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Dear Chris

Service Classification Guidelines

AusNet Services welcomes the opportunity to make a submission in response to the Australian Energy Regulator's (AER) draft Service Classification Guideline (the Guideline). AusNet Services supports the AER in developing the Guideline due to the additional clarity they will provide. In particular, we support the move to greater harmonisation between jurisdictions and appreciate that the AER has sought to retain sufficient flexibility to accommodate jurisdictional differences where necessary.

However, the draft Guideline includes a level of detail that we consider would best be left in the explanatory statement. Moving the discussion of specific services and service classifications into the Explanatory Statement would increase the flexibility of the Guideline to address matters that vary between jurisdictions and could change over time.

We would be happy to meet with AER staff to further discuss this letter. If you have any queries in relation to this submission, please contact Michael Larkin, Senior Economist on 03 9695 6346.

Sincerely,



Charlotte Eddy
Manager Economic Regulation
AusNet Services

Submission on Service Classification Guideline

AusNet Services makes the below comments on the Service Classification Guideline.

The Service Classification Guideline goes beyond providing guidance

Classification of services

The NER requires that the AER must publish a Guideline that sets out the approach the AER proposes to take when classifying distribution services and that the Guideline must set out an explanation of the AER's proposed approach. Importantly, the NER does not require that the Guideline set out the service classification that should apply to each service. Indeed, clause 6.2.3 of the NER is clear that "a classification forms part of a distribution determination and operates for the regulatory control period for which the distribution determination is made".

However, the AER's Guideline purports to specify the service classification that is appropriate for each of the baseline services. We consider that the question of the appropriate service classification can only be dealt with in each DNSP's distribution determination and that the Guideline should not set out presumptive service classifications. The Guideline will be a relatively static document and the service classifications set out in Appendix B do not apply to all DNSPs and are only current at the time of publication. It would be preferable if the AER were to provide this detail including Appendix A and B as part of the explanatory statement. This allows the AER to provide additional guidance on their assessment methodology and likely outcome. If the AER adopted this approach, then this information is clearly explanatory in nature, rather than being an operative part of the Guideline.

We note that Clause 6.2.3A(b) of the NER requires the Guideline provide worked examples. To meet this requirement, the AER could choose one or two services to serve as worked examples. However, these examples should be clearly marked as examples and not given presumptive weight in the Guideline.

Departure from the baseline list

We agree with the manner in which the AER has characterised the baseline list of distribution services in the explanatory statement. The AER explains:

The draft Guideline's baseline services list covers most, if not all of the services commonly provided by DNSPs. It serves as a reference point for DNSPs in creating their own list of services. The baseline services have been developed from the service list approved for DNSPs in AER Determinations in recent years.

To be clear, the baseline service is not:

- *an agreed list of services for every DNSPs*
- *an aspirational or benchmark list of services that DNSP should offer, or*
- *a default list of service that we fall back to in the event we do not agree with a DNSP on some aspect of its service list*

Instead the baseline provides a starting point from which DNSPs can modify to reflect the precise services that it provides.

However, the remainder of the Guideline is more prescriptive about the operation of the baseline list of services.¹ Particularly, the Guideline requires that reasons are provided for any departure from the baseline. We consider that the baseline list of services provides a useful reference point for developing lists of services for individual DNSPs. However, once a list of services and their classifications is proposed, the AER's decision should be based on the NER requirements, rather than a comparison against the baseline list.

Recent rule changes specifically removed a presumption in favour of retaining previous classifications. However, in requiring justifications for departure from the baseline list of service, this general principle has been recreated.

DNSP provision of FCAS services

In the explanatory statement, the AER has noted that it will assess applications for FCAS services by DNSPs on a case-by-case basis and has set out its initial thinking on this issue. However, the AER's discussion appears to have a strong presumption against allowing DNSPs to provide these services. In particular, the AER considers these are likely to be unregulated services and require waivers under the Ring-fencing Guideline.

We consider that these services fall would fall within the definition of "activities related to 'shared asset facilitation' of distributor assets" in the baseline list of distribution services, which is a Common Distribution Service and is Standard Control. Further, we consider these services would be treated appropriately under the Shared Asset Guideline. To the degree that there are additional (later costs) to provide these services, we agree that this is dealt with as either a matter of appropriate cost allocation or the costs could possibly be recovered directly under the following service "Third party funded network alterations or other improvements". Either way, there are existing mechanisms to ensure that customers of the distribution network are not disadvantaged and indeed should receive a benefit from DNSPs offering these services.

We consider that the AER may be unnecessarily restrictive in its assessment of these services and risks preventing DNSPs offering these services into the market. AEMO maintains a panel of RERT providers, which are generally not DNSPs. This suggests that DNSPs have not hampered the development of this market. Regardless, allowing DNSPs to participate maximises the use of the distribution networks to minimise the costs of electricity supply to consumers. For example,

- This might avoid load shedding when the system otherwise lacks sufficient supply.
- The inclusion of DNSPs increases competition in the market for these services.

It is hard to see how DNSP participation in these markets is detrimental to customers and the AER should take this into account in considering the appropriate arrangements.

¹ Section 4.2 of the Guideline sets out factors to considered in departing from the baseline.