service is contestable in some jurisdictions and is potentially contestable subject to the contestability regime in each jurisdiction. Therefore, there is possibility for some change over time.</p>

			➤ DCS is the appropriate classification		
14	Customer requested provision of electricity network data	<input checked="" type="checkbox"/> Satisfies the definition of a distribution service	<p>6.2.1(c):</p> <p><i>(1) the form of regulation factors:</i></p> <p><i>(a) the presence and extent of any barriers to entry in a market for electricity network services</i></p> <ul style="list-style-type: none"> <li>• Each DNSP controls access to the information/data it gathers on its network</li> </ul> <p>➤ DCS is the appropriate classification</p>	<p>6.2.2 (c)</p> <p><i>(5) the extent the costs of providing the relevant service are directly attributable to the person to whom the service is provided</i></p> <ul style="list-style-type: none"> <li>• This service is provided to a subset of customers who are identifiable</li> </ul> <p>➤ ACS is the appropriate classification</p>	No change likely. Each DNSP is required to gather information and data on its network.
15	Third party funded network alternations or other improvements	<input checked="" type="checkbox"/> Satisfies the definition of a distribution service	<p>6.2.1(c):</p> <p><i>(1) the form of regulation factors:</i></p> <p><i>(a) the presence and extent of any barriers to entry in a market for electricity network services</i></p> <ul style="list-style-type: none"> <li>• A DNSP controls access to its network assets</li> </ul>	<p>6.2.2 (c)</p> <p><i>(5) the extent the costs of providing the relevant service are directly attributable to the person to whom the service is provided</i></p>	

			<ul style="list-style-type: none"> <li>➤ DCS is the appropriate classification</li> </ul>	<ul style="list-style-type: none"> <li>• This service is provided to a subset of customers who are identifiable</li> <li>➤ ACS is the appropriate classification</li> </ul>	
<b>Metering services</b>					
16	Type 1 to 4 customer metering services	<input checked="" type="checkbox"/> Satisfies the definition of a distribution service	<p>These metering services have never been the subject of regulation under chapter 6 of the NER*.</p> <ul style="list-style-type: none"> <li>➤ These services are unregulated</li> </ul> <p>*Victorian DNSPs are subject to different requirements</p>		Not likely to change.
17	Type 5 and 6 meter maintenance, reading and data services (legacy meters)	<input checked="" type="checkbox"/> Satisfies the definition of a distribution service	<p>6.2.1(c):</p> <p><i>(1) the form of regulation factors:</i></p> <p><i>(a) the presence and extent of any barriers to entry in a market for electricity network services</i></p>	<p>6.2.2 (c)</p> <p><i>(5) the extent the costs of providing the relevant service are directly attributable to the person to whom the service is provided</i></p>	Unlikely to change.

	This service became subject to full metering contestability on December 1, 2017 <sup>50</sup>		<ul style="list-style-type: none"> <li>Services provided to customers with legacy meters can only be performed by a DNSP</li> </ul> <p>➤ DCS is the appropriate classification</p>	<ul style="list-style-type: none"> <li>This service is provided to a subset of customers who are identifiable</li> </ul> <p>➤ ACS is the appropriate classification</p>	
18	Auxiliary metering services (Type 5-7 metering installations)	<input checked="" type="checkbox"/> Satisfies the definition of a distribution service	<p>6.2.1(c):</p> <p><i>(1) the form of regulation factors:</i></p> <p><i>(a) the presence and extent of any barriers to entry in a market for electricity network services</i></p> <ul style="list-style-type: none"> <li>This service includes activities that only a DNSP can provide due to the ownership of the data and installation</li> </ul>	<p>6.2.2 (c)</p> <p><i>(5) the extent the costs of providing the relevant service are directly attributable to the person to whom the service is provided</i></p> <ul style="list-style-type: none"> <li>This service is provided to a subset of customers who are identifiable</li> </ul>	Some change is possible. There may be scope for some of the activities within this service to be made contestable in the future.

<sup>50</sup> With the exception of Victoria, who are under a different jurisdictional arrangement.

			<p>➤ DCS is the appropriate classification</p>	<p>➤ ACS is the appropriate classification</p>	
19	Meter recovery and disposal – type 5 and 6 meters (legacy meters)	<p><input checked="" type="checkbox"/> Satisfies the definition of a distribution service</p>	<p>6.2.1(c):</p> <p><i>(1) the form of regulation factors:</i></p> <p><i>(a) the presence and extent of any barriers to entry in a market for electricity network services</i></p> <ul style="list-style-type: none"> <li>This service includes activities that only the DNSP can provide due to the ownership of the meter</li> </ul> <p>➤ DCS is the appropriate classification</p>	<p>6.2.2 (c)</p> <p><i>(5) the extent the costs of providing the relevant service are directly attributable to the person to whom the service is provided</i></p> <ul style="list-style-type: none"> <li>This service is provided to a subset of customers who are identifiable</li> </ul> <p>➤ ACS is the appropriate classification</p>	Change not likely.
20	Type 7 metering services	<p><input checked="" type="checkbox"/> Satisfies the definition of a distribution service</p>	<p>6.2.1(c):</p> <p><i>(1) the form of regulation factors:</i></p> <p><i>(a) the presence and extent of any barriers to entry in a market for electricity network services</i></p>	<p>6.2.2 (c)</p> <p><i>(1) the potential for development of competition in the relevant market and how the classification might influence that potential</i></p> <p><i>(5) The extent the costs of providing the relevant service are directly</i></p>	

			<ul style="list-style-type: none"> <li>Barriers to entry include licences to operate in certain areas with NEL / NER wholesale market-based obligations on DNSPs to supply</li> </ul> <p>➤ DCS is the appropriate classification</p>	<p><i>attributable to the person to whom the service is provided</i></p> <ul style="list-style-type: none"> <li>There are no costs for this service, no prices and therefore no prospect for competition to develop</li> </ul> <p>➤ SCS is the appropriate classification</p>	
<b>Connection services</b>					
<b>21</b>	<p>Basic connections – premises connections</p> <p>(No network extension or augmentation required)</p>	<p><input checked="" type="checkbox"/> Satisfies the definition of a distribution service</p>	<p>6.2.1(c):</p> <p><i>(1) the form of regulation factors:</i></p> <p><i>(a) the presence and extent of any barriers to entry in a market for electricity network services</i></p>	<p>6.2.2 (c)</p> <p><i>(5) the extent the costs of providing the relevant service are directly attributable to the person to whom the service is provided</i></p> <ul style="list-style-type: none"> <li>Simplified connection and no extension or augmentation is required,</li> </ul>	<p>Current approach to basic connections in most jurisdictions is that small customers do not pay.</p>

			<ul style="list-style-type: none"> <li>• DNSPs approve access and materials connected to their network infrastructure</li> </ul> <p>➤ DCS is the appropriate classification</p>	<p>which avoids the need to apply the cost revenue test.</p> <p>➤ ACS is the appropriate classification</p>	
<b>22</b>	<p>standard connections – <b>premises</b> connections</p> <p>( No network extension and/or augmentation required)</p>	<p><input checked="" type="checkbox"/> Satisfies the definition of a distribution service</p>	<p>6.2.1(c):</p> <p><i>(1) the form of regulation factors:</i></p> <p><i>(a) the presence and extent of any barriers to entry in a market for electricity network services</i></p> <ul style="list-style-type: none"> <li>• DNSPs approve access and materials connected to their network infrastructure</li> </ul>	<p>6.2.2 (c)</p> <p><i>(5) the extent the costs of providing the relevant service are directly attributable to the person to whom the service is provided</i></p> <ul style="list-style-type: none"> <li>• Connection requiring no extension or augmentation, which avoids the need to apply the cost revenue test.</li> </ul> <p>➤ ACS is the appropriate classification</p>	<p>Standard connection services may be subject to competition according to jurisdictional prerogatives.</p>

			➤ DCS is the appropriate classification		
<b>23</b>	standard connections – <b>network extension and/or augmentation required</b>	<input checked="" type="checkbox"/> Satisfies the definition of a distribution service	<p>6.2.1(c):</p> <p><i>(1) the form of regulation factors:</i></p> <p><i>(a) the presence and extent of any barriers to entry in a market for electricity network services</i></p> <ul style="list-style-type: none"> <li>• DNSPs approve access and materials connected to their network infrastructure</li> </ul>	<p>6.2.2 (c)</p> <p><i>(6) Other factors:</i></p> <p><i>Customer choice of service provider, promote efficient connection to the network and equitable customer outcomes.</i></p> <ul style="list-style-type: none"> <li>• Networks to recover efficient costs</li> <li>• Subject to a cost revenue test which determines the charge a customer must pay for this part of the connection based on the difference between the incremental revenue to be paid by the customer and the incremental cost of connection</li> </ul> <p>➤ SCS is the appropriate classification</p>	Standard connection services may be subject to competition according to jurisdictional prerogatives.



			➤ DCS is the appropriate classification		
<b>24</b>	Negotiated connection - special <b>premises</b> connection requests requiring no network extension or augmentation	<input checked="" type="checkbox"/> Satisfies the definition of a distribution service	<p>6.2.1(c):</p> <p><i>(1) the form of regulation factors:</i></p> <p><i>(a) the presence and extent of any barriers to entry in a market for electricity network services</i></p> <ul style="list-style-type: none"> <li>• Service is largely contestable and DNSPs have some market power</li> </ul> <p>➤ DCS is the appropriate classification</p>	<p>6.2.2 (c)</p> <p><i>(5) the extent the costs of providing the relevant service are directly attributable to the person to whom the service is provided</i></p> <ul style="list-style-type: none"> <li>• Connection requiring no extension or augmentation, which avoids the need to apply the cost revenue test.</li> </ul> <p>➤ ACS is the appropriate classification</p>	
<b>25</b>	Negotiated connection – special connection requests <b>requiring</b>	<input checked="" type="checkbox"/> Satisfies the definition of a	6.2.1(c):	6.2.2 (c)	

	<p><b>network extension and/or augmentation</b></p>	<p>distribution service</p>	<p><i>(1) the form of regulation factors:</i></p> <p><i>(a) the presence and extent of any barriers to entry in a market for electricity network services</i></p> <ul style="list-style-type: none"> <li>• DNSPs approve access and materials connected to their network infrastructure</li> </ul>	<p><i>(6) Other factors:</i></p> <p><i>Customer choice of service provider, promote efficient connection to the network and equitable customer outcomes.</i></p> <ul style="list-style-type: none"> <li>• Networks to recover efficient costs</li> <li>• Subject to a cost revenue test which determines the charge a customer must pay for this part of the connection based on the difference between the incremental revenue to be paid by the customer and the incremental cost of connection</li> </ul> <p>➤ SCS is the appropriate classification</p>	
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			➤ DCS is the appropriate classification		
<b>26</b>	Connection application and management services	☑ Satisfies the definition of a distribution service	<p>6.2.1(c):</p> <p><i>(1) the form of regulation factors:</i></p> <p><i>(a) the presence and extent of any barriers to entry in a market for electricity network services</i></p> <ul style="list-style-type: none"> <li>• DNSPs approve access and materials connected to their network infrastructure</li> </ul> <p>➤ DCS is the appropriate classification</p>	<p>6.2.2 (c)</p> <p><i>(5) the extent the costs of providing the relevant service are directly attributable to the person to whom the service is provided</i></p> <ul style="list-style-type: none"> <li>• This service is provided to a subset of customers who are identifiable</li> </ul> <p>➤ ACS is the appropriate classification</p>	
<b>27</b>	Enhanced connection services	☑ Satisfies the definition of a distribution service	<p>6.2.1(c):</p> <p><i>(1) the form of regulation factors:</i></p> <p><i>(a) the presence and extent of any barriers to entry in a market for electricity network services</i></p>	<p>6.2.2 (c)</p> <p><i>(5) the extent the costs of providing the relevant service are directly attributable to the person to whom the service is provided</i></p>	

			<ul style="list-style-type: none"> <li>• DNSPs approve access and materials connected to their network infrastructure</li> </ul> <p>➤ DCS is the appropriate classification</p>	<ul style="list-style-type: none"> <li>• This service is provided to a subset of customers who are identifiable</li> </ul> <p>➤ ACS is the appropriate classification</p>	
<b>Public lighting services</b>					
<b>28</b>	Public lighting services	<input checked="" type="checkbox"/> Satisfies the definition of a distribution service	<p>6.2.1(c):</p> <p><i>(1) the form of regulation factors:</i></p> <p><i>(a) the presence and extent of any barriers to entry in a market for electricity network services</i></p> <ul style="list-style-type: none"> <li>• Each DNSP approves access and materials connected to its network infrastructure</li> </ul>	<p>6.2.2 (c)</p> <p><i>(1) the potential for development of competition in the relevant market and how the classification might influence that potential;</i></p> <p><i>(5) the extent the costs of providing the relevant service are directly attributable to the person to whom the service is provided</i></p> <ul style="list-style-type: none"> <li>• This service is partially contestable, with ownership of a proportion of public lighting provided by councils and government departments</li> <li>• The costs for providing public lighting services is directly attributable to the</li> </ul>	This service is potentially contestable according to jurisdictional prerogatives.

Appendix B– Applying NER cl. 6.2.1 and 6.2.2 to the baseline services list (appendix A)

				<p>person to whom the service is provided</p> <p>➤ ACS is the appropriate classification</p>	
			<p>➤ DCS is the appropriate classification</p>		