Issues paper

Service classification and asset exemption guidelines

February 2018

AUSTRALIAN ENERGY REGULATOR

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Contents

Request for submissions

Interested parties are invited to make submissions to the Australian Energy Regulator (**AER**) on this issues paper by **no later than the close of business on 16 March 2018**.

For ease of reference, we have provided a complete list of all of the questions raised in this issues paper at Appendix C.

Submissions should be in Microsoft Word or another text readable document format and may be sent electronically to: classificationguideline2018@aer.gov.au.

Alternatively, submissions can be mailed to:

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We prefer that all submissions be publicly available to facilitate an informed and transparent consultative process. Submissions will be treated as public documents unless otherwise requested. Parties wishing to submit confidential information should:

- clearly identify the information that is the subject of the confidentiality claim, and
- provide a non-confidential version of the submission in a form suitable for publication.

All non-confidential submissions will be placed on our website. For further information regarding our use and disclosure of information provided to us, see the ACCC/AER Information Policy (June 2014), which is available on our website.

Timetable

We propose the following indicative timetable for developing the new guidelines.

Table 1: Indicative timetable

Milestone	Date
Publish issues paper	16 February 2018
Submissions close	16 March 2018
Workshop to discuss issues raised in submissions	April (to be confirmed)
Publish Draft Guidelines and Explanatory Statement for stakeholder comment	8 June 2018
Submissions close	20 July 2018

Workshop to discuss issues raised in submissions	August (to be confirmed)
Publish final Guidelines and Explanatory Statement	On or before 30 September 2018

Shortened forms

Shortened Form	Extended Form
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
capex	capital expenditure
DNSP	distribution network service provider
NEL	National Electricity Law
NEM	National Electricity Market
NEO	National Electricity Objective
NER, or the rules	National Electricity Rules
opex	operating expenditure

1 Introduction

This issues paper commences our consultation on new guidelines for service classification and for asset exemption for electricity distribution network service providers (**DNSP**s). The service classification guideline[1] will provide greater transparency around our approach to a well-established, albeit perhaps less well understood, aspect of the regulatory framework. In contrast, asset exemption is a new aspect of the National Energy Rules (**NER**) and the asset exemption guideline[2] will help explain the circumstances in which we may grant exemptions. We must publish the new guidelines by 30 September 2018.[3]

Service classification is a foundational step of electricity network regulation. It determines the regulatory treatment of a service offered by a DNSP. This includes whether or not a service is subject to regulation, the approach to cost recovery (at a high level) and whether or not a service will need to be ring-fenced from other services offered by a DNSP. For consumers, our decision to regulate prices gives us greater control to stop potentially harmful behaviour.

The Australian Energy Market Commission (**AEMC**) introduced the new restricted asset rule to aid the development of new markets for services where the participation of a DNSP could be harmful to consumers.[4] A restricted asset is any asset owned by a DNSP that is located 'behind the meter'. That is, the asset is located on the customer's side of a connection point to a network, subject to some exceptions.[5] A DNSP cannot add a restricted asset to its regulatory asset base unless it has obtained an exemption from us. The asset exemption guideline will set out our approach to exempting restricted assets.

Both guidelines aim to make the regulatory process more transparent and effective. We also intend to facilitate competition in markets for contestable energy services by making clearer the roles and opportunities of DNSPs, and therefore for other entities, operating in competitive markets. Identifying opportunities to open markets to competition helps advance the long-term interests of consumers.

In this issues paper, we have set out what we consider to be the key issues relating to the new guidelines. We have posed questions with the intention of prompting comment from interested parties and stakeholders. In making a submission, it is not necessary to answer every question. We welcome views on any other issues you think are relevant to the new guidelines. In preparing the draft guidelines, we will consider and respond to the issues raised in each submission.

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[1] NER clause 6.2.3A. The NER refers to the *Distribution Service Classification Guidelines*. However, we use the term 'service classification guideline' for simplicity, and noting that only electricity distribution services may be classified.

[2] NER clause 6.4B.1. The NER refers to the *Asset Exemption Guidelines*. However, we use the term 'asset exemption guideline' for simplicity.

[3] NER clause 11.104.2.

[4] AEMC, Rule Determination: National Electricity Amendment (Contestability of energy services) Rule 2017, 12 December 2017, p. iv.

[5] See NER Chapter 10, Definitions, *restricted asset*.

1.1 Purpose and structure of this paper

This issues paper is structured as follows:

- Section 1 provides an introduction and context
- Section 2 discusses matters relevant to developing the service classification guideline
- Section 3 discusses matters relevant to developing the asset exemption guideline
- Section 4 discusses matters relevant to ensuring that these and other related guidelines work together as an integrated package.

We discuss the service classification guideline and asset exemption guideline in separate sections of this paper. However, we may ultimately combine them into a single guideline.

1.2 Contestability Rule Change

The way electricity is being produced and used in Australia is changing significantly. For decades, Australia has relied on large-scale, centralised electricity generation. It is now increasingly embracing smaller, distributed energy resource technologies as they become smarter, cheaper and more accessible to consumers. These technologies include solar photo-voltaic systems, battery storage and electric vehicles.

These new and emerging distributed energy resources are being adopted by consumers, electricity retailers, other new entrants and DNSPs. Many of these distributed energy resources are being deployed beyond a retail customer's connection point with the distribution network. Contestable markets are beginning to emerge for the provision of these distributed energy resources and related services.

On 12 December 2017, the AEMC changed the NER in response to two amendment proposals from the COAG Energy Council and the Australian Energy Council. The 'Contestability of energy services' rule change (**Contestability Rule Change**) was intended to improve the ability of the rules to respond to emerging technologies and changing behaviours in markets for energy related services. It includes, amongst other things, two new rules relating to service classification and restricted assets.

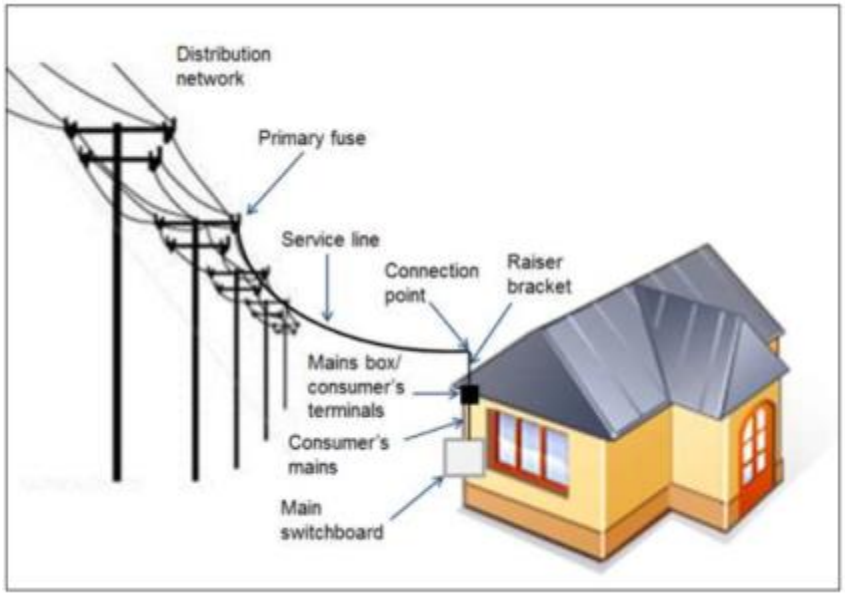
The first new rule amends the framework we use to classify DNSPs' electricity distribution services, so that it remains robust, flexible and responsive to support the efficient operation of the energy market. The new rule requires the AER to develop and publish a new service classification guideline by 30 September 2018.[6]

The second new rule is designed to facilitate competition in markets for contestable energy services by restricting DNSPs' ability to own and control assets located "behind the meter", subject to exemption arrangements that we will administer. Consequently, we must also develop a new asset exemption guideline by 30 September 2018 to administer DNSPs' exemption applications in relation to restricted assets.[7] The guideline is concerned with

[6] See NER clause 11.104.2.
[7] *Ibid.*

assets that a DNSP wishes to locate on the same side of a customer's connection point as the meter. Unless an exemption applies, DNSPs are not permitted to connect a restricted asset anywhere after the connection point at a customer's premises, as shown in Figure 1.

Figure 1: Customer connection point



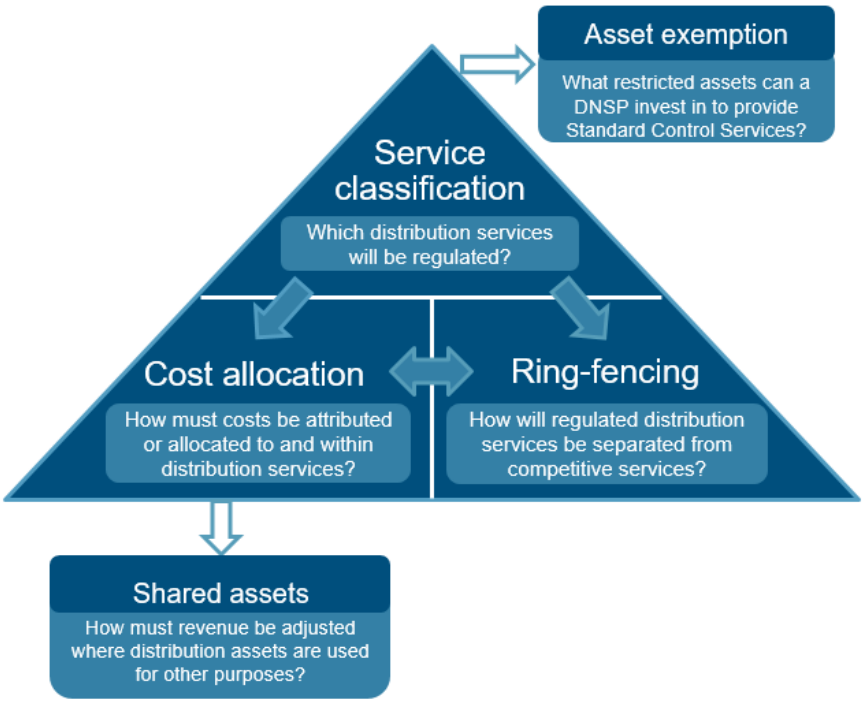
Source: Ergon Energy[8]

The new rule permits us to consolidate the service classification guideline and the asset exemption guideline in a single guideline, if we think it appropriate.[9] While we may combine the two new guidelines into one, it is important to note that they will not operate in isolation from the other guidelines.

There are strong interrelationships between many of our guidelines. For example, the classification of a particular service affects the treatment of that service for ring-fencing purposes. There are also tensions between some guidelines. For example, the Cost Allocation Guideline sets out how costs for different services must be separated, while the Shared Asset Guideline explains how assets can be shared between regulated and unregulated services. These interrelationships, illustrated in Figure 2 below, are discussed further in chapter 4 of this issues paper.

[8] Ergon Energy, *Connection Policy*, July 2015, p. 5.
[9] See NER clauses 6.2.3A(c) and 6.4B.1(d).

Figure 3: Interaction between elements of the regulatory framework



2 Service classification guideline

Service classification is how we determine the type of economic regulation, if any, that will apply to electricity distribution services provided by DSNPs. Our service classification decisions form the regulatory foundation of the distribution determination we make for each DNSP, which is typically for a five-year regulatory control period. However, we make our initial intentions about service classification known in the 'framework and approach' paper, which is published six months before a DNSP submits its regulatory proposal. The classification applied to a regulated service indicates how a DNSP may recover the cost of providing that service.

The purpose of the proposed service classification guideline is to make our approach to service classification more transparent, consistent and predictable. The guideline will also set out our views on certain matters that are significant given the potential for DNSPs to play a role in emerging technologies and related markets for services to the energy sector.

The rules, and the AER's work, revolve around the National Electricity Objective (**NEO**), a key focus of which is the long-term interests of consumers. A critical trade-off in making service classifications is short-term expediency of a DNSP's provision of services (typically as the incumbent sole service provider) versus the potential for the development of new and competitive markets, including through different technologies, business models or different service providers. Where competition is feasible, we may prefer regulatory approaches that create opportunities for the development of competitive markets.

In some cases, the long-term interests of consumers will be best promoted through service regulation. We may still choose a form of regulation that creates future opportunities for competition. For example, in circumstances where the cost of a particular service may be recovered from all customers or, alternatively, recovered from only the customer requesting a specific service, we may classify the service in way that best promotes the potential for competition, as the NER allows.[10]

2.1 Service classification — in theory and in practice

Before considering how a guideline might improve service classification, we will first explain our current approach to service classification.

The approach to service classification set out in the NER suggests all service classifications are reconsidered at every determination. In practice, we tend to take an incremental approach and look primarily at new services or review existing services that have been or may be affected by changing market conditions.

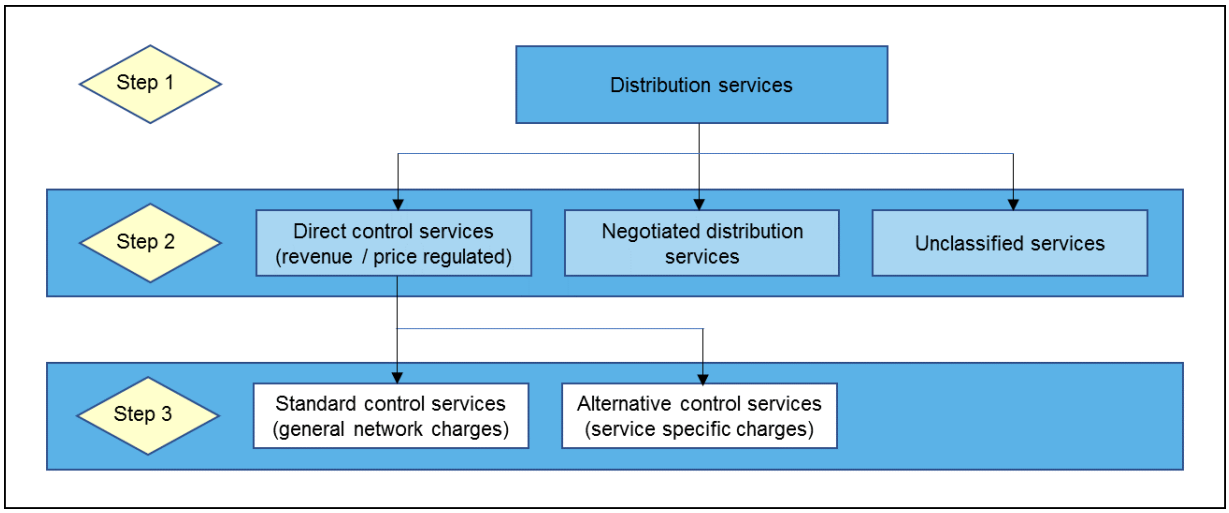
Service classification according to the NER is set out in Figure 3. The first step of the classification process is to determine whether or not a service is a distribution service, since only distribution services can be classified. The National Electricity Law (**NEL**) defines a *distribution service* as one that is "provided by means of, or in connection with, a distribution

[10] See NER clause 6.2.1.

system".[11] Applying this definition is not always straightforward and we will come back to this issue later. In conducting our assessment of distribution service classification, the NER (as recently amended) allows us to:

- choose whether or not to classify a distribution service[12]
- classify distribution services in groups and make a single classification for the group of services. Alternatively, we can classify an individual service[13]
- classify a service consistently with any particular classification requirement under the NER.[14]

Figure 4: Distribution service classification assessment process



As illustrated by Figure 3:

- we must first satisfy ourselves that a service is a 'distribution service' (step 1). As noted, the NER defines a distribution service as a service provided by means of, or in connection with, a distribution system
- we then consider whether economic regulation of the service is necessary (step 2). When we do not consider economic regulation is warranted we will not classify the service
- when we consider that a service should be classified as a direct control service, we further classify it as either a standard control service or alternative control service (step 3).

When deciding whether regulation is necessary, that is, whether to classify a distribution service as either a direct control service or a negotiated distribution service (as part of step 2), or to not classify it at all, the NER requires us to have regard to:

11 Chapter 10, Glossary, of NER.
12 Clause 6.2.1(b) of the NER.
13 Clause 6.2.1(b) of the NER.
14 Clause 6.2.1(e) and clause 6.2.2(e) of the NER.

- the 'form of regulation factors' set out in the NEL[15] (We have reproduced the form of regulation factors in full in Appendix A)
- the form of regulation (for example, a price cap, revenue cap, or any other means by which we restrict the earnings of a DNSP) previously applicable to the service and, in particular, any previous classification
- the desirability of consistency in the form of regulation for similar services (both within and beyond the relevant jurisdiction)
- any other relevant factor.[16]

In classifying a direct control service as a standard control service or an alternative control services, we must also have regard to:

- the potential for development of competition in the relevant market and how our classification might influence that potential
- the possible effects of the classification on administrative costs
- the regulatory approach (if any) applicable in the preceding regulatory control period
- the desirability of a consistent regulatory approach to similar services (both within and beyond the relevant jurisdiction)
- the extent the costs of providing the relevant service are directly attributable to the person to whom the service is provided
- any other relevant factor.[17]

Table 2 provides a description of the different types of services that fit within the different classifications.

Table 2: Classifications of distribution services

Classification		Description	Regulatory treatment
Direct control service	Standard control service	Services that are central to electricity supply and therefore relied on by most (if not all) customers such as building and maintaining the shared distribution network. e.g. connection service	We regulate these services by determining prices or an overall cap on the amount of revenue that may be earned for all standard control services. The costs associated with these services are shared by all customers via their regular electricity bill.
	Alternative control	Customer specific or customer requested services. These services may also have potential	We set service specific prices to provide a reasonable opportunity to enable the DNSP to recover

15 NEL, Part 1, 2F.
16 Clause 6.2.1(c) of the NER.
17 Clause 6.2.2(c) of the NER.

	service	for provision on a competitive basis rather than only by the local DNSP. e.g. above-standard reliability.	the efficient cost of each service from customers using that service.
Negotiated distribution services		Services we consider require a less prescriptive regulatory approach because all relevant parties have sufficient countervailing market power to negotiate terms and conditions for provision of those services. e.g. public lighting services	DNSPs and customers can negotiate prices according to a framework established by the NER. We are available to arbitrate if necessary.
Unclassified distribution service		Distribution services that are contestable.	We have no role in regulating these services.
Non-distribution services		Services that are not distribution services.	We have no role in regulating these services.

Source: AER

As noted earlier, we have followed an incremental approach to service classification. We typically start with the last decision on service classification for the DNSP and determine if anything needs to change. We also examine recent service classification determinations for other jurisdictions with a view to increasing consistency where it is practical. Fundamental questions such as whether or not a particular service is a distribution service tend not to be asked unless there is reason to question the existing approach.

When the AER became responsible for regulation of electricity distribution businesses in 2008, we inherited approaches to regulation from the jurisdictional (state-based) regulators. Typically, we did not seek to change the approach to service regulation (service classification) unless there was a need. In addition, the rules previously only permitted us to depart from a previous classification if a different classification was clearly more appropriate.[18] This led to continued difference in the approaches to regulation between the jurisdictions. Only limited incremental changes have taken place since then—although notable exceptions to this include public lighting and metering services.

When we have made changes, they tended to occur jurisdiction by jurisdiction in line with the staggered timeline of regulatory determinations—not all at once. A fundamental across-the-board review and reform of service classifications has not been attempted to date. The Contestability Rule Change has removed the requirement to not depart from a previous classification unless a different classification is clearly more appropriate. The rules now require us to develop and publish a service classification guideline and provide reasons for any departure from that guideline when classifying services.[19]

[18] See historical NER clauses 6.2.1(d) and 6.2.2(d), now deleted.
[19] Clause 6.2.8(c) of the NER.

When classifying services, we also attempted to align service names across jurisdictions and seek greater harmonisation where possible. Typically, we have considered this jurisdiction by jurisdiction, as part of each framework and approach paper development process. Since the regulatory control periods for all DNSPs do not coincide, there is often a lag in bringing classifications for all jurisdictions up to date. However, if we were to seek to harmonise service classifications across all jurisdictions simultaneously, we may then need to broadcast our intentions for classification changes more broadly than in the framework and approach paper for a particular DNSP or jurisdiction. This is because changes for one DNSP or jurisdiction would inevitably affect others. The service classification guideline may be one way to achieve this.

There are, however, limits as to what can be achieved in trying to harmonise service naming and classification. In particular, the contestability of services differs across jurisdictions. For example, residential connections in NSW are contestable and operate under a government approved accreditation scheme. In Queensland, no such scheme operates and residential connections are provided by the DNSPs alone.

The AER Electricity Distribution Ring-fencing Guideline (Ring-fencing Guideline), first published in November 2016, heightens the importance of our service classification decisions. This is because the Ring-fencing Guideline ties ring-fencing treatment to service classification. To avoid cross subsidies, a DNSP is only allowed to provide distribution (or transmission) services. Further, the Ring-fencing Guideline imposes obligations to prevent discrimination between direct control services and contestable services. This means that it is more important than ever that we clearly distinguish between distribution services and other services, and between the different types of distribution services.

Given the increasing importance of service classification, we may need to undertake a more fulsome 'bottom up' approach to service classification at each determination instead of the incremental approach we have taken in the past—as described above.

Question 1: Is our existing 'incremental' approach to service classification fit for purpose? Or should the AER review the classifications of each and every service (or service grouping) at every determination? To what extent is harmonisation desirable? Should a harmonised (all jurisdictions) typology and hierarchy of distribution services be a feature or objective of the guideline? If so, why?

2.2 Service classification decision making

For a given regulatory control period, service classification begins with the consultation on a framework and approach paper and concludes when a determination is made, more than two years later. Our framework and approach paper for a forthcoming distribution determination must set out our proposed approach to the classification of distribution services.[20] We must make (or amend or replace, as the case may be) this paper 23 months

20 Clause 6.8.1(b)(2) of the NER.

before the end of the current regulatory control period, having consulted with the relevant DNSP and other relevant stakeholders.[21]

A DNSP's regulatory proposal must include a classification proposal. This must detail the reasons for any proposed differences from our framework and approach paper.[22]

We must include our service classification decision in our draft and final distribution determinations.[23] This must be as set out in our relevant framework and approach paper unless we consider that a material change in circumstances justifies changing it.[24] Our service classification therefore forms part of our distribution determination and operates for the regulatory control period for which the determination is made.[25]

2.3 Changes to service classification rules

As noted earlier, the AEMC's Contestability Rule Change has implications for service classification decision making. According to the AEMC, the new rule "improves the responsiveness of the service classification framework to technology changes in the market as well as improving clarity, transparency and regulatory predictability for stakeholders in relation to the operation of the service classification framework"[26]. The new rule also enables us to retain our discretion to make service classification decisions specific to individual DNSPs.

In summary, the new rule changes the arrangements for service classification as follows:

- **No presumption in favour of retaining previous classification** | The new rule removes the requirement on us, when classifying distribution services, not to depart from a previous classification or the previously applicable regulatory approach, unless that different classification is clearly more appropriate.[27] We note that the transitional arrangements in the new rule mean that we will still need to have regard for these requirements in our forthcoming distribution determinations for the NSW, ACT, Tasmanian and Northern Territory DNSPs.[28] We think that the new rule will give us greater scope to address inconsistencies between jurisdictions —in terms of both naming conventions and in regard to how services are classified.
- **New service classification guideline** | The new rule requires us to develop and publish a service classification guideline by 30 September 2018. This guideline will set out the AER's proposed approach to determining whether to classify a distribution service as a direct control service, and how it distinguishes between distribution services and the operating and capital inputs that are used to provide such services. We have discretion

21 Clause 6.8.1(e) of the NER.
22 Clause 6.8.2(c) of the NER.
23 Clause 6.12.1(1) of the NER.
24 Clause 6.12.3(b) of the NER.
25 Clause 6.2.3 of the NER.
26 AEMC, Rule Determination, National Electricity Amendment (Contestability of energy services) Rule 2017, 12 December 2017, p. i.
27 See historical NER clauses 6.2.1(d) and 6.2.2(d), now deleted.
28 See clause 11.104.3(b)

about the matters covered in the guideline.[29] The guideline will highlight our approach to classification and its importance in the regulatory process.

- **Option to consolidate guidelines** | The new rule allows us to consolidate the service classification guideline with other guidelines, such as the new asset exemption guideline.[30] This may simplify and make clearer the application of these rules to stakeholders.
- **Departures from guideline** | The new rule requires us to provide reasons for any departure from the service classification guideline when making our service classification decision.[31] So while the guideline is not binding, it will provide more predictable outcomes. We note that the transitional arrangements in the new rule mean that this will not apply to our forthcoming distribution determinations for the NSW, ACT, Tasmanian and Northern Territory DNSPs.[32]
- **Changing service classification** | The new rule changes the threshold for us changing a service classification or control mechanism between the framework and approach paper and the distribution determination from "unforeseen circumstances" to "a material change in circumstances".[33] We note that the transitional arrangements in the new rule mean that the "unforeseen circumstances" threshold will still apply for our forthcoming distribution determinations for the NSW, ACT, Tasmanian and Northern Territory DNSPs.[34] However, the new rule would apply to subsequent determinations.

Question 2: Are there other aspects of the new rule that we should take into account in developing the guidelines?

2.4 Key issues

The following sections list key issues we expect will be features the service classification guideline. These are the issues for which we think stakeholders will benefit from a clearer statement of approach in the proposed guideline. We welcome submissions raising other issues that might be addressed in the guideline. For reference, we have provided a summary of existing service classification by DNSP in Appendix B.

Setting out the process and our approach

The rules now state[35] that the service classification guideline must set out an explanation of our proposed approach (including worked examples) to:

(1) determining whether to classify a distribution service;

(2) applying the factors of regulation, and

29 See clause 6.2.3A
30 See clause 6.2.3A(c)
31 See clause 6.2.8(c)
32 See clause 11. 104.3(a)
33 See clause 6.12.3(b)
34 See clause 11. 104.3(a)
35 See NER clause 6.2.3A(b).

(3) distinguishing between distribution services and the operating and capital inputs that are used to provide such services.

Application of form of regulation factors

The form of regulation factors are the seven factors set out at section 2F of the NEL (reproduced at Appendix A). They include, among other factors, the presence and extent of barriers to entry by alternative providers, and the extent to which any market power possessed by a DNSP could be mitigated by countervailing market power. The form of regulation factors are used to determine the form of regulation, that is the form of control mechanisms, that will apply to the DNSP.

As per our 'incremental' approach to service classification, we have generally classified services in line with previous classifications. Where the service to be classified is a new service, we have generally applied the form of regulation factors to assist us to determine the level of competition that might exist for a particular service or group of services. This has informed our decision on whether we need to classify a service as a direct control service or whether there is sufficient scope for us to take a lighter regulatory approach and classify a service as a negotiated distribution service. For example, we changed the classification of type 5 and 6 metering services (residential meters) in order to facilitate the introduction of contestable metering.

In making our assessments, we have generally found that only a few factors have been relevant in considering how a particular service should be classified. This is because not every form of regulation factor is applicable in every circumstance. We have therefore taken a selective approach to applying the form of regulation factors, applying only those factors that are relevant.

For example, in Queensland, residential connection services are not contestable and are provided by the DNSP only. Considering the first form of regulation factor, regarding barriers to entry, we would conclude that residential connection services is a monopoly service relevant to all customers. We would therefore regulate the service as a standard control service.

We have reproduced the form of regulation factors and provided some examples of how we interpret the factors in Appendix A.

Question 3: Do you agree with our interpretation of the form of regulation factors included in Appendix A? What aspects of the form of regulation factors are unclear?

Service groupings

Our most recent framework and approach papers, published in July 2017 for the NSW, ACT, Tasmanian and Northern Territory DNSPs, use the following new groupings for their next regulatory control periods: common distribution services; ancillary services; metering services; connection services; and unregulated distribution services. As required by the AEMC's transitional rule, we will apply these new groupings in our distribution determinations for these DNSPs unless we consider that unforeseen circumstances justify departing from the classification, including having regard for the DNSPs' regulatory

proposals and stakeholders' submissions. However, at the following determination, the new rule will apply and it will be easier for us to change service classifications for these jurisdictions.

Definition of distribution services

While the NEL provides a definition of distribution services, we must decide whether a particular service fits this definition before it can be classified. This issue has been contentious over the years. In 2017, Western Power unsuccessfully sought to have off-grid power systems that replace parts of distribution system recognised a distribution service.[36] In 2011, Ergon Energy unsuccessfully challenged the AER's position that public lighting was distribution service.[37] A current issue concerns whether the voltage regulation services a DNSP can offer into competitive markets for ancillary services are a distribution services.

Typically, we only comment on whether a service is a distribution service when we classify it. For example, we understand that new markets for ancillary services are being established in the NEM and DNSPs could potentially offer these services. A key question is whether these new services are distribution services. At present, the only opportunity we take to decide whether or not a service is a distribution service is at the time of the F&A paper and the determination. We could provide this advice within regulatory periods as well.

As part of the Contestability Rule Change process, the Australian Energy Council and the COAG Energy Council both expressed concern that the NER definition of a distribution service was vague and imprecise, leading to uncertainty about what services would be regulated.[38] The COAG Energy Council noted that the existing definition potentially allows for a service provided behind the meter to be defined as a distribution service, since it could be provided "in connection with" a distribution system, as specified in the NER definition of a distribution service.[39]

A further aspect of defining what constitutes a distribution service is whether it is a service or an input to service. Inputs contribute to but do not constitute a standalone service that is offered to customers. We have to date avoided classifying inputs unless they are offered to a customer as a service. However, as noted in the AEMC's Contestability Rule Change determination, new technologies are emerging that have the capability to provide multiple services across the regulated and unregulated segments of the electricity sector. For this reason, the AEMC has introduced the new restricted assets provisions in the NER.

The service classification guideline will provide guidance on how we determine and what constitutes a distribution service.

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[36] AEMC, Final Rule Determination, Alternative to grid-supplied network service, p. 4.

[37] Ergon Energy Corporation Ltd v Australian Energy Regulator [2012] FCA 393 (19 April 2012).

[38] AEMC, Rule Determination: National Electricity Amendment (Contestability of energy services) Rule 2017, pp. 4-4, pp. 37-38, pp.41-42. The COAG Energy Council means the Council of Australian Governments Energy Council. The Australian Energy Council is an industry organisation representing electricity generators and retailers.

[39] Ibid.

Question 4: What factors should guide our interpretation of a 'distribution service'? Should our views on what is (or is not) a distribution service occur only at the time of service classification, or at other times within the regulatory control period as well?

Consistency within jurisdictions

We have generally applied the same service listings, definitions and classifications across multiple DNSPs within a jurisdiction, although there have been some instances where we have classified a service for one DNSP because it is the only DNSP that provides it.

We have promoted this consistency because, with some exceptions, DNSPs in the same jurisdiction generally:

- had the same form of regulation applied by previous jurisdictional regulators to their services
- must comply with the same jurisdictional regulatory obligations
- face similar market conditions to provide their services.

Inconsistency between jurisdictions

We have generally tried, where practical, to use the same names and definitions for services between jurisdictions, however this has not always been possible. This has been due to a range of reasons, including:

- our presumption (required under the NER) in favour of maintaining the status quo service classification, unless another classification is clearly more appropriate
- differences between jurisdictions in:
    - customers' requirements
    - market conditions in which DNSPs provide their services, including the extent of competition
    - jurisdictional regulatory obligations.

As a result, there are now inconsistencies in service names, listings and definitions between jurisdictions.

Notable differences between jurisdictions include: residential connections; the role of accredited service providers; public lighting; and residential metering. Our most recent framework and approach papers published in July 2017 sought to promote greater consistency and alignment of names, listings and definitions. For example, public lighting and some ancillary services are becoming more aligned between jurisdictions.

However, we note that perfect harmonisation may never occur because some of the differences in classifications between states are due to factors such as State Government control or state-accredited service provider schemes. Appendix B lists classifications by jurisdiction and shows the extent to which differences exist.

Relative stability in service classification

We have generally maintained relative stability in DNSPs' service classification between regulatory control periods (with some notable exceptions). This has reflected:

- our presumption (previously required under the NER) in favour of maintaining the status quo service classification, unless another classification is clearly more appropriate
- the relative stability in the technology that DNSPs have used to provide distribution services, although this has started to change in recent years
- there being relatively few instances where there have been changes in the level of competition in the markets for distribution services, although there have been some notable exceptions, such as the markets for metering services.

Notwithstanding the above, there have been significant changes to metering services, which became contestable on 1 December 2017, and have been accompanied by a change in classification. In addition, our Ring-fencing Guideline has resulted in a number of services classification changes to better accommodate the ring-fencing obligations.

Few negotiated distribution services

In most jurisdictions, we have classified relatively few services as negotiated distribution services. An exception is South Australia, where we have retained the general approach that was applied by the jurisdictional regulator and, in the last reset process for SA Power Networks, we did not receive any submissions calling for a change in classification. Therefore, we were unable to demonstrate that another service classification was clearly more appropriate, as required by the NER.

In our July 2017 framework and approach papers for the NSW, ACT, Tasmanian and Northern Territory DNSPs, we have proposed not classifying any distribution services as negotiated distribution services. We will reflect this in our distribution determinations for these DNSPs unless we consider that unforeseen circumstances justify departing from the classification, including having regard for the DNSPs' regulatory proposals and stakeholders' submissions.

Non-exhaustive listing of unregulated distribution services

Our established practice has not been to seek an exhaustive listing of a DNSP's unregulated distribution services in our service classification decision. That is, distribution services we have chosen not to classify are unregulated distribution services. Strictly, we do not need to identify services as unregulated because our role is principally concerned with determining those services that are to be classified.

We recognise, however, that following the introduction of the Ring-fencing Guideline in 2016, it is increasingly important for DNSPs and other stakeholders that our service classification decisions reflect a fuller listing of distribution services, including those services we have decided should not be classified. This is because while DNSPs may provide unregulated distribution services, these services are subject to ring-fencing obligations, such as restrictions on the branding of unregulated services.

Question 5: Should our service classification decisions make clear those services we have decided not to classify because they are not distribution services?

3 Restricted assets and asset exemption guideline

The AEMC's Contestability Rule Change introduces restrictions on a DNSP's ability to earn regulated returns on assets located "behind the meter".[40] That is, the new rule prevents DNSPs from investing in assets located on the customer's side of a connection point to the network.

The AEMC concluded that it is in consumers' long-term interests to be able to make choices about products and services they purchase based on their own interests and values through competitive markets.[41] We support these views.

The AEMC considered that restricting a DNSP's ability to own and control assets "behind the meter" would promote competition. The rule change therefore aims to facilitate competition in contestable energy services markets. In coming to this conclusion, the AEMC noted that:

- Efficiency must be considered across the energy sector, not just for distribution networks.
- DNSPs in control of assets may favour network benefits at the expense of maximising the value across the electricity system.
- DNSPs, as incumbent monopoly operators, may adversely affect the level of competition in energy services markets and install and recover the costs of assets through regulated revenues.

In support of the new restricted assets rules, we are developing a guideline that sets out where we may approve an exemption to those rules.

3.1 What is a restricted asset?

As restricted assets are a new concept, we provide some of the key elements of the rule below. However, we urge stakeholders to review the new rules and relevant provisions in the NER.[42] The new rule defines *restricted assets* as follows:

An item of equipment that is electrically connected to a *retail customer's connection point* at a location that is on the same side of that *connection point* as the *metering point*, but excludes:

(a) such an item of equipment where that *retail customer* is a *Distribution Network Service Provider* and the *Distribution Network Service Provider* is the *Local Network Service Provider* for that *connection point*, or

(b) a *network device.*[43]

[40] AEMC, final rule determination - National Electricity Amendment (Contestability of Energy Services) 2017 page i. "behind the meter" refers to the location behind a retail customer's connection point.

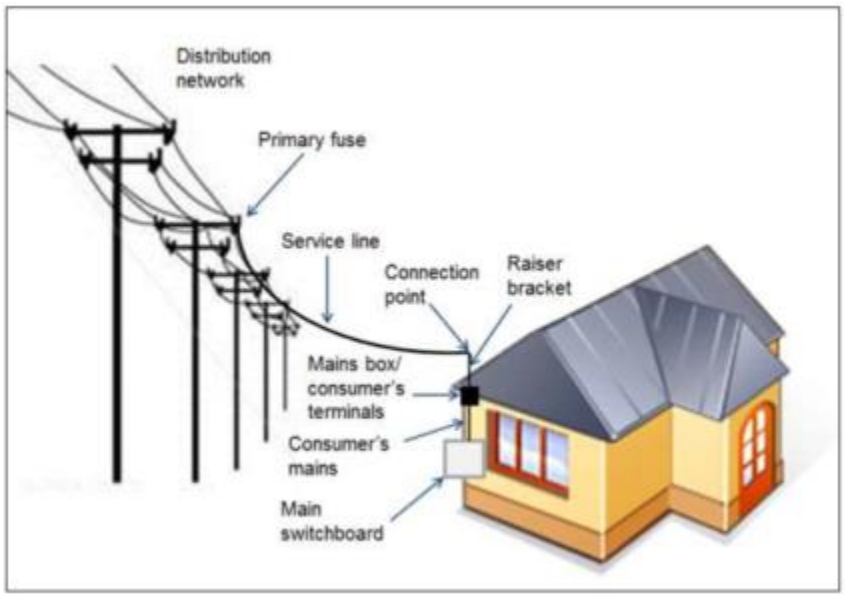
[41] AEMC, draft rule determination - Contestability of Energy Services, 29 August 2017, page ii.

[42] Available at http://www.aemc.gov.au/Rule-Changes/Contestability-of-energy-services.

[43] See Chapter 10.

The diagram below, which repeats Figure 1 on page 5 of this document, shows the customer's connection point. Under the new rule, a DNSP would require an exemption for any asset beyond this point that provides a distribution service.

Figure 5: Customer connection point



Source: Ergon Energy[44]

Subject to certain exemptions, the new rule prohibits a DNSP including expenditure for a restricted asset in:

- its proposed capex forecast for its standard control services that it includes in its building block proposal as part of its regulatory proposal[45]
- a proposed positive pass through amount[46]
- a reopening of a distribution determination for capex[47]
- a proposed or amended contingent project.[48]

Further, subject to any exemptions, the new rule requires us not to:

- include capex relating to a *restricted asset* in our distribution determination,[49] and
- increase the regulatory asset base by the value of expenditure for a restricted asset.[50]

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44 Ergon Energy, *Connection Policy*, July 2015, p. 5.
45 See clause 6.5.7
46 See clause 6.6.1
47 See clause 6.6.5
48 See clause 6.6A.
49 See clause 6.12.1
50 See clause S6.2.1(9)

The new rule only relates to the treatment of a DNSP's capex for its standard control services. It does not relate to a DNSP's:

- opex for its standard control services
- capex (or opex) for its alternative control services, negotiated distribution services or unregulated distribution services, or
- procurement of energy related services from either ring-fenced affiliated entities of the DNSP or third party service providers to the DNSP.

3.1.1 Restricted asset exemptions

The AEMC considered whether to apply an absolute prohibition on network ownership of *restricted assets*. However, upon further consideration, the AEMC decided that: "*an absolute prohibition on all "behind the meter" investment is not likely to be in the long term interest of consumers as there may be situations where such investment may be the most efficient solution for a network issue and that investment is not capable of providing benefits to the contestable market*".[51] As a result, the rule provides us with the ability to grant exemptions in certain circumstances. In so doing, we must have regard to the exemption's likely impact on the development of competition in markets for energy related services, and to the asset exemption guidelines we intend to develop.[52]

The starting point for the new rule is that the prohibition on DNSPs should apply to all assets on the customer's side of the connection point that provide standard control services. The new rule allows three types of exemptions to this general prohibition: existing assets, network assets and exempted assets.

Existing assets: A restriction would not apply to assets that are already in the standard control services regulatory asset base or in respect of relevant capex in a current regulatory control period.

Network devices: A DNSP could own and operate network devices, which are defined as follows in the NER:

Apparatus or equipment that:

(a) enables a *Local Network Service Provider* to monitor, operate or control the *network* for the purposes of providing *network services*, which may include switching devices, measurement equipment and control equipment;

(b) is located at or adjacent to a *metering installation* at the *connection point* of a *retail customer*; and

(c) does not have the capability to generate electricity.

AER exemption: We have discretion to decide whether to grant an exemption, subject to a requirement to have regard for the likely impact on the development of competition in

[51] AEMC, final rule determination - National Electricity Amendment (Contestability of Energy Services) 2017 page 20
[52] See clause 6.4B.1(b).

markets for energy related services if the DNSP was to invest in the assets that are the subject of the exemption application.

- The AEMC has determined that the first step in the application of these restrictions, and the exemptions which would allow DNSPs to own restricted assets, is for us to publish a guideline that sets out the approach we will take to granting such exemptions.[53] The asset exemption guideline will not be binding on the AER or DNSPs. However, DNSPs must have regard to the guideline when making exemption applications. Where the AER deviates from the approach laid out in the guideline, the AER must set out the reasons for that variation.
- With regard to the possible exemptions (that is, grandfathered assets, network devices, or exemptions granted by the AER), our asset exemption guideline is only concerned with exemptions that we can grant.

3.2 Purpose of the asset exemption guideline

The rules require us to set out in the asset exemption guideline:

1. the approach the AER proposes to take when determining whether to grant an asset exemption; and
2. the information the AER requires from a DNSP (in addition to the exemption application requirements described in the NER).[54]

In our view, the asset exemption guideline should also provide sufficient information to:

- assist a DNSP in deciding whether to seek an exemption, and in preparing an exemption application, and
- guide interested stakeholders making submissions or otherwise providing information to the AER in regard to asset exemptions
- identify the types of information and method of analysis that will assist the AER in reaching a view on how granting an exemption may affect future competition in markets for energy related services
- dealing with process issues, including claims for confidentiality.

Question 6: Is there any other guidance that should be included in the asset exemption guideline?

3.3 Key issues

We seek comment from stakeholders in regard to the following issues, which we suspect may need to be addressed in the asset exemption guideline.

In considering an asset exemption application, we must have regard to:

[53] AEMC, final rule determination - National Electricity Amendment (Contestability of Energy Services) 2017 page 71
[54] See clauses 6.4B.1(c) and 6.4B.2(c)(1)-(4).

"likely impacts on the development of competition in markets for energy related services if the Distribution Network Service Provider invests in the assets the subject of the asset exemption".[55]

Even if, in the short-term, the rejection of an exemption results in higher prices for consumers it may better promote the NEO through the effects of competition in promoting dynamic efficiency and innovation.

Question 7: What criteria should we use to determine whether a DNSP should be permitted to add an asset to its regulatory asset base? What are some examples of restricted assets that should be granted exemptions, and why? Should conditions be imposed on exemptions, for example a limit on the time during which applications for exemption can be made?

The new rule presumes the NEO, and therefore efficient investment in, and operation and use of, electricity services, and efficient prices and services outcomes, will generally best be promoted by developing robust well-functioning competition in the markets for energy related services. Unless demonstrated otherwise, competition will best be promoted in the markets for energy related services if DNSPs do not compete in these markets.

We note that 'competition' can be defined as a state of ongoing rivalry between firms in terms of price, service, technology and quality. Market participants are mutually constrained in their pricing, output and related commercial decisions to some extent by the activity of other market participants (or potential market participants). In other words, the greater the degree of competition in a market, the less market power each market participant possesses.[56]

In light of these considerations, we propose that an exemption not be granted unless a DNSP's exemption application can demonstrate that:

- an exemption is in the long-term interests of consumers, or
- the exemption will positively contribute to the development of competition in the market for energy related services.

We expect that there will be few instances in which these requirements will be met. In most cases, we consider that the prohibitions around restricted assets will benefit the development of competitive markets.

Question 8: Do you agree that there will be relatively few occasions on which we would grant an exemption beyond those already provided for in the rules (i.e. grandfathered assets and network devices)? Please suggest examples of assets that should be granted exemptions.

55 Clause 6.4B.1(b) of the NER.

56 Section 3.1 ACCC Merger Guidelines November 2017 amended to include Harper reforms to the Competition and Consumer Act 2010.

Currently, the markets for energy services are either non-existent or immature, but are expected to develop in future. Whether a DNSP provides its standard control services via restricted assets or through a third party asset holder could impact differently on the development of competition in markets for energy related services. The nature and extent of competition in these markets is likely to evolve over time, including:

- if a DNSP changes how it acquires energy related services over time
- as other participants enter and exit the markets, and
- as the markets are impacted by other forces, such as innovation, new technologies, changing customer preferences etc.

We note that a DNSP could still invest in assets to provide energy related services that provide alternative control services or other non-standard control distribution services – the classification of a DNSP's distribution services would therefore be critical to the application of the asset exemption guideline. Furthermore, unless it obtains an exemption, a DNSP could only procure energy related services to provide its standard control services through third parties – it could not acquire the services by investing in the restricted asset itself. Other notable aspects of the new rule include:

- any exemption would only apply for a single regulatory control period, and
- a DNSP would need to reapply to obtain a new exemption if it wanted it to extend over multiple regulatory control periods.

A DNSP's exemption application to the AER should compare how its proposal (i.e. the DNSP investing in assets to provide energy related services for its standard control services) and the counterfactual (i.e. the DNSP not investing) would promote the NEO, in terms of price and service outcomes for consumers. Therefore, an exemption application would need to provide specific information about:

- assets to be the subject of the investment – see clause 6.4B.2(c)(2)
- timing of the investment in the next regulatory control period
- location of the investment
- markets for energy related service in which the DNSP is seeking to compete
- standard control services that would be provided using the proposed assets, based on the energy related services – draft clause 6.4B.2(c)(3)
- timeframe over which the "likely impact" is being assessed.

We note that much of this information may be uncertain and commercially sensitive. A DNSP may therefore seek that the AER treat it confidentially.

Question 9: What are stakeholder views about the likely impact of confidential information affecting the transparency of asset exemption decisions?

The asset exemption application will be accompanied by information about future market development that is inherently speculative. There are difficulties in defining the nature and characteristics of the future markets, particularly given that:

- in some cases, the markets may not currently exist, at least formally, and
- markets are dynamic, and there will be a level of uncertainty about how they will develop and evolve over time.

Question 10: How can the asset exemption guideline address uncertainties about future market development when these markets may often be in their infancy?

4 Interdependencies between AER guidelines

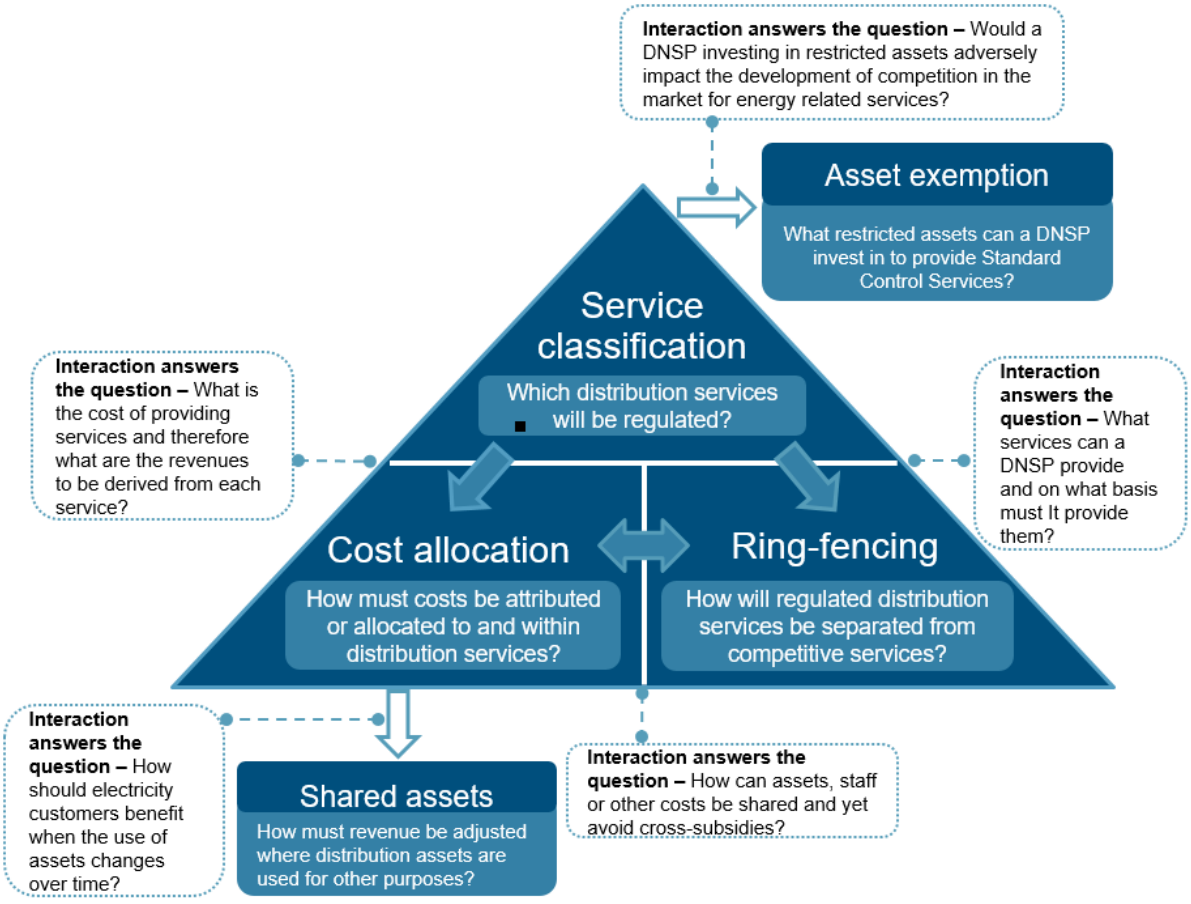
Our service classification decision is the starting point for applying much of the rest of the economic regulatory framework in the NER.

As discussed in section 2, we use our classification decision to determine which services we will regulate. Our distribution determination then approves:

- the revenues or prices that a DNSP can recover from its customers for its direct control services, and
- the framework and criteria that a DNSP must use to negotiate the terms and conditions, including the prices, for negotiated distribution services.

Our classification decision is also required for other related elements of the economic regulatory framework, including for the purposes of restricted assets, ring-fencing, cost allocation and shared assets. As with service classification, these other matters are all concerned with defining and regulating the boundaries between distribution services and other services and the assets that a DNSP may use to provide distribution services. This is illustrated in Figure 6.

Figure 6: Interaction between elements of the regulatory framework



Restricted assets are concerned with what assets a DNSP can invest in to provide standard control services. Service classification is directly relevant to restricted assets because it determines which distribution services are standard control services. Unless an exemption applies, a DNSP cannot invest in restricted assets to provide these standard control services. The interaction between the service classification and restricted assets therefore concerns whether a DNSP investing in restricted assets would adversely impact the development of competition in the market for energy related services. The AEMC intends that the new rule would also complement the ring-fencing requirements by providing an additional safeguard to limit DNSP's ability to exert control and to impact competition in the energy services market.

Our Ring-fencing Guideline[57] is concerned with how regulated services should be separated from competitive services. The interaction between the service classification and ring-fencing concerns what services a DNSP can provide and on what basis it must provide them. The Ring-fencing Guideline allows a DNSP to provide distribution services and transmission services, but does not allow it to provide other services. We must reflect this in our service classification decision.

For example, we note that contestable metering services are a distribution service. However, we may choose not to classify these metering services because they are available in competitive markets and should therefore be unregulated. The Ring-fencing Guideline says that a DNSP may not provide distribution services that are not classified.[58] Consequently, the contestable metering services must be ring-fenced. That is, a DNSP providing contestable metering services may do so under a different brand name from the DNSP and subject to restrictions on staff and office sharing.

The Cost Allocation Guideline is concerned with how costs can be attributed or allocated to, and within, distribution services.[59] The interaction between cost allocation and service classification is about determining the cost of providing distribution services and therefore what revenues and prices should be derived from each service. The interaction between cost allocation and ring-fencing concerns how assets, staff and other costs can be shared between direct control services and contestable electricity services and yet avoid customers of regulated services bearing cross-subsidies.

Our Shared Assets Guideline[60] details how a DNSP must adjust its revenues where its distribution assets are used for other purposes, such as telecommunications. The key interaction between shared assets and cost allocation therefore concerns how customers of distribution services should benefit when the use of assets changes over time.

Our proposed new service classification guideline needs to have regard for how our service classification decision is applied across the economic regulatory framework. There needs to

57 We published our Ring-fencing Guideline on 30 November 2016. We published an amended version (Version 2) in October 2017.

58 See clauses 3.1(b), 2 and 1.4 'other distribution services' of the Ring-fencing Guideline.

59 Cost allocation requirements are detailed in clause 6.15 of the NER, our Cost Allocation Guideline issued in 2012 and our Ring-fencing Guideline.

60 Our Shared Asset Guideline was issued in 2013.

be consistency and alignment between each of the AER's guidelines that deal with inter-related matters.

The Connection Charge Guidelines set out the circumstances in which a DNSP may ask for a capital contribution. This will depend in part on how the connection service is classified, which will also affect the ring-fencing obligations applicable to these services.

We think it is important to be aware of these interlinkages between the different guidelines—they should not be viewed in isolation.

4.1 Ensuing guidelines work together effectively

As discussed in section 4, once we develop service classification guidelines and asset exemption guidelines, there will be multiple AER guidelines concerned with defining and regulating the boundaries between distribution and other services and the assets that a DNSP may use to provide distribution services.[61] These other guidelines include the Cost Allocation Guideline, the Ring-fencing Guideline and the Shared Asset Guideline.

We are interested in feedback about how we ensure that the five guidelines work together as an integrated package and what changes, if any, are required to the other three related guidelines to achieve this.

In regard to how we progress, the simplest option would be for us to develop the service classification guideline and asset exemption guideline (including ensuring they are consistent with the other related guidelines) and not undertaking any parallel review of the other guidelines. We would then review the other guidelines progressively, taking into account interactions between the guidelines as we did so.

However, the development of the service classification guideline and asset exemption guideline may create an opportunity to ensure that all of the affected guidelines:

- are integrated, with clear roles, boundaries and cross-referencing
- provide clearer direction / guidance, and
- are similarly structured and use consistent language.

We consider that this option this would be a “tidying up” exercise, and would not involve any substantive changes to the suite of guidelines. Such an exercise could be undertaken now or sometime in the future. Undertaking this work would require more time and resources for us and stakeholders than the first option.

Question 11: Do you agree that we should review the service classification and asset exemption guidelines only at this stage but acknowledge the implications this may have for revision of the other guidelines at a later stage?

61 The service classification guideline, asset exemption guideline, Ring-fencing Guideline, Cost Allocation Guideline, Shared Asset Guideline and Connection Charge Guidelines for Electricity Retail Customers.

5 Next steps

As indicated in the indicative timetable on page 2, submissions in response to this issues paper are due to the AER by close of business on 16 March 2018.

We intend to hold a workshop in April 2018 to provide an opportunity for interested parties to discuss the issues before providing submissions. Further details will be available on our website

Once we have received and considered submissions, we will commence preparing the draft service classification guideline and asset exemption guideline and an explanatory statement. This is the next key step in the guideline development process and will mark commencement of the NER distribution consultation procedures process.

We value input from all interested parties and look forward to receiving your submissions.

Appendix A - Form of regulation factors

The form of regulation factors are set out in the National Electricity Law. We must consider these when classifying distribution services.[62] The form of regulation factors therefore play an important role in determining service classifications. Here, we reproduce the form of regulation factors and provide some examples of how we may apply them.

The form of regulation factors are[63]—

(a) the presence and extent of any barriers to entry in a market for electricity network services;

For example, this could refer to legislation that imposes a requirement for a service provider to hold a licence in order to provide services in a particular jurisdiction. If licences are limited to just one service provider (the DNSP), the service is a monopoly.

(b) the presence and extent of any network externalities (that is, interdependencies) between an electricity network service provided by a network service provider and any other electricity network service provided by the network service provider;

For example, in the past, basic residential metering was provided by DNSPs whose networks provided at the meter. However, this role is now changing following changes to metering technology and the rules.

(c) the presence and extent of any network externalities (that is, interdependencies) between an electricity network service provided by a network service provider and any other service provided by the network service provider in any other market;

We note that the NEL defines “electricity network service” as “a service provided by means of, or in connection with, a transmission system or distribution system”. An “other service” is therefore a service that is not “provided by means of, or in connection with, a transmission system or distribution system”. Since the Ring-fencing Guideline prevents a DNSP from providing non-distribution services, a DNSP now cannot provide “other services" in any other market. On this basis, we consider this factor will no longer be applicable.

(d) the extent to which any market power possessed by a network service provider is, or is likely to be, mitigated by any countervailing market power possessed by a network service user or prospective network service user;

For example, the ability (or otherwise) of a customer to be able to negotiate the price and service levels may be restricted because the distributor has significantly more bargaining power. This suggests the need for regulation.

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62 See clause 6.2.1(c) of the NER, available at https://www.aemc.gov.au/regulation/energy-rules/national-electricity-rules/current.

63 See section 2F of the NEL, available at https://www.legislation.sa.gov.au/LZ/C/A/NATIONAL%20ELECTRICITY%20(SOUTH%20AUSTRALIA)%20ACT%201996/CURRENT/1996.44.UN.PDF

(e) the presence and extent of any substitute, and the elasticity of demand, in a market for an electricity network service in which a network service provider provides that service;

For example, a customer may have very few alternatives to the electricity supply offered through a DNSP's network. In the long term, a customer may be able to reduce their dependency on the network, through use of generators or with off-grid solar/battery systems. However, for many, these alternatives to the network are costly and may be impractical (say for a person that rents a home). In these cases, customers may be quite dependent on a DNSP.

(f) the presence and extent of any substitute for, and the elasticity of demand in a market for, electricity or gas (as the case may be);

For example, the extent to which a customer can seek an alternative source of energy or can shift its electricity demand to a different time.

(g) the extent to which there is information available to a prospective network service user or network service user, and whether that information is adequate, to enable the prospective network service user or network service user to negotiate on an informed basis with a network service provider for the provision of an electricity network service to them by the network service provider.

For example, the ability of consumers to use electricity services may be reduced by the absence of relevant information or asymmetric access to information.

Other factors we must have regard to include: the form of regulation or classification previously applicable to the service; the desirability of consistency in the form of regulation for similar services; and any other relevant factor.[64]

[64] See clause 6.2.1 of the NER

Appendix B - Summary of existing service classifications

In preparing the following summary table we have, as much as possible, grouped like services together under a single recognisable service name. In many cases, different service characterisations are so significant that jurisdiction-specific services have been retained.

Table 3: Summary of service classifications across NEM jurisdictions in 2017

Service group	Jurisdiction	Service classification
Network services		
Planning, designing, constructing, maintaining, operating, administrative support.	QLD, NSW, NT, ACT, SA, VIC, TAS	Standard control
Dismantling	NT	
Connection Services (customer driven requests)		
Augmentations	NT, VIC, TAS, ACT, NSW	
Small customer connections	QLD, NT, ACT, SA	
Large customer connections	NT, ACT, SA	
Commission, energise and connect third-party built infrastructure	NT	Standard control
Extensions	ACT	
Undergrounding/ rearrangement of distribution assets	VIC	
Supply abolishment (up to 100 amps)	VIC	
Operate and maintain connection assets	QLD, NT	
Design and construction of connection assets not available contestably	NSW	
Application and consultation services	QLD, NT, NSW	
Large customer connections	QLD	
Routine connections (up to and above 100 amps)	VIC	
Commissioning and energising small customer connections	NT	
Commissioning and energising large customer connections	QLD, NT	

Temporary Connections	QLD, NT, VIC*, ACT*, TAS*, NSW	
Real estate development connection	QLD	
Remove network constraint for embedded generator	QLD	
PV & small generator installation pre-approval (up to 5 kW and > 5 kW)	VIC	
Energise basic and standard connections	NT	
Commission and energise generator connections (micro-embedded and non-micro-embedded	NT	
Connection management services	QLD, VIC	Alternative control
Accreditation of alternative service providers and approval of their designs, works and materials	QLD, NT	
Repair and replacement of routine connection	VIC	
Supply abolishment (>100 amps)	VIC	
Energising and De-energising existing connections	QLD, VIC	
Above standard reliability	NT, QLD	
Removal of network constraint on generator	NT	
Move and reconfigure existing infrastructure on third party request	NT, VIC, ACT,	
Alternative service provider services including authorisation, inspection, investigation and administration	NSW	
Reinspection of installation work for customer assets	NSW	
Embedded Generation, micro-grid and load control device installation, management and maintenance	NSW	
Non-standard connection services	SA	Negotiated distribution service
New and upgraded connection point services	SA	
Small customer connections	NSW	Unclassified distribution service
Metering Services		
Type 7 Metering services	QLD, NSW, SA, NT, ACT,	Standard control

	TAS	
Meter data maintenance for operational purposes	NT	
Type 5 and 6 meter installation	QLD, NSW, ACT, SA, VIC	
Type 5 and 6 metering maintenance, reading and data services	QLD, NSW , ACT, SA, VIC, TAS	
Type 5 and 6 meter provision (before, on, and after 1 July 2015)	QLD, NSW, ACT	
Auxiliary metering services	QLD	
Operation of type 7 metering installations, reading and data	VIC	
Administration services for metering	NT	
Exceptional large customer metering services	SA	Alternative control
Metering roles: coordinator, provider, data provider	NT	
Metering services including procurement, installation, maintenance and asset management	NT	
Other metering services including testing, alteration, replacement and non-standard metering services	NT	
Metering data services such as scheduled and ad hoc reading	NT	
Metering communications services	NT	
Non-standard small customer metering services	SA	Negotiated distribution service
Large customer metering services	SA	
Public lighting Services		
Provision construction and maintenance of public lighting and emergency public lighting technology	QLD, NSW, TAS, VIC	Alternative control
New public lighting technology services	TAS, VIC	Negotiated distribution service
Public lighting services	SA	
Alteration and relocation of distributor public lighting assets	VIC	
Ancillary Network Services		
Ancillary services including retailer of last resort (ROLR) services, temporary supply, re-energise and de-energise, assess permits, off-peak conversion, relocation services, alteration and	QLD, NSW, VIC, TAS, ACT, NT	Alternative control

augmentation and other recoverable works		
Ancillary Services: including temporary supply, asset relocation, embedded generation services and other	SA	Negotiated distribution service
Unclassified distribution services (Unregulated distribution services)		
Emergency recoverable works**		Not classified
Type 1 to 4 metering***		
Night Watchman (security lights)		
Distribution services provided in unregulated isolated networks		
High load escorts		

* In these jurisdictions, temporary connections are classified under the ancillary services group.

** Emergency recoverable works is gradually being reclassified as standard control in each jurisdiction at to better align with the obligations in the Ring-fencing Guideline.

*** Except in Northern Territory where these services are standard control services.

Appendix C - Questions

Here, we provide a complete list of the questions raised in this issues paper, to assist interested parties when preparing submissions.

Table 4: List of questions

#	Question	Page ref.
1	Is our existing 'incremental' approach to service classification fit for purpose? Or should the AER review the classifications of each and every service (or service grouping) at every determination? To what extent is harmonisation desirable? Should a harmonised (all jurisdictions) typology and hierarchy of distribution services be a feature or objective of the guideline? If so, why?	12
2	Are there other aspects of the new rule that we should take into account in developing the guidelines?	14
3	Do you agree with our interpretation of the form of regulation factors included in Appendix A? What aspects of the form of regulation factors are unclear?	15
4	What factors should guide our interpretation of a 'distribution service'? Should our views on what is (or is not) a distribution service occur only at the time of service classification, or at other times within the regulatory control period as well?	17
5	Should our service classification decisions make clear those services we have decided not to classify because they are not distribution services?	19
6	Is there any other guidance that should be included in the asset exemption guideline?	23
7	What criteria should we use to determine whether a DNSP should be permitted to add an asset to its regulatory asset base? What are some examples of restricted assets that should be granted exemptions, and why? Should conditions be imposed on exemptions, for example a limit on the time during which applications for exemption can be made?	24
8	Do you agree that there will be relatively few occasions on which we would grant an exemption beyond those already provided for in the rules (i.e. grandfathered assets and network devices)? Please suggest examples of assets that should be granted exemptions.	24
9	What are stakeholder views about the likely impact of confidential information affecting the transparency of asset exemption decisions?	25
10	How can the asset exemption guideline address uncertainties about future market development when these markets may often be in their infancy?	26