



Draft decision

ActewAGL distribution determination

2015–16 to 2018–19

Attachment 13: Classification of distribution services

November 2014

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Note

This attachment forms part of the AER's draft decision on ActewAGL's 2015–19 distribution determination. It should be read with other parts of the draft decision.

The draft decision includes the following documents:

Overview

Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 3 – Rate of return

Attachment 4 – Value of imputation credits

Attachment 5 – Regulatory depreciation

Attachment 6 – Capital expenditure

Attachment 7 – Operating expenditure

Attachment 8 – Corporate income tax

Attachment 9 – Efficiency benefit sharing scheme

Attachment 10 – Capital expenditure sharing scheme

Attachment 11 – Service target performance incentive scheme

Attachment 12 – Demand management incentive scheme

Attachment 13 – Classification of services

Attachment 14 – Control mechanism

Attachment 15 – Pass through events

Attachment 16 – Alternative control services

Attachment 17 – Negotiated services framework and criteria

Attachment 18 – Connection methodology

Attachment 19 – Pricing methodology

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Shortened forms

Shortened form	Extended form
AARR	aggregate annual revenue requirement
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
ASRR	aggregate service revenue requirement
augex	augmentation expenditure
capex	capital expenditure
CCP	Consumer Challenge Panel
CESS	capital expenditure sharing scheme
CPI	consumer price index
CPI-X	consumer price index minus X
DRP	debt risk premium
DMIA	demand management innovation allowance
DMIS	demand management incentive scheme
distributor	distribution network service provider
DUoS	distribution use of system
EBSS	efficiency benefit sharing scheme
ERP	equity risk premium
expenditure assessment guideline	expenditure forecast assessment guideline for electricity distribution
F&A	framework and approach
MRP	market risk premium

Shortened form	Extended form
NEL	national electricity law
NEM	national electricity market
NEO	national electricity objective
NER	national electricity rules
NSP	network service provider
opex	operating expenditure
PPI	partial performance indicators
PTRM	post-tax revenue model
RAB	regulatory asset base
RBA	Reserve Bank of Australia
repex	replacement expenditure
RFM	roll forward model
RIN	regulatory information notice
RPP	revenue pricing principles
SAIDI	system average interruption duration index
SAIFI	system average interruption frequency index
SLCAPM	Sharpe-Lintner capital asset pricing model
STPIS	service target performance incentive scheme
WACC	weighted average cost of capital

13 Classification of distribution services

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

We are required to make a decision on the classification of ActewAGL's distribution services.¹

The classification of distribution services must be as set out in the relevant framework and approach (F&A) paper unless we consider that unforeseen circumstances justify departing from that proposed classification.² We set out our proposed approach to the classification of distribution services for ActewAGL in our Stage 1 F&A.³ We proposed to group ActewAGL's distribution services as follows:

- network services
- connection services
- metering services
- ancillary network services.

13.1 Draft decision

Our draft decision is to retain the classification of ActewAGL's distribution services according to the classifications set out in our Stage 1 F&A⁴ subject to the following points:

- we classify the recovery of ActewAGL's residual type 5 or 6 metering capital costs as a standard control service
- we classify the administration costs for type 5 and 6 meter transfers as an alternative control service
- classify large scale embedded generator connection services (above 30 kW) as alternative control services (as part of ancillary networks services)
- add 'network studies' to the list of ancillary services for clarification
- not add 'least cost technically acceptable standard at the customer's request' to the list of ancillary services as proposed by ActewAGL.

Figure 13.1 shows our draft decision on service classifications for the 2015–19 regulatory control period.

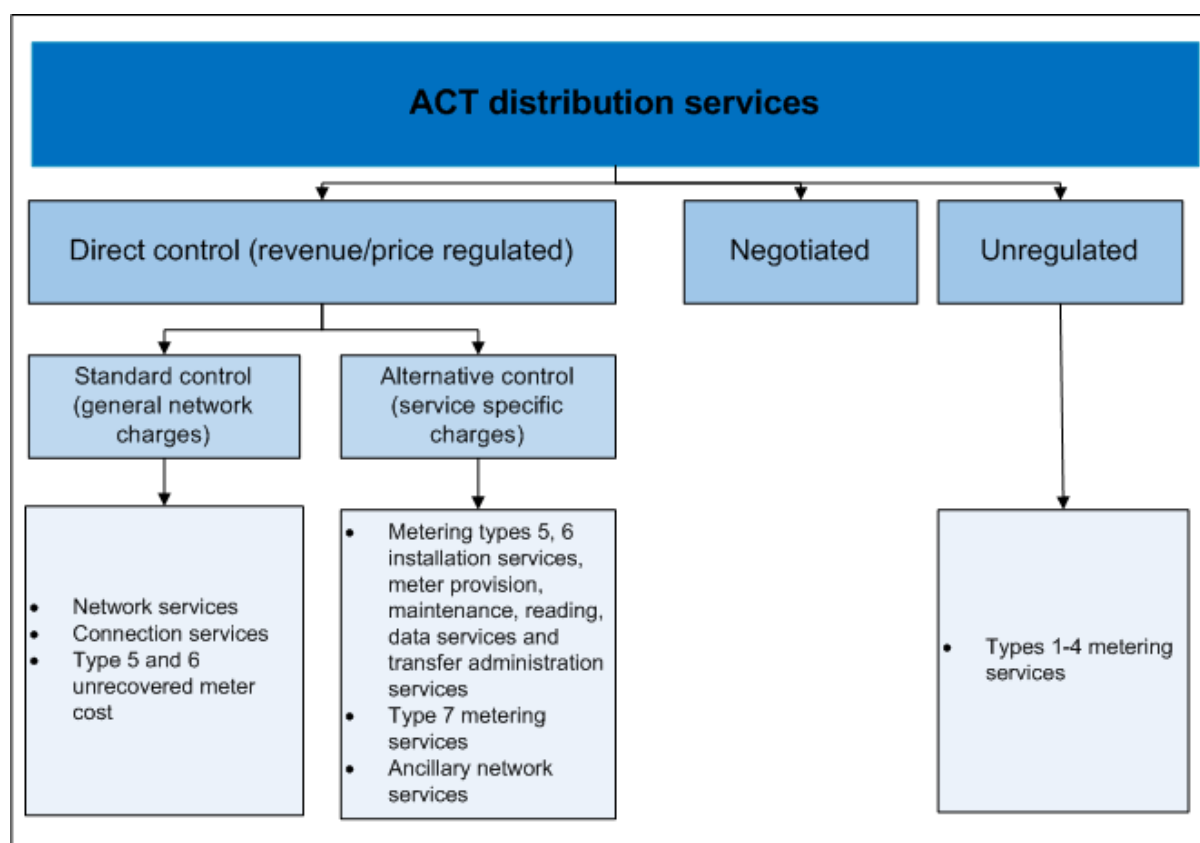
¹ NER, cl. 6.12.1(1).

² NER, cl. 6.12.3(b).

³ AER, *Stage 1, Framework and approach paper – ActewAGL, 1 July 2014–30 June 2019*, March 2013, pp. 13–27.

⁴ NER, cl. 6.12.1(1).

Figure 13.1 AER draft decision on 2015–19 service classifications for ActewAGL



Source: AER.

As indicated in Figure 13.1, our draft decision is not to classify any distribution services as negotiated distribution services for the 2015–19 regulatory control period.

Our assessment of the classification of services determines how costs associated with the services will be recovered at a very high level. That is, whether the costs of a particular service will be recovered from basic electricity charges, as an additional charge or not recovered at all, as mentioned earlier. However, the detailed prescription of how service charges are set is not determined as part of classification; instead, that detail is discussed in the control mechanism attachments.⁵

13.2 ActewAGL's proposal

ActewAGL adopted our classification of services as set out in the Stage 1 F&A.⁶ Further ActewAGL has adopted our approach that none of the distribution services it provides are suited to being classified as negotiated distribution services.⁷

ActewAGL proposed one type of metering service, the cost of which would be recovered via a schedule of annual charges. As noted in attachment 16, ActewAGL did not propose a method to recover residual capital costs if a customer were to take up metering services from an alternative provider during the regulatory period. Instead ActewAGL indicated it would consider introducing an exit fee during the 2015–19 regulatory control period once the rule change for metering competition takes effect. We do not consider this appropriate as our classification decisions apply for the duration

⁵ See attachment 14 for standard control services and attachment 16 for alternative control services.

⁶ ActewAGL, *Regulatory proposal resubmitted*, July 2014, p. 329.

⁷ ActewAGL, *Regulatory proposal resubmitted*, July 2014, p. 326.

of the entire regulatory control period covered by our distribution determination. Therefore, this additional service must be set out in our determination. As this proposed service was not foreseen at the time the Stage 1 F&A was finalised, we must revisit the classification of type 5 and 6 metering services. We discuss this issue below.

Additionally ActewAGL has sought clarification on the classification of large scale embedded generation connection services.⁸ ActewAGL has also proposed two further services be added to the list of ancillary services for clarification, being network studies and provision of services above the least cost technically acceptable standard at the customer's request.⁹

13.3 AER's assessment approach

The NER allows us to group distribution services when classifying them. This means we may classify a class of services rather than specific services. This provides distributors with flexibility to alter the exact specification (but not the nature) of a service during a regulatory control period. Where we make a single classification for a group of services, it applies to each service in the group.

In making our classification decisions, in summary we may:

- classify a service so that the distributor may recover related costs from all customers (direct control – standard control)
- classify a service so that the user benefiting from the service pays (direct control – alternative control)
- allow customers and distributors to negotiate the provision and price of some services – we will arbitrate should negotiations stall (negotiated distribution service)
- not classify a service – we have no regulatory control over this service or the prices charged by the distributor (unclassified service).

When deciding whether to classify services as either direct control or negotiated services, or to not classify them, the NER require us to have regard to the 'form of regulation factors' set out in the NEL.¹⁰ The form of regulation factors broadly include, amongst other things, the presence and extent of barriers to entry by alternative providers and where distributors possess market power in provision of the services. The NER also requires us to consider the previous form of regulation applied to services, the desirability for consistency with the previous approach and any other relevant factor.¹¹

For services we intend to classify as direct control services, the NER requires us to have regard to a further range of factors.¹² Broadly, these include the potential to develop competition in provision of a service and how our classification may influence that potential. Also, whether the costs of providing the service are attributable to a specific person. And, the possible effect of the classification on administrative costs.

The NER also specify that for a service regulated previously, unless a different classification is clearly more appropriate, we must:

⁸ ActewAGL, *Regulatory proposal resubmitted*, July 2014, pp. 329 and 350–352.

⁹ ActewAGL, *Regulatory proposal resubmitted*, July 2014, p. 342.

¹⁰ NER, cl. 6.2.1(c); NEL, s. 2F.

¹¹ NER, cl. 6.2.1(c).

¹² NER, cl. 6.2.2(c).

- not depart from a previous classification (if the services have been previously classified), and
- if there has been no previous classification – the classification should be consistent with the previously applicable regulatory approach.¹³

13.3.1 Interrelationships

In assessing what services we classify, we are setting the basis for what services are included in a distributor's regulatory asset base. The size and services that make up the regulatory asset base form the starting point of a distributor and us assessing its building block, influencing nearly all revenue components directly. Our decision on classification of services also impacts total capex, opex and control mechanisms, as well as distribution costs that are subject to incentive mechanisms like the EBSS and CESS.

13.4 Reasons for draft decision

We are satisfied there is an unforeseen circumstance arising from ActewAGL's regulatory proposal which justifies us departing from the classifications proposed in the Stage 1 F&A.¹⁴

In our Stage 1 F&A we proposed to classify type 5 and 6 meter provision, installation, maintenance, reading and data services as alternative control services. Our approach was and remains consistent with the Australian Energy Market Commission's (AEMC) draft and final reports for its Power of Choice review. The AEMC's recommendations included that:

- the current metering arrangements need reform to promote investment in better metering technology and promote customer choice
- metering costs should be unbundled from shared network charges.¹⁵

The AEMC also released a Power of Choice supplementary paper on metering services, exploring the arrangements necessary to implement its recommendations.¹⁶ The AEMC recommended that metering provision be contestable and open to competition among approved service providers.

However, at the time of releasing our Stage 1 F&A, it was not possible for us to foresee ActewAGL's approach to dealing with customers switching meter providers. The need to classify two additional metering services is evident from ActewAGL's proposal. We are therefore satisfied that this constitutes an unforeseen circumstance that justifies us departing from the classification set out in our Stage 1 F&A.¹⁷

Our draft decision is to maintain the approach set out in the Stage 1 F&A. This is a continuation of the current type 5 and 6 metering classification. Our detailed consideration and approach to exit fees is set out in attachment 16. We consider that some additions to metering classification are required and the reasons for these adjustments are set out below.

¹³ NER, cl. 6.2.1(d) and 6.2.2(d).

¹⁴ In accordance with NER, cl. 6.12.3(b).

¹⁵ AEMC, *Draft report, Power of choice - giving consumers options in the way they use electricity*, 6 September 2012, pp. 47-56; AEMC, *Draft report, Power of choice - giving consumers options in the way they use electricity*, 30 November 2012

¹⁶ AEMC, *Power of choice review draft report, Supplementary paper, Principles for metering arrangements in the NEM to promote installation of DSP metering technology*, 6 September 2012 (AEMC, Power of choice metering paper, September 2012), pp. 4, 7–9.

¹⁷ NER, cl. 6.12.3(b).

Although ActewAGL did not propose administrative charges associated with customers switching to an alternative metering provider, we consider it prudent to indicate how we would classify such a service should ActewAGL propose to recover such costs in its revised proposal. These costs, if substantiated, would be directly attributable to a customer seeking to switch meters. On this basis we are satisfied the service 'meter transfers' should be classified as an alternative control service.

An exit fee can be designed to recover capital costs associated with metering assets made redundant when a customer switches to an alternative metering provider. This was the approach the NSW distribution businesses adopted. Although ActewAGL did not propose an exit fee, we consider it prudent to indicate how we would classify such a service as this needs to be set out in our distribution determination. In classifying this service, we consider the residual metering capital costs should be recovered as a standard control service. As explained in attachment 16, these costs should be recovered from all customers because to do otherwise would create a barrier to the development of a competitive market for the provision of metering services. The NEL and NER require us to have regard to the development of competition in deciding appropriate service classification.¹⁸

These additional services are reflected in appendix A which details our classification of distribution services.

ActewAGL also proposed that large scale embedded generator connection services (above 30kW) may not have been properly classified in the Stage 1 F&A. ActewAGL submitted that this became apparent when it was preparing its connection policy as this service is not captured within the policy.¹⁹

ActewAGL explained that in the 2009–14 regulatory control period large scale embedded generator connection services were classified as negotiable components of direct control services under clause 6.7A of transitional chapter 6 of the NER. Clause 6.7A of transitional chapter 6 does not form part of the current NER. Therefore large scale embedded generator connection services cannot be classified as negotiable components of direct control services for the 2015–19 regulatory control period. We did not explicitly address this issue in the Stage 1 F&A.²⁰

ActewAGL proposed that while large scale embedded generator connection services fall within the definition of connection services, a standard control classification is not the most appropriate classification.²¹ Rather, ActewAGL proposed that large scale embedded generator connection services would more appropriately be grouped with ancillary network services and classified as an alternative control service.²² We agree. This approach is consistent with our approach to classification across a number of NEM jurisdictions where we have classified as alternative control services those services which are customer specific or customer requested.²³ Therefore, we set charges to allow distributors to recover the full cost of such services from customers that use them.

We are satisfied this is a service that should be classified but was not foreseen at the time of the Stage 1 F&A. The implementation of new NER around connections meant that ActewAGL was not considering its connection policy until after we released our Stage 1 F&A. Therefore, we are satisfied that this is an unforeseen circumstance that justifies us classifying large scale embedded generator

¹⁸ NEL, s. 2F and NER, cl. 6.2.2(c)(1).

¹⁹ ActewAGL, *Regulatory proposal resubmitted*, July 2014, pp. 350–351.

²⁰ ActewAGL, *Regulatory proposal resubmitted*, July 2014, pp. 350–351.

²¹ NER, cl. 6.2.1(d) and 6.2.2(d).

²² ActewAGL, *Regulatory proposal resubmitted*, July 2014, pp. 350–351.

²³ For example, AER, *Stage 1 F&A paper Ausgrid, Endeavour Energy and Essential Energy*, 2014–19, March 2013, p. 34; AER, *Final F&A for Energex and Ergon Energy, Regulatory control period commencing 1 July 2015*, April 2014, p. 46.

connections as alternative control services in our draft decision.²⁴ The change is detailed in appendix A, which lists our classification of ActewAGL's distribution services. The revisions are in mark up.

ActewAGL proposed that two further services be added to the list of distribution services at appendix A. It also suggested that for pricing purposes, the list of ancillary services provided in the appendix needs to be further disaggregated.²⁵

The purpose of the appendix is to list our service group descriptions to allow stakeholders to understand our classifications while avoiding unnecessary detail. The table of service classification provides detail where required for clarity, but avoids being an exhaustive list of every service or activities which form components of services. Therefore, we will not disaggregate the table of services any further.

However, we have added 'network studies' as proposed by ActewAGL to the table of service classification at appendix A.²⁶ ActewAGL stated that a technical network study is usually required for a major new connection or a more complex project requested by a customer. Similar to large scale embedded generator connection services we set charges to allow ActewAGL to recover the full cost of network studies requested by specific customers.

ActewAGL also proposed that we add 'provision of services above the least cost technically acceptable standard at the customers' request' to our table of distribution services as an alternative control service.²⁷ This service relates to connection services which are classified as standard control services. Least cost technically acceptable standard is a key platform of our connection charge guideline.²⁸ The connection charge guideline provides that a distributor should not fund customer's wish for a higher standard connector nor should that cost be shared by the broader customer base. Likewise, we do not permit distributors to seek customers to connect above the least cost technically acceptable standard. The connection charge guideline also sets out how the total connection charge is determined. In brief, it provides that the distributor must:²⁹

- determine the charge for each component of the connection in a fair and reasonable manner, and
- calculate the charge for each component based on the least cost technically acceptable standard necessary for the connection service, unless the connection applicant requests a connection service, or part thereof, be performed to a higher standard in which case the connection applicant should also pay the additional cost of providing the service to the standard requested.

Therefore, connection services are standard control services and any incremental charge to a specific customer is set according to the connection charge guideline. For this reason, we do not accept ActewAGL's proposal that we include 'provision of services above the least cost technically acceptable standard at the customers' request' to our table of services as an alternative control service. This is because a mechanism for calculating the incremental charge already exists and does not need to be set as part of our decision.

²⁴ NER, cl. 6.12.3(b).

²⁵ ActewAGL, *Regulatory proposal resubmitted*, July 2014, p. 342.

²⁶ ActewAGL, *Regulatory proposal resubmitted*, July 2014, p. 342.

²⁷ ActewAGL, *Regulatory proposal resubmitted*, July 2014, p. 342.

²⁸ AER, *Connection charge guideline for electricity retail customers; Under chapter 5A of the National Electricity Rules*, June 2012.

²⁹ AER, *Connection charge guideline for electricity retail customers; Under chapter 5A of the National Electricity Rules*, June 2012, section 2.1.3.

Appendix A: ActewAGL's distribution services

Table 13.1: Draft decision on classification of distribution services – ActewAGL

AER service group/Activities included in service group	Further description (if any)	AER draft decision classification 2014-19	Current classification 2009-14
Network services	Constructing the network; Maintaining the network; Operating the network for DNSP purposes; Planning the network; Designing the network; Emergency response; Administrative support	Standard control	Standard control
Metering services (types 5 to 7)	Commissioning of metering and load control equipment; provision of types 5 to 7 meters; types 5 to 7 metering data services (metering data services involve the collection, processing, storage and delivery of metering data and the management of relevant NMI Standing Data in accordance with the Rules); scheduled meter read; Maintaining and repairing meters and load control equipment; meter test during business hours (refunded if meter proves to be faulty); special meter reading or check read (refunded if original reading was incorrect); install interval meter at customer's request; replace meter to facilitate renewable energy installation.	Alternative control	Alternative control
	Types 5 and 6 metering ancillary administrative services for meter transfer: Administrative services required to complete a customer initiated switch (meter transfer) from a DNSP provided type 5 or 6 meter	Alternative control	Not applicable
Residual type 5 and 6 metering capital costs	Recovery of residual value of any type 5 or 6 meter that is made redundant due to a customer switching meters	Standard control	Not applicable
Connection services	<p>Connection services include:</p> <p>Premises connections - additions or changes to the connection assets located on the customer's premises (Note: excludes all metering services)</p> <p>Extensions - new assets, other than shared network assets, required to connect a power line or facility outside the present boundaries of the transmission or distribution network owned or operated by a Network Service Provider.</p> <p>Augmentations - any shared network enlargement/enhancement undertaken by a distributor which is not an extension</p>	Standard control	Standard control

AER service group/Activities included in service group	Further description (if any)	AER draft decision classification 2014-19	Current classification 2009-14
AER Service group— Ancillary network services			
Re-energise or de-energise a site	Visit to re-energise or de-energise a site - business hours - re-energise	Alternative control	Standard control *Alternative control
	Visit to re-energise or de-energise a site - after hours - re-energise		
	Visit to re-energise or de-energise a site - business hours - de-energise		
	De-energise a site for non-payment*		
	De-energise a site for non-payment - field visit only*		
Temporary connection	Temporary connection - overhead*	Alternative control	*Alternative control
	Temporary connection - standard underground		Standard control
	Temporary connection - free-standing underground		
Remove, reposition or disconnect service	Includes overhead or underground	Alternative control	Standard control
Upgrade services	Upgrade service from single to three phase at customer's request where load does not justify three phase - overhead	Alternative control	Standard control
	Upgrade service from single to three phase at customer's request where load does not justify three phase - underground - service cable replacement not required		
	Upgrade service from single to three phase at customer's request where load does not justify three phase - underground - service cable replacement required		
Rescheduled visit	Rescheduled visit (applied where a revisit to a site is necessitated by obstructed access, non-compliance with the Service and Installation Rules or the client is not ready for the scheduled work)	Alternative control	Standard control
Issues of copies of electrical drawings		Alternative control	Standard control
Covering low voltage mains/Tiger matting		Alternative control	Standard control

AER service group/Activities included in service group	Further description (if any)	AER draft decision classification 2014-19	Current classification 2009-14
Specification and design enquiry charges		Alternative control	Standard control
Non-standard data services (types 5 to 7 metering)		Alternative control	Standard control
De-energising wires (to allow safe approach, for example, for tree pruning, plant operation, oversize loads, construction activities)		Alternative control	Standard control
Large scale embedded generator connection services	Over 30 kW	Alternative control	Standard control with negotiable components
Network studies	<p>A technical network study is usually required for a major new connection or a more complex project. The study identifies:</p> <ul style="list-style-type: none"> ▪ the preferred option for system augmentation and connection ▪ the costs for design ▪ estimated construction costs. <p>This is usually an iterative process where the customer considers various load connection options and scenarios and information and feedback are exchanged multiple times between the customer and ActewAGL before the section of the preferred connection.</p>	Alternative control	

Source: AER analysis.