Consultation Paper

Matters relevant to the framework and approach ACT and NSW DNSPs 2014–2019

Classification of electricity distribution services in the ACT and NSW

December 2011

AUSTRALIAN ENERGY REGULATOR

Request for submissions

Interested parties are invited to make written submissions to the Australian Energy Regulator (AER) regarding this paper by the close of business, Friday 17 February 2012.

Submissions should be sent electronically to: NSWACTelectricity@aer.gov.au

Alternatively, submissions can be sent to:

Mr Warwick Anderson
General Manager – Network Regulation Branch
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

The AER prefers 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 are requested to:

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

All non-confidential submissions will be placed on the AER's website at www.aer.gov.au. For further information regarding the AER's use and disclosure of information provided to it, see the *ACCC/AER Information Policy*, October 2008 available on the AER's website.

Enquires about this paper, or about lodging submissions, should be directed to the Network Regulation branch of the AER on (02) 9230 9133.

Contents

Shortened forms

ASP	Accredited Service Provider
AER	Australian Energy Regulator
CPI	Consumer Price Index
DNSP	Electricity Distribution Network Service Provider
DUOS	Distribution Use of System
F&A	Framework and approach
ICRC	Independent Competition and Regulatory Commission (ACT)
IPART	Independent Pricing and Regulatory Tribunal of NSW
NER	National Electricity Rules
NEL	National Electricity Law
NUOS	Network Use of System
WAPC	Weighted Average Price Cap

1. Introduction

The Australian Energy Regulator (AER) is responsible for regulating distribution network service providers (DNSPs) in the National Energy Market (NEM) under chapter 6 of the National Electricity Rules (NER).

Clause 6.8.1 of the NER states that in anticipation of every distribution determination the AER must publish a framework and approach (F&A) paper. In the ACT, the DNSP is ActewAGL. The NSW DNSPs are Ausgrid (formerly EnergyAustralia), Endeavour Energy (formerly Integral Energy) and Essential Energy (formerly Country Energy).

Although the ACT and NSW are separate jurisdictions, for the purpose of consultation, the ACT and NSW will be discussed together where appropriate.

The AER must commence preparation of its F&A paper for the ACT and NSW by 30 June 2012 and publish its final paper by 30 November 2012.[1] The AER will publish its preliminary positions relating to the matters that must be incorporated in the F&A paper by 30 June 2012.

1.1 Purpose of paper

This paper mainly consults on one aspect relevant to the F&A paper. That is, the classification of distribution services with a particular focus on non-DUOS services.

The AER is undertaking early consultation on matters that are relevant to the F&A paper and to the DNSPs' regulatory proposals. In that context, this paper also provides an opportunity for stakeholders to make submissions on other matters, particularly those listed in section 4.

This paper does not address the factors listed in the NER that the AER must consider when preparing its F&A paper.[2] However, stakeholders are invited to make submissions on matters that relate to these factors. The AER will consider all submissions received from interested parties to develop its views as a pre-cursor to the AER's F&A process.

1.2 Structure of this paper

This consultation paper is structured as follows:

- background
- classification of services
- other matters for consultation
- summary of issues.

1 NER, cl. 6.81.(f).
2 NER, cls. 6.2.1-6.2.3.

2. Background

The NER requires the AER, in anticipation of every distribution determination, to prepare and publish a F&A paper. This process involves the AER setting out whether or not it intends to classify (that is, regulate) distribution services provided by the DNSPs.[3]

Chapter 6 of the NER requires the AER to commence its F&A process at least 24 months before the end of the current regulatory control period. The current regulatory control period for the ACT and NSW DNSPs will end on 30 June 2014. The AER must therefore commence its F&A process by 30 June 2012 and complete it by 30 November 2012.[4]

The upcoming F&A process will be the first time the AER undertakes this process under the NER for the ACT and NSW DNSPs. This is because the AER began regulating the ACT and NSW DNSPs on 1 January 2008, initially operating under transitional provisions set out in the NER.[5] The AER was required to adopt certain aspects of the 2004–09 determinations made by the Independent Pricing and Regulatory Tribunal of NSW (IPART) and the ACT's Independent Competition and Regulatory Commission (ICRC), respectively. Consequently, a F&A process was not undertaken.

The F&A paper aims to assist each DNSP in preparing its regulatory proposal to the AER by:

- setting out the AER's likely approach to, and reasons for, the classification of distribution services during the distribution determination
- stating the form (or forms) of the control mechanisms to be applied by the distribution determination and the AER's reasons for deciding on control mechanisms of the relevant form (or forms)
- setting out the AER's likely approach to the application of schemes, and any other matters on which the AER thinks fit to give an indication of its likely approach
- setting out the AER's determination relating to pricing of transmission standard control services provided by any dual-function assets; and
- indicating the AER's likely approach on any other matter.

The extent to which the positions set out in the F&A paper are then binding on the forthcoming distribution determinations differ among the above matters. In a distribution determination:

- the control mechanisms and dual function assets determination must be as set out in the framework and approach paper[6]
- the service classifications must be as set out in the framework and approach paper unless the AER considers that, in light of the DNSP's regulatory proposal and submissions received, there are 'good reasons' for departing from these classifications;[7] and

3 NER, cl 6.2.1.
4 NER, cl 6.8.1(f).
5 Chapter 11 of the NER.
6 NER, cl 6.12.3(c).
7 NER, cl 6.12.3(b).

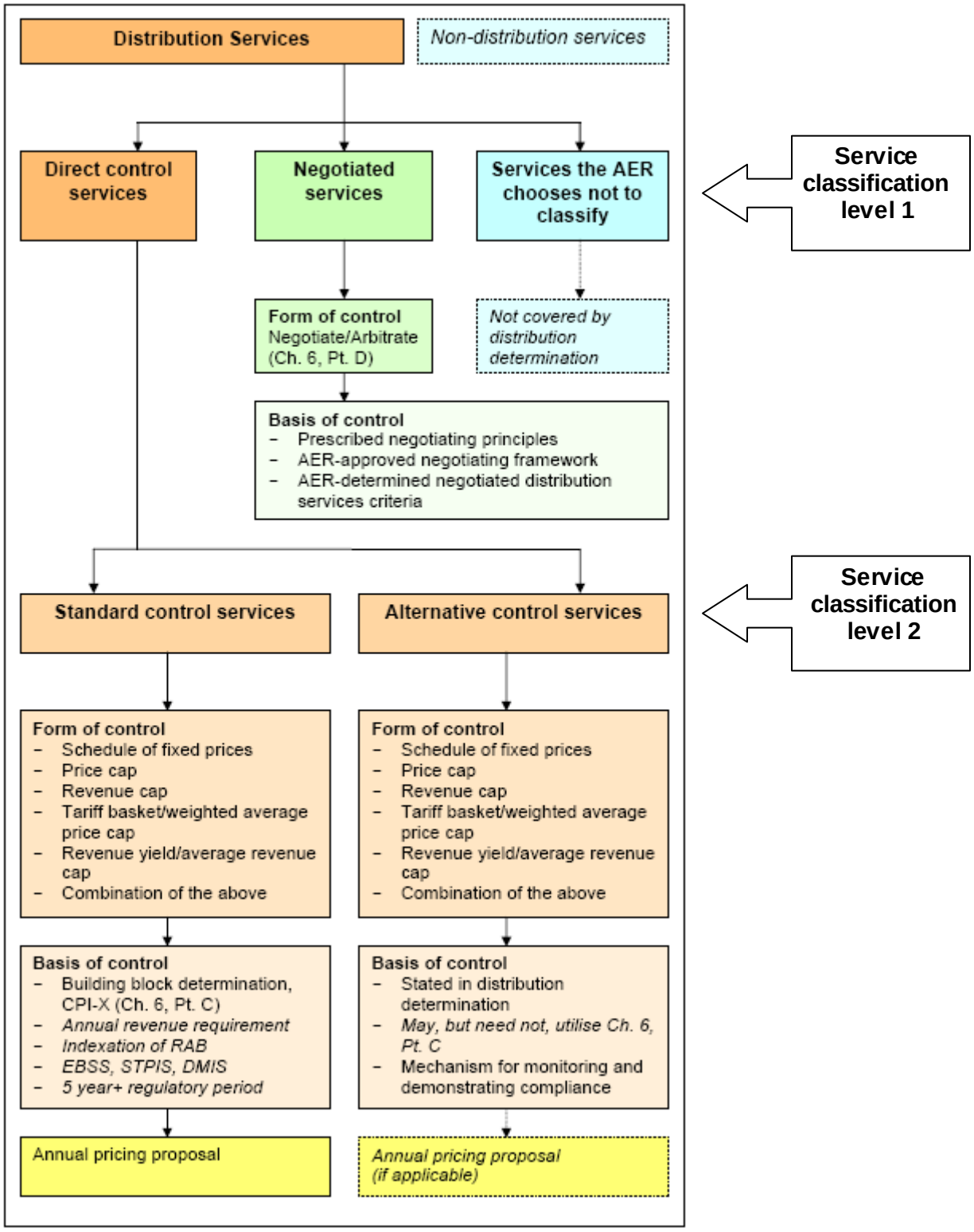
- positions in the F&A paper on the application of the incentive schemes and any other matters are not binding on the AER or DNSP.[8]

The 2014–19 regulatory control period is the first opportunity for the AER to conduct a complete review of the ACT and NSW DNSPs under the general NER, instead of the transitional rules. This allows the AER an opportunity to consider relevant issues including the current definitions and classification of services.

Once a service is classified, the AER must then assign a form of control to that service and set out the basis for that control mechanism.[9] The distribution determination must also set out how compliance with the relevant control mechanism is demonstrated.[10] The service classification and control mechanism process is illustrated in Figure 1.1.

8 NER, cl 6.8.1(h).
9 NER, cl 6.2.5 and 6.2.6.
10 NER, cl 6.12.1(13).

Figure 1.1 Service classification and control mechanisms



Source: NER, chapter 6.

Sections 2.1 and 2.2 outline the steps the AER must consider in making its service classification decision.

2.1 Distribution service

The first step is to determine whether the service provided by the DNSP is a distribution service.

The NER defines a 'distribution service' as 'a service provided by means of, or in connection with, a distribution system'.[11] 'Distribution system' is defined in the NER as:

> a distribution network, which is connected to another transmission or distribution system. Connection assets on their own do not constitute a distribution system.[12]

Costs incurred by DNSPs in relation to services that are not distribution services are not part of the activities regulated by the AER under chapter 6 of the NER. A DNSP's cost allocation methodology (CAM) should allocate these costs to unregulated activities. This ensures that these costs are not recovered via regulated revenues/prices.

2.2 Classification of distribution services

Once a service is determined to be a distribution service, then it must be classified. Service classification is undertaken in a two step process.

Step 1: the AER may choose to classify a distribution service as a:

1. direct control service; or
2. negotiated distribution service.[13]

The AER may also decide against classifying a distribution service. If the AER decides against classifying a distribution service, clause 6.1.2 of the NER provides that the service is not regulated under the NER.

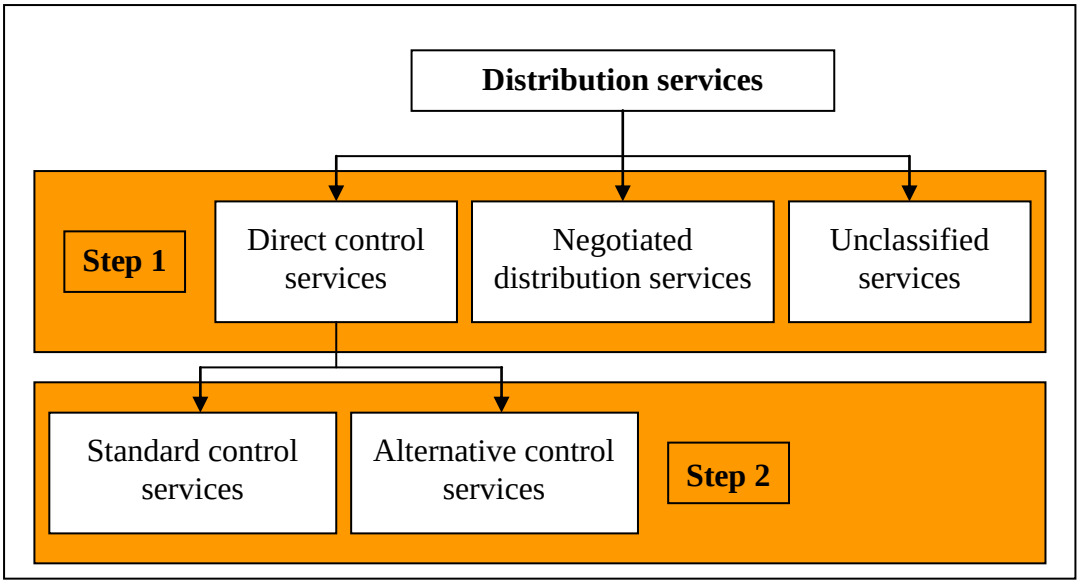
Step 2: where the AER classifies a distribution service as a direct control service it must further classify it as either:

1. a standard control service; or
2. an alternative control service.

Figure 1.2 below outlines the steps in the distribution service classification process. The rule requirements relating to these steps are located in Appendix A.

[11] This definition paraphrases the definition contained in chapter 10 of the NER. In the case of any inconsistency between the definition in this section and that in the NER, the definition in the NER prevails.
[12] NER, chapter 10.
[13] NER, cl 6.2.1(a).

Figure 1.2 Distribution service classification process



Source: NER, chapter 6, part B.

Clause 6.2.1 of the NER forms the basis of the AER's considerations in reviewing the classification of services during the F&A process. As the AER is not stating its positions in this consultation paper, it has not specifically addressed each element of clause 6.2.1 of the NER.

It should be noted that in September 2011 the AER submitted a rule change proposal to the Australian Energy Market Commission (AEMC) to amend chapter 6 of the NER. The upcoming F&A process for the ACT and NSW distribution determinations will commence on or before 30 June 2012. It is unlikely that the proposed rule changes, if implemented, will be in place at that time. The AER considers that the F&A provisions in the current chapter 6 rules will apply to the F&A process for this regulatory review.[14]

Although this paper only considers a selection of issues to be addressed in the F&A process, the starting point, based on the NER and NEL, requires the AER to:

1. consider whether the service is a distribution service; and, if so
2. classify the service.

2.3 Grouping of distribution services

The NER allows the AER to group distribution services together for the purposes of classification.[15] Direct control services may also be grouped for the purpose of classification so a single classification for the group applies to each service comprised in the group.[16]

The AER considers that grouping similar services and applying a classification for each group as permitted by the NER is a reasonable approach to follow in making classification decisions. This approach eliminates the need for every service to be individually classified.

The AER has adopted the grouping approach in distribution determinations in a number of States.[17] Generally, the AER has grouped services as shown in Table 1 and a service

[14] AER Proposal on National Electricity Rules Part A and B, p. 106. Refer to http://www.aemc.gov.au/Electricity/Rule-changes/Open/Economic-Regulation-of-Network-Service-Providers-html.
[15] NER, cl. 6.2.1(b).
[16] NER, cl. 6.2.2(b).

classification has been applied to each group. The AER acknowledges that there could be exceptions to this general classification structure.

Table 1: Service groups adopted by the AER

AER service group
Network services
Connection services
Metering services
Public lighting services
Fee based services
Quoted services
Unregulated services

[17] AER, *Final Decision for Victorian DNSPs*, May 2009; AER, *Final Decision, South Australia distribution determination 2010–11 to 2014–15;* AER, *Final Decision, Queensland distribution determination 2010–11 to 2014–15.*

3. Classification of services

This consultation paper is specifically focussed on the classification of services that are often referred to as non-DUOS services, including:

- miscellaneous and monopoly services (M&M services);
- emergency recoverable works;
- metering services for meter types 1-4;
- customer funded connections;
- customer specific services; and
- metering services for meter types 5–7.

The AER, when applying the NER, will also be guided in part by its treatment of similar services across jurisdictions. It is therefore helpful to include a summary of those positions which will form part of the AER's considerations for the next ACT and NSW regulatory review, and to assist stakeholders in formulating their submissions in response to this consultation paper. Nevertheless, the desirability for consistency in the form of regulation is only one of the factors required to be considered by the AER.

This paper also includes for comment concerns raised by stakeholders relating to the classification of the above services during the assessment of the regulatory proposals for the current regulatory control period. However, due to time constraints and the impact of the transitional provisions, these matters could not be fully considered at that time.

3.1 M&M services and emergency recoverable works

In the 2009–14 NSW distribution determination, M&M services[18] and emergency recoverable works[19] were classified as standard control services.[20] The current definitions for M&M services and emergency recoverable works for the ACT and NSW DNSPs are provided in Appendices B and C respectively.[21] The AER adopted the definitions from ICRC and IPART in its respective determinations without amendment.

A summary of the history of service classifications for M&M services and emergency recoverable works in the ACT and NSW is contained in Appendix D.

Tables 2 to 4 in Appendix E set out a detailed comparison of individual services of a similar nature which have been grouped as M&M services and emergency recoverable works provided by DNSPs across Australia.

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18 Miscellaneous services are non-DUOS services related to the distribution of electricity and include special meter readings, meter testing and disconnection for non-payment. Monopoly services are those related to extensions, augmentations or connection to the network that only DNSPs can perform. For example, design checking, installation inspection and energising/de-energising the network. Refer to Appendix B for a list of M&M services performed by NSW DNSPs and Appendix C for miscellaneous standard control services provided in the ACT.

19 Emergency recoverable works are emergency works undertaken by a DNSP to repair damage to its distribution system that has been caused by a person who is liable for the damage. For example, a motor vehicle colliding with a pole where the driver has been negligent.

20 M&M services and emergency recoverable works were previously classified as 'prescribed distribution services' by IPART however under clause 6.2.3B of the transitional rules they were deemed to be standard control services. Standard control services are typically provided to all customers, or to a broad class of customers, and are generally available only from the incumbent service provider (i.e. they have a monopoly over the provision of those services).

21 These definitions also appear in the appendices D and H to the AER *Final Decisions* for the 2009-14 ACT and NSW electricity distribution determinations, and originate from IPART and ICRC documents respectively.

Table 5 below provides a high level comparative overview[22] of the AER's classification of services similar to M&M services and emergency recoverable works. It also sets out a comparison of the control mechanism applied to each of the service groups across Australia and briefly provides the AER's reasons for each of its determinations.[23]

Table 5: Comparison of M&M services and emergency recoverable works across jurisdictions

AER Determination for	Services provided under group name	Current classification	Current control mechanism applied	AER's Reasons
NSW[24]	Miscellaneous and monopoly services (including emergency recoverable services)	Standard control	Weighted Average Price Cap (WAPC)	M&M services were classified as prescribed distribution services by IPART.[25] Under the transitional Chapter 6 rules, the AER adopted the regulatory approach and control mechanism set out by IPART. IPART decided to regulate miscellaneous services because wide disparities existed in the type and application of charges for these services across the DNSPs. IPART noted that although M&M service charges do not collectively account for a material proportion of the total DNSP revenue, they can be individually significant, particularly for low income consumers.[26] IPART continued to regulate their charges to prevent barriers to entry to non-DNSP contractors engaging in contestable works.[27] IPART began regulating emergency recoverable works using pricing principles to reflect the nature of these works being unpredictable.[28] Notably, a customer in NSW may elect an independent accredited service provider (ASP) to perform some services instead of a DNSP.
ACT[29]	Miscellaneous standard services (excluding emergency recoverable services)	Standard control	Maximum allowable average revenue cap	Miscellaneous standard services have been regulated by the ICRC under its revenue cap regulation and were classified as prescribed distribution services.[30] Under the transitional Chapter 6 rules, the AER adopted the regulatory approach and control mechanism set out by the ICRC. The structure of charges set for miscellaneous services varies depending on the type of service. Some services are charged on a per visit basis, or per installation or test.[31]

22 For full details of the AER's determination in each state or territory, please refer to the relevant source document as referenced throughout this paper. The tables included in this consultation paper are provided for assistance only and should not be solely relied upon.

23 AER, *Proposed positions – framework and approach – classification of services and control mechanisms to Energex and Ergon Energy*, 7 July 2008, p. 16 at para 2.5.2.2 discusses the weight given by the AER to past regulatory approaches. Also see AER, *Preliminary positions on framework and approach for South Australia*, 30 June 2008 from p. 17.

24 AER, *Final Decision, NSW distribution determination 2009–10 to 2013–14, April 2009*, pp. xvi, 448-455 and Appendix G.

25 IPART, *Final Report 2004-09*, p.20.

26 IPART, *Regulation of New South Wales Electricity Distribution Networks*, December 1999, p. 82.

27 IPART, *Regulation of New South Wales Electricity Distribution Networks*, December 1999, p. 85.

28 IPART, *Final Report 2004-09*, p.117.

29 AER, *Final Decision, ACT distribution determination 2009–10 to 2013–14, 28 April 2009*, pp. x, 17 and 179-181.

30 ICRC, *Final Decision, Investigation into prices for electricity distribution services in the ACT,* March 2004, p. 130.

31 ActewAGL Distribution, *Statement of tariffs and tariff classes 2011-12*, June 2011, p.8.

AER Determination for	Services provided under group name	Current classification	Current control mechanism applied	AER's Reasons
SA[32]	Other services (excluding emergency recoverable services)	Negotiated distribution services	Negotiated distribution services are implemented on the basis of the Negotiating Service Criteria and the Negotiating Framework set out in Appendices C and D of the AER's final decision for SA.	On one hand, barriers to entry may exist due to network externalities arising from the interaction between other services and core services (such as a network and connection services). Conversely, the elasticity of demand of some of these other services may be greater than for core distribution services, providing customers with countervailing market power. The less significant nature of many of these services led the AER to conclude that classifying these services as negotiated distribution services is more appropriate.[33]
TAS[34]	Fee based services[35] and network services which include emergency response services	Alternative control services	Price cap	Aurora possesses significant market power in the provision of the fee based services. The economies of scale and scope available to Aurora are also likely to prevent fee base services being competitively provided by an alternative service provider in Tasmania.
VIC[36]	Quoted services (includes emergency recoverable works) and fee-based services	Alternative control services	Fee based services: A price cap for 2011 prices and a CPI–X price path for 2012–15. Quoted services: A cap on the hourly labour rates for 2011 and a CPI–X price path for 2012–15.	There is a regulatory barrier to any party other than the Victorian DNSPs providing quoted services. The economies of scale and scope available to a Victorian DNSP, in particular in relation to its network services, are also likely to prevent quoted services being competitively provided by an alternative service provider.[37] There is very little prospect for the development of competition in the provision of these services. The AER considers that the application of a price cap control mechanism will not have any material impact on competition for the supply of alternative control services or impede the development of competition for the supply of these services.
QLD[38]	Quoted services[39] (includes emergency recoverable works) and fee-based services	Alternative control services	A price cap control mechanism in the first regulatory year of 2010 and a price path for the remaining regulatory years to 2015.	The potential for competition exists in the market for these services. This classification will not impede this development.[40] The AER recognised that the scope of the work for each quoted service is not known prior to the service being undertaken and therefore these services are provided on a price on application basis. The control mechanism applied allows for variable nature of quoted services.

3.1.1 Stakeholder concerns

In its 2009–14 distribution determination for NSW DNSPs, the AER applied a schedule of fixed prices for the provision of M&M services and emergency recoverable works. This approach was

32 AER, *Final Decision, South Australia distribution determination 2010–11 to 2014–15*, November 2008, pp. 284-285, 292-316.
33 AER, *Final F&A paper for ETSA Utilities 2010-15*, November 2008, p. 29.
34 AER, *Final F&A decision for Aurora Energy Pty Ltd*, November 2010, pp. 78-79, 139 and 140.
35 Fee based services are services provided by DNSPs on a fixed fee basis to retailers and customers. These services are generally homogenous in nature and scope and therefore their costs can be estimated with reasonable accuracy. This means that a fixed fee can be set in advance for the provision of these services.
36 AER, *Final Decision for Victorian DNSPs*, May 2009, pp. XII, LXIV, 54 and 906.
37 AER, *Final F&A paper for Victorian electricity distribution regulation*, May 2009, p.57.
38 AER, *Final Decision, Queensland distribution determination 2010–11 to 2014–15*, May 2010. See Appendices I to K, pages 352-353, 451-460.
39 Quoted services are services provided to retailers and customers on a quoted fee basis. The nature and scope of these services are specific to an individual retailer's or customer's needs, and therefore the costs of providing these services cannot be estimated without first understanding the retailer's or customer's requirements. This means a DNSP must set individual prices for these types of services.
40 AER, *F&A proposed positions paper, classification of services and control mechanisms for Energex and Ergon Energy 2010-15*, July 2008, p.48.

generally consistent with IPART's approach in the previous regulatory period. Nevertheless, the AER, in addition to CPI increases, recognised and allowed for real labour cost increases.[41] The prices for these M&M services and emergency recoverable works were considered a (fixed) part of the WAPC that is currently applied to NSW DNSPs.[42]

For ActewAGL's standard control services the AER adopted a maximum allowable average revenue cap consistent with what was applied by ICRC in the previous regulatory period. Miscellaneous standard services were included in this control mechanism for the 2009–14 regulatory control period.[43]

Some stakeholders raised concerns about the issue of cost reflectivity of M&M services and emergency recoverable works. Appendix D contains further details of submissions received from DNSPs. Ausgrid (formerly EnergyAustralia) also sought to have emergency recoverable works unclassified and therefore outside the regulatory control of the AER.[44]

As part of the 2009–14 regulatory review, the AER adopted the status quo, primarily on the basis that there was insufficient time to conduct a considered review, but noted that these matters would be closely examined for the 2014–19 decisions.[45]

Question 1

The AER seeks comments on whether:

A. M&M services and emergency recoverable works are appropriately:
   - grouped for the purpose of classification; and
   - classified as standard control services in the ACT and NSW.

B. The adoption of a national approach for treatment of these services is desirable, with regard to the following questions:
   - Are all M&M services and emergency recoverable works 'distribution services'?
   - Considering the current grouping of services set out in Table 1, what is the most appropriate grouping for these services – as a whole or individually?
   - Considering the definitions in Appendices B and C, should the AER, in the context of the comparisons set out in Appendix E, move towards a more national approach to these descriptions. If so, which are the more appropriate definitions?
   - Should a national approach and common classification across jurisdictions for similar services be adopted?
   - Should emergency recoverable works be unclassified?

C. The control mechanism applied to M&M services and emergency recoverable works is appropriate and results in cost reflective prices.

41 AER, *Final Decision, NSW distribution determination 2009-10 to 2013-14*, April 2009, p.59.
42 AER, *Final Decision, NSW distribution determination 2009-10 to 2013-14*, April 2009, p.58
43 AER, *Draft Decision, ACT distribution determination 2009-10 to 2013-14*, 7 November 2008, p. 24.
44 Summaries of the DNSPs submissions can be found in the AER's 2009 Final Decision.
45 AER, *Final Decision, NSW distribution determination 2009-10 to 2013-14*, April 2009, p. 58.

3.2 Excluded distribution services in ACT and NSW

Transitional chapter 6 rules of the NER state that the services determined by IPART to be excluded distribution services in NSW should be classified as unregulated services, except for the construction and maintenance of public lighting infrastructure.[46] Public lighting services were deemed to be alternative control services. The transitional rules required that the NSW DNSPs substantially comply with the requirements of IPART's Excluded Distribution Services Rules in the 2009–14 regulatory control period, with respect to the unregulated services.[47]

The transitional rule applicable to ActewAGL provided that the only excluded service in the ACT was metering services provided to users consuming less than 160 megawatt hours per annum (meter types 5–7).[48]

The transitional rules allowed the AER to make variations to these deemed classifications with the agreement of the DNSP. No such variations were made by the AER.[49]

The deemed unregulated services for the NSW DNSPs were:

- *Metering services*: metering services for types 1-4 meters include meter supply, installation and maintenance, meter reading and meter tests. Types 1-4 meters are mandated for customers with loads greater than 160 megawatt hours per annum. As noted by IPART, metering services for types 1-4 meters have been contestable since full retail competition was introduced in 2002.[50]

- *Customer funded connections*: design and construction of new connection assets; design and construction of customer-funded network augmentations.

- *Customer specific services*: services requested by the customer which includes; asset relocation works, conversion to aerial bundled cable; temporary, stand-by, reserve or duplicate supplies; and other non-standard customer-requested services. (However, recoverable work undertaken by DNSPs in emergency conditions and separately defined monopoly services are prescribed distribution services).[51]

In all NEM jurisdictions, metering services for meter types 1–4 are unclassified as these are provided in a competitive market. The AER also recognises that in NSW, customer funded connections are provided via a competitive market through the accredited service provider scheme.

The AER, pursuant to chapter 5A of the NER, is developing a connections charge guideline. This guideline will set out DNSP charges for electricity customers for connecting to their networks. This guideline under chapter 5A will result in a nationally consistent approach to the charging for connection services. The current AER classification of connection services and customer specific services across the NEM is shown in Table 6.

46 NER, cl 6.2.3B(b) Appendix 1.
47 NER, cl 6.2.3B(c) Appendix 1.
48 NER, cl 6.2.3C, Appendix 1.
49 NER, cl 6.2.3B(i) and 6.2.3C(c).
50 IPART, *Final Report* 2004-09 p.174.
51 IPART, *Final Report* 2004-09 p.12.

Table 6: Comparison of customer funded connections and customer specific services

	Customer funded connections		Customer specific services	
	Activity description	**Classification**	**Activity description**	**Classification**
NSW service	Design and construction of new connection assets; design and construction of customer-funded network augmentations	Unregulated	Services requested by the customer which includes: asset relocation works; conversion to aerial bundled cable; temporary, stand-by, reserve or duplicate supplies, other customer-requested services which are non-standard	Unregulated
ACT equivalent service	Customer initiated replacements and relocations.	Standard control	Miscellaneous services	Standard control
QLD equivalent service	Design and construction of large customer connections	Alternative control	Services provided on a quoted service basis	Alternative control services
VIC equivalent service	New connections requiring augmentation works	Standard control	Services provided on a quoted service basis	Alternative control services
SA equivalent service	The provision of connections to the extent that a distribution network user is required to make a financial contribution in accordance with the Electricity Distribution Code.	Negotiated services	Non-standard and customer requested services	Negotiated services
TAS equivalent service	Where capital contributions are made by customers. That is, the customer contributes upfront to the cost of connection services.		Aurora (TAS DNSP) provides a range of non-standard services on a quoted service basis.	Alternative control

3.2.1 Stakeholder concerns

During the 2009–14 regulatory review, Ausgrid proposed that:

- Metering services (types 1-4) and customer funded connections should be reclassified as 'unclassified' services, as these services form part of a competitive market making regulation unnecessary.

- Customer specific services are not 'distribution services' and therefore should not fall within the scope of the AER's determination.

3.2.2 Connections services

The AER's connection charge guideline is expected to be published around March 2012, and must be in place by 30 June 2012. As such, the final connection charge guideline will be in place before the official F&A process for NSW commences, which will allow the F&A process to proceed with certainty in regard to the AER's connection charge guideline.

The AER considers that with the publication of the connection charge guideline, the AER can begin to achieve more consistency in how customers are charged for connection services across jurisdictions. However, noting the jurisdictional differences regarding current service classifications, it is unlikely that the AER will apply the same service classifications for connection services in every jurisdiction.

Components of Connection Services

Based on chapter 5A, the AER considers that a typical connection can be separated into at least four separate components. The AER considers that these components of a connection are sufficiently distinct that they may appropriately be classified differently and have different forms of control applied. In general, the distinct components of a connection are: [52]

- Direct Connection Assets[53] – assets that link the DNSPs distribution network to the customers' installation.[54]
- Extensions – an augmentation that requires the connection of a power line or facility outside the present boundaries of the transmission or distribution network owned, controlled or operated by a Network Service Provider.[55]
- Shared Network Augmentation – augmentation of a transmission or distribution system to increase its capacity to transmit or distribute electricity. (This is all augmentations other than extensions to the transmission or distribution system to extend the area of coverage). [56]
- Administration, design, certification and inspection.

The AER's F&A process will determine a precise definition of these connection services, for each jurisdiction.

New South Wales

NSW appears to have a working and competitive market for connection services, including direct connection, extensions and parts of shared network augmentations directly associated with network extension works. This means that the construction of components of a connection funded by a customer[57] through the contestability framework of NSW (the ASP scheme) could be an unclassified distribution service. The AER understands that DNSPs are also registered as ASP under a ring-fence arrangement to provide independent service to customers, such as in regional areas where other ASPs are not available.

NSW already appears to have robust definitions of the administration, design, certification and inspection components of a connection (see Appendix C). While these are currently classified as

52 NER, chapter 5A.
53 Also referred to as 'premises connection assets' at cl 5A.A.1 of the NER.
54 In NSW this would include any assets between the connection point and the point of supply, as defined in accordance with the Service and Installation Rules of NSW – Amendment 4 July 2011.
55 National Electricity Rules, glossary.
56 Augmentation is defined in the NER. However, the definition provides that network extensions are a subset of an augmentation. The AER considers that extensions and shared network augmentation are sufficiently distinct that differing forms of regulation can be meaningfully applied. As such, the AER considers that augmentation of the shared network needs to be defined as a separate distribution service, and have a form of regulation applied accordingly.
57 The AER understands that, where appropriate, DNSPs currently fund part of the shared network augmentation undertaken by ASPs as part of the connection asset construction works.

standard control services, these may be better classified as alternative control services, because the costs appear to be easily attributable to the customer seeking the connection.

Australian Capital Territory

Under the grouping approach adopted by the AER, connection services in the ACT are likely to be grouped and classified separately with an appropriate form of control applied.

As a starting point, the costs associated with the direct connection; extension; and administration, design, certification and inspection components of a connection can be readily attributable to the customer who requires the connection.[58] To achieve efficient price signalling, customers should generally be charged the attributable costs that they impose on the network.

The costs associated with augmenting the shared network are less attributable to a particular customer and therefore a standard control classification may be more appropriate. The AER's connection charge guideline could allow, in some circumstances, a capital contribution towards the costs of standard control connection services. The method of determining any capital contribution for standard control services will be set out in the AER's connection charge guideline.

Question 2

Metering (types 1-4) and customer specific services

The AER seeks comments on whether:

A. types 1-4 metering services and customer specific services should be regulated by the AER; and if so

B. the current definitions for types 1-4 metering services and customer specific services are appropriate, and if not what the definitions should be

C. the control mechanism adopted:

- is appropriate; and if not
- what the control mechanism should be.

Connection Services

The AER seeks comments on:

A. splitting a new connection into at least four distribution services, and to apply an appropriate service classification and form of control to each component of the connection.

B. the definition of each of these connection services in NSW and the ACT.

C. the service classification to apply to these connection services, with the following questions in mind:

- is the ASP scheme and level of competition in NSW sufficient that the AER does not need to regulate connection services?
- are there any deficiencies in the NSW ASP scheme which can be addressed by the AER

[58] NER, cl 6.2.2.

through an alternative service classification or form of control?

- will the shared network augmentation requirement that new connections impose on the network be harder to attribute to an individual customer?
- currently in NSW connections requiring augmentation are unregulated and the new connecting customer may be required to pay the full cost of any augmentation to an ASP. Is this an appropriate manner to charge for augmentation?
- is moving towards an alternative control service classification, for most components of a connection, appropriate in the ACT?

3.3 Metering services types 5–7

Metering services (types 5–7) was previously classified as a prescribed distribution service by IPART.[59] Under the transitional chapter 6 rules, any DNSP distribution services previously classified by IPART as prescribed distribution services were deemed to be direct control services and further classified as standard control services in the 2009–14 regulatory control period.[60]

Metering services (types 5–7) in the ACT are primarily classified as an excluded distribution service and deemed to be an alternative control service under the transitional rules. [61]

The cost of providing metering services are currently grouped or charged with other services provided by local network service providers and include meter provision and meter data services. Metering services (types 5–7) apply to consumers who use less than 160 megawatt hours per annum[62] and includes:

- meter testing
- meter reading
- meter checking
- the process of metering data; and
- the provision of non-standard meters.[63]

Table 7 below, provides a comparative overview of the treatment of metering services (types 5–7), across Australia.

59 IPART, *Final Report, New South Wales Electricity Distribution Pricing 2004–05 to 2008–09*, p. 174.
60 AER *Final Decision, Control Mechanism for alternative control services for ACT and NSW 2009 distribution determinations*, p. xiv.
61 AER, *Draft Decision, ACT distribution determination 2009–10 to 2013–14*, 7 November 2008, p. 7.
62 IPART, *Final Report, New South Wales Electricity Distribution Pricing 2004–05 to 2008–09*, p. 174.
63 AER, *Statement on control mechanisms for alternative control services for the ACT and NSW 2009 distribution determinations*, p. 2.

Table 7: Comparison of types 5–7 meter services across Australia

AER Determination for	Current classification	Current control mechanism applied	AER's Reasons
NSW[64]	Standard control services	WAPC	Under clause 6.2.3B Appendix 1 of the NER, the AER adopted the regulatory approach and control mechanism set out by IPART.
ACT[65]	Alternative control services	Total revenue control mechanism	The AER adopted the approach set out by the ICRC. The maximum allowable revenue is subject to movements in the consumer price index (CPI).
SA[66]	Alternative control services	WAPC	The classification of metering services and the application of a separate WAPC aims to facilitate competition by reducing the barriers to entry faced by other providers of metering services in the South Australian market.
TAS[67]	Alternative control service	A price cap	Regulatory barrier exists for businesses to enter this market and provide standard metering services in competition to Aurora.
VIC[68]	**N/A** Standard metering services for small customers are comparable to an alternative control service classification given that charges for these metering services were set separate to the DUOS charges.		The AER reviews and approves the budgets and charges for the rollout of AMI according to the 2008 AMI Order in Council.
QLD [69]	Standard control	Maximum allowable revenue	The maximum allowable revenue is increased each year by the CPI. There is a lack of potential for competition to develop in this market in the regulatory period.

3.3.1 Stakeholder concerns

Concerns have been raised that the cost of providing metering services (types 5–7) is not accurately reflected in the amount charged and that the provision of these services should be distinguished from other DUOS services.

Charges for metering services (types 5–7) are set by the DNSPs as part of their Network Use of System (NUOS) charges and are applied to the retailers. These costs are then passed on by the retailers to end-use consumers.

During the AER's 2009–14 regulatory review for NSW DNSPs, an electricity retailer called for metering services (types 5–7) to be separated from NUOS charges. The submission highlighted the potential double counting of these meter service charges, which may impede the adoption of innovative meter technologies. It was also claimed that when metering charges are incorporated with NUOS charges, their costs are 'smeared' within NUOS charges. [70]

It was submitted that separating charges for this service would increase the number of small customers who voluntarily install smart meters, and while it remains grouped as a part of NUOS, it creates a significant barrier to the alternative provision of metering services. [71]

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64 AER, *Final Decision, Control mechanism for direct control services for the ACT and NSW 2009 distribution determinations*, February 2008, p. 4.

65 AER, *Final Decision, Control Mechanism for alternative control services for ACT and NSW 2009 distribution determinations*, pp.8-9.

66 AER, *Final Decision, South Australia Draft distribution determination 2010 –11 to 2014-15*, 25 November 2009, p. ix.

67 AER, *Final F&A decision for Aurora Energy Pty Ltd*, November 2010, pp. 15, 24 and 68-69.

68 AER, *Preliminary positions, framework and approach paper, VIC DNSPs, regulatory control period commencing 1 January 2011*, 19 December 2008, p. 11.

69 AER, *Final Decision, Queensland distribution determination 2010–11 to 2014–15*, May 2010. See pp. 16, 26 and 379.

70 A NUOS charge is the access charge for use of the transmission, sub-transmission and distribution system for the supply of electricity to customers' premises. NUOS charges consist of Distribution Use of System (DUOS) charges, Transmission Use of System (TUOS) costs and other pass through amounts.

71 AER, *Final Decision, New South Wales distribution determination 2009–10 to 2013–14*, April 2009, p. 14.

Ultimately, the electricity retailer was seeking transparency in costs by separating certain services so it can demonstrate where savings may be available to customers. This transparency is achieved by directly attributing the meter costs to each customer by a specific meter services charge.

Question 3

The AER seeks comments on whether:

A. metering services (types 5–7), as adopted in the current determinations, are appropriate.

B. the issue of metering services (types 5–7) being charged with DUOS charges is still current

C. metering services (types 5–7) should be separated from DUOS charges

D. if metering services (types 5–7) are separated from DUOS charges, what type of service should they be classified as and what control mechanism should be applied?

4. Other matters for consultation

The AER's intended consultation process in the lead up to the F&A process is not part of the distribution consultation procedure contained in the NER. Rather, the AER seeks to engage with stakeholders to gather information to feed into the F&A process detailed in Table 8.

Table 8: Process for preparation of and consultation on F&A paper

Date	Item
30 June 2012	Framework and approach proposed position paper published
Mid July 2012*	Stakeholder forum
August 2012*	Submissions on proposed positions F&A paper close
30 November 2012	Framework and approach position paper published
31 May 2013	DNSPs regulatory proposal due to AER

* *These timeframes are indicative only*

In the coming months, the AER intends to engage in discussions on a range of topics that are covered in or relate to the F&A process including:

- revenue cap versus price cap;
- public lighting;
- incentive schemes; and
- dual-function assets.

The AER is conscious that there may be stakeholders who wish to make submissions on these topics and would like to hear from those interested parties early in the process. Interested parties are also encouraged to raise any other issues of concern not listed with the AER as early as possible.

5. Summary of issues for discussion

The 2014–19 regulatory review is the first opportunity for the AER to make a distribution determination under chapter 6 of the NER for the ACT and NSW DNSPs and give proper consideration to a range of issues relating to the definitions and classification of non-DUOS services.

This consultation paper seeks input from stakeholders on the definitions and classification of the above services as well as control mechanisms in the lead up to F&A process.

The following is a collated list of issues for discussion identified throughout the body of this consultation paper. The AER seeks submissions, reflecting on the relevant requirements of the NER and NEL, from all interested stakeholders by 17 February 2012.

Question 1

The AER seeks comments on whether:

A. M&M services and emergency recoverable works are appropriately:
   - grouped for the purpose of classification; and
   - classified as standard control services in the ACT and NSW.

B. The adoption of a national approach for treatment of these services is desirable, with regard to the following questions:

   - Are all M&M services and emergency recoverable works 'distribution services'?
   - Considering the current grouping of services set out in Table 1, what is the most appropriate grouping for these services – as a whole or individually?
   - Considering the definitions in Appendices B and C, should the AER, in the context of the comparisons set out in Appendix E, move towards a more national approach to these descriptions. If so, which are the more appropriate definitions?
   - Should a national approach and common classification across jurisdictions for similar services be adopted?
   - Should emergency recoverable works be unclassified?

C. The control mechanism applied to M&M services and emergency recoverable works is appropriate and results in cost reflective prices.

Question 2

Metering (types 1-4) and customer specific services

The AER seeks comments on whether:

A. types 1-4 metering services and customer specific services should be regulated by the AER; and if so

B. the current definitions for types 1-4 metering services and customer specific services are appropriate, and if not what the definitions should be

C. the control mechanism adopted:

- is appropriate; and if not
- what the control mechanism should be.

Connection Services

The AER seeks comments on:

A. splitting a new connection into at least four distribution services, and to apply an appropriate service classification and form of control to each component of the connection.

B. the definition of each of these connection services in NSW and the ACT.

C. the service classification to apply to these connection services, with the following questions in mind:

- is the ASP scheme and level of competition in NSW sufficient that the AER does not need to regulate connection services?
- are there any deficiencies in the NSW ASP scheme which can be addressed by the AER through an alternative service classification or form of control?
- will the shared network augmentation requirement that new connections impose on the network be harder to attribute to an individual customer?
- currently in NSW connections requiring augmentation are unregulated and the new connecting customer may be required to pay the full cost of any augmentation to an ASP. Is this an appropriate manner to charge for augmentation?
- is moving towards an alternative control service classification, for most components of a connection, appropriate in the ACT?

Question 3

The AER seeks comments on whether:

A. metering services (types 5–7), as adopted in the current determinations, are appropriate.

B. the issue of metering services (types 5–7) being charged with DUOS charges is still current.

C. metering services (types 5–7) should be separated from DUOS charges.

D. if metering services (types 5–7) are separated from DUOS charges, what type of service should they be classified as and what control mechanism should be applied?

Appendix A – Steps in classification of distribution services

Step 1: Division of distribution services into direct control, negotiated distribution and unregulated services

When classifying distribution services as either direct control services or negotiated distribution services, the AER must have regard to all of the four factors in clause 6.2.1(c):

(1) the form of regulation factors in section 2F of the NEL;

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

- 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;

- 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;

- 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;

- 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;

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

- 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.

(2) the form of regulation (if any) previously applicable to the relevant service or services and, in particular, any previous classification under the present system of classification or under the previous regulatory system (as the case requires); and

(3) the desirability of consistency in the form of regulation for similar services (both within and beyond the relevant jurisdiction); and

(4) any other relevant factor.

In addition, clause 6.2.1(d) provides that:

In classifying distribution services that have previously been subject to regulation under the present or earlier legislation, the AER must act on the basis that, unless a different classification is clearly more appropriate:

(1) there should be no departure from a previous classification (if the services have been previously classified); and

(2) if there has been no previous classification – the classification should be consistent with the previously applicable regulatory approach.

Step 2: Division of direct control services into standard control and alternative control services

In classifying direct control services as either standard control services or alternative control services, the AER must have regard to all of the six factors in clause 6.2.2.(c) of the NER:

(1) the potential for development of competition in the relevant market and how the classification might influence that potential;

(2) the possible effects of the classification on administrative costs of the AER, the DNSP and uses or potential users;

(3) the regulatory approach (if any) applicable to the relevant service immediately before the commencement of the distribution determination for which the classification is made;

(4) the desirability of a consistent regulatory approach to similar services (both within and beyond the relevant jurisdiction);

(5) the extent that costs of providing the relevant service are directly attributable to the customer to whom the service is provided; and

(6) any other relevant factor.

Appendix B - Definitions for miscellaneous standard control services (ACT)

Definitions for miscellaneous standard control services from ACT distribution determination 2009–2014

D.1 For a visit to re–energise or de–energise a premises

D.1.1 Business hours – de–energise

A site visit to a customer's premises between the hours of 7.00 am and 5.00 pm on a working weekday or on a Saturday for the purpose of disconnecting (remove fuse) the customer's supply of electricity.

D.1.2 De–energise premises for non-payment

A site visit to a customer's premises to disconnect the supply of electricity to a customer for breach by the customer of a customer supply contract or a customer connection contract, or where a retail supplier has requested that the supply to the customer be disconnected.

D.1.3 Business hours – re–energise

A site visit to a customer's premises between the hours of 7.30 am and 4.00 pm on a working day to reconnect (insert fuse) the supply of electricity following the disconnection in paragraphs D.1.1 and D.1.2.

D.1.4 After hours – re–energise

A site visit to a customer's premises outside the hours of paragraph D.1.3 to reconnect the supply of electricity following the disconnection in paragraphs D.1.1 and D.1.2, at the request of a customer.

D.1.5 Field visit read only (for de–energisation non-payment)

A site visit to a customer's premises to read the customer's meter when the supply of electricity to that customer was scheduled for a de–energise premises for non–payment.

D.2 Temporary connections

D.2.1 Overhead

Site visits to install, dismantle, connect, disconnect, and inspect mains, lines and apparatus of a single or three phase temporary builders' supply where the electricity is supplied by overhead service cables.

D.2.2 Standard underground

The standard underground supply in a permanent location does not incur a charge unless re–visits are required. Site re–visits to install, dismantle, connect, disconnect, and inspect mains, lines and apparatus of a single or three phase temporary builders' supply where the electricity is supplied by underground service cables. The temporary supply is provided through a meter box installed in the permanent location.

D.2.3 Free–standing underground

Site visits to install, dismantle, connect, disconnect, and inspect mains, lines and apparatus of a single or three phase temporary builders' supply where the electricity is supplied by underground service cables. The temporary supply is provided through a specially erected temporary meter box.

D.3 Modify service connection

D.3.1 Overhead: remove, reposition or disconnect service
A site visit to a customer's premises to remove, reposition or disconnect the customer's supply of electricity where the electricity is supplied by overhead service cables.

D.3.2 Underground: remove, reposition or disconnect service
A site visit to a customer's premises to remove, reposition or disconnect the customer's supply of electricity where the electricity is supplied by underground service cables.

D.4 Upgrade service from single to three phase

D.4.1 Overhead
A site visit to a customer's premises to upgrade the service from single to three phase at the customer's request where load does not justify three phase 434 and where the electricity is supplied by overhead service cables.

D.4.2 Underground–service cable replacement not required
A site visit to a customer's premises to upgrade the service from an existing single phase supply to three phase at customer's request where load does not justify three phase supply, but the customer requests three phase for other reasons. The customer is supplied already by the three phase underground service cable connected for a single phase supply and an installation of a new cable is not required to upgrade to three phase supply.

D.4.3 Underground–service replacement required
A site visit to a customer's premises to replace the single phase service with the three phase service at customer's request where the electricity is supplied by single phase underground service cables. The customer requests a three phase supply for other reasons, but the load does not justify the three phase supply. The existing single phase cable has to be replaced with a new three phase service cable.

D.5 Other miscellaneous services

D.5.1 Installation defect

Re–visiting a site following obstructed access at previous visit or site visit due to non–compliance with the DNSP's service and installation rules.

D.5.2 Issue of copies of electrical drawings
Provision of copies of electrical drawings that show existing low and high voltage circuitry (geographically and schematically) and adjacent project drawings to enable the preparation of a design drawing and submit it for certification.

D.5.3 De–energising wires
De–energising wires to allow safe approach, for example, for tree pruning, plant operation, oversize loads and construction activities.

D.6 Operational and maintenance services for small embedded generators other than residential (photovoltaic)

D.6.1 Connection assets

The service relating to ongoing maintenance and operations of assets connecting an embedded generator to the distribution network. For mixed use connection assets (i.e. assets which connect load as well as embedded generation), only a proportion of the service relating to embedded generation is attributed to the generator.

D.6.2 Shared network assets

The service relating to ongoing maintenance and operations of shared network assets used by an embedded generator. For mixed use shared assets (i.e. assets which are used for load as well as for embedded generation), only a portion of the service relating to embedded generator is attributed to the generator.

Appendix C - Definitions and charges for non-DUOS distribution services (NSW)

Definitions for non-DUOS distribution services from NSW distribution determination 2009-2014

Definitions of miscellaneous services

1.1 Supply of Conveyancing Information desk inquiry

The provision of information regarding the availability of supply, presence of the DNSP's equipment, power lines and like information for property conveyancing purposes undertaken without any physical inspection of a site, other than the provision of information or the answering of inquiries relating to any matter under freedom of information legislation.

1.2 Supply of conveyancing information field visit

The provision of information regarding the availability of supply, presence of the DNSP's equipment, power lines and like information for property conveyancing purposes undertaken by a physical inspection of a site, other than the provision of information or the answering of inquiries relating to any matter under freedom of information legislation.

1.3 Meter test

The testing of a meter in accordance with clause 6.4 of the Market Operations Rule (NSW Rules for Electricity Metering) No. 3 of 2001 (except for metering installation types 1–4, the testing of which is an unregulated distribution service).

1.4 Special meter reading

This service:

- has the same meaning as the meaning given to the expression 'special meter read' in the Market Operations Rule (NSW Rules for Electricity Metering) No. 3 of 2001 (but excludes any special meter reading of metering installation types 1–4, which is an unregulated distribution service);

  and applies in each of the following circumstances:

- where a customer or a retail supplier requests that the DNSP undertake a special meter read, (but does not apply where the special meter read was requested solely to verify the accuracy of a scheduled meter read and the special meter read reveals that the scheduled meter read was inaccurate or in error); or

- where the DNSP attends at a customer's premises for the sole purpose of discharging the DNSP's obligation to read the customer's meter within the period specified by law (but not where the DNSP merely chooses to read the customer's meter without being under a legal obligation to do so) and on attending the customer's premises the DNSP is unable (through no act or omission of the DNSP), to gain access to the meter; or

- where the DNSP and the customer agree on an appointed time at which the DNSP may attend the customer's premises to enable the DNSP to discharge the DNSP's legal obligation referred to in section G.1.4(3) and when the DNSP attended at the customer's premises at the

appointed time the DNSP (through no act or omission of the DNSP), was unable to gain access to the customer's meter.

1.5 Disconnection visit (acceptable payment received)

A site visit to a customer's premises on an occasion for the purpose of disconnecting the customer's supply for breach by the customer of a customer supply contract or a customer connection contract, where the disconnection does not occur on that occasion.

1.6 Disconnection at meter box

A site visit to a customer's premises to:

- disconnect the supply of electricity to a customer via either the main switch or service fuse removal for breach by the customer of a customer supply contract or a customer connection contract, or where a retail supplier has requested that the supply to the customer be disconnected; and

- reconnect the supply following the disconnection in section G.1.6(1).

1.7 Disconnection at pole top/pillar box

A site visit to a customer's premises to:

- disconnect the supply of electricity to a customer at the pole top or pillar box for breach by the customer of a customer supply contract or a customer connection contract, or where a retailer supplier has requested that the supply to a customer be disconnected, where the customer has denied access to the meter or had prior to the visit, reconnected supply without authorisation by the DNSP following a previous disconnection; and

- reconnect the supply, following the disconnection in section G.1.7(1).

1.8 Rectification of illegal connection

Work undertaken by a DNSP to the property of the DNSP or to the property of another person in order to:

- rectify damage; or
- prevent injury to persons or property,

resulting from conduct that constitutes an offence under part 6, division 1 of the *Electricity Supply Act* 1995 (NSW).

1.9 Off–peak conversion

The alteration of the off–peak meter at a customer's premises for the purpose of changing the hours of the meter's operation.

1.10 Reconnection outside normal business hours

- The provision of the reconnection component of the service described in sections G.1.6(2) and G.1.7(2) outside the hours of 7.30 am and 4.00 pm on a working day, at the request of a customer; or

- The connection of electricity to a new customer outside the hours of 7.30 am and 4.00 pm on a working day at the request of the customer.

Definitions of monopoly services

2.1 Design information

The provision of information by a DNSP to enable an ASP accredited for level 3 work to prepare a design drawing and to submit it for certification.

This may include without limitation:

1. deriving the estimated loading on the system, technically known as the ADMD (after diversity maximum demand). This estimate depends on such factors as the number of customers served and specific features of the customer's demand

2. copying drawings that show existing low and high voltage circuitry (geographically and schematically) and adjacent project drawings

3. specifying the preferred sizes for overhead wires (conductors) or underground wires (cables)

4. specifying switchgear configuration type, number of pillars, lights etc

5. determining the special requirements of the DNSP's planning departments necessary to make electrical supply available to a development and cater for future projects

6. any necessary liaison with designers associated with assistance in sourcing design information and developing designs

7. nominating network connection points.

2.2 Design certification

1. A certification by a DNSP that a design (if implemented) will not compromise the safety or operation of the DNSP's distribution system.

2. This may include, without limitation:

3. certifying that the design information/project definition have been incorporated in the design

4. certifying that easement requirements and earthing details are shown

5. considering design issues, including checking for over–design and mechanisms to permit work on high voltage systems without disruption to customers' supply (adequate low voltage parallels)

6. certifying that funding details for components in the scope of works are correct

7. certifying that there are no obvious errors that depart from the DNSP's design standards and specifications

8. certifying that shared assets are not over-utilised to minimise developer's connection costs and that all appropriate assets have been included in the design

9. auditing design calculations such as voltage drop calculations, conductor clearance (stringing) calculations etc

10. certifying that a bill of materials has been submitted

11. certifying that an environmental assessment has been submitted by an accredited person and appropriately checked.

2.3 Design rechecking

The rechecking of a design submitted under section 1.2.2, except where the modifications to a design are of a trivial or minor nature.

2.4 Inspection of service work (level 1 work)

The inspection by a DNSP of work undertaken by an ASP accredited to perform level 1 work, for the purpose of ensuring the quality of assets to be handed over to the DNSP.

2.5 Inspection of service work (level 2 work)

The inspection by a DNSP of work performed by an ASP accredited to perform level 2 work, complying with the condition below.

Condition

The minimum number of inspections required must correspond to the grade of the DNSP in table 1 below:

Table 1: Inspection rate

Grade	Number of inspections
A	1 inspection per 25 jobs
B	1 inspection per 5 jobs
C	Each job to be inspected

2.6 Re–inspection of level 1 or level 2 work

The re–inspection by a DNSP of work (other than customer installation work) undertaken by an ASP accredited to perform level 1 or level 2 work, for the reason that on first inspection the work was found not to be satisfactory.

2.7 Re–inspection of work of a service provider

The re–inspection by a DNSP of customer installation work undertaken by a service provider for the reason that on first inspection the work was found not to be satisfactory.

2.8 Access permit

The provision of a permit by a DNSP to a person authorised by law to work on, or near, a distribution system.

This may include without limitation:

- researching and documenting the request for access
- documenting the actual switching process
- programming the work
- control room activities
- fitting and removing of operational earths
- the actual switching together with any operator's transport costs
- identification of any customers who will be interrupted
- low voltage switching and paralleling of substations that permits high voltage work without disrupting supply to other customers.

2.9 Substation commissioning

The commissioning by a DNSP of a new substation, (whether it is a single pole, padmount/kiosk or indoor/chamber) and includes:

- all necessary pre–commissioning checks and tests prior to energising the substation via the high voltage switchgear and closing the low voltage circuit breaker, links or fuses; and
- the setting or resetting of protection equipment.

2.10 Administration

Work of an administrative nature (not including work of an administrative nature described in section 2.11), involving the processing of level 1 and/or level 3 work where the customer is lawfully required to pay for the level 1 and/or level 3 work.

This may include without limitation:

- checking supply availability
- processing applications
- correspondence from application to completion
- record–keeping
- requesting and receiving fees (initially, then prior to design and after certification)
- receiving design drawings (registering and copying)
- raising an order for high voltage work
- calculating high voltage reimbursements
- calculating the cost of a project and warranty/maintenance bond
- organising refunds to developers for high voltage work
- liaising with developers via phone and facsimile
- updating geographic information systems (GIS) and mapping.

2.11 Notice of arrangement

Work of an administrative nature performed by a DNSP where a local council requires evidence in writing from the DNSP that all necessary arrangements have been made to supply electricity to a development.

This may include without limitation:

- receiving and checking linen plans and 88B Instruments
- copying linen plans
- checking and recording easement details
- preparing files for conveyancing officers
- liaising with developers if errors or changes are required
- checking and receiving duct declarations and any amended linen plans and 88B Instruments approved by a conveyancing officer
- preparing notifications of arrangement.

2.12 Access

The provision of access to switchrooms, substations and the like to an ASP who is accompanied by a member of staff of a DNSP, but does not include the circumstance where an ASP is provided

with keys for the purpose of securing access and is not accompanied by a member of staff of the DNSP.

2.13 Authorisation

The annual authorisation by a DNSP of individual employees or sub–contractors of an ASP to carry out work on or near the DNSP's distribution system.
This may include without limitation:

- familiarisation and training in the DNSP's safety rules and access permit requirements
- induction in the unique aspects of the network
- verification that the applicant has undertaken the necessary safety training (resuscitation etc) within the last 12 months
- conducting interviews/examinations for access permit recipients
- issuing authorisation cards.

2.14 Site establishment

The issue of a meter by a DNSP and its co–ordination with NEMMCO for the purpose of establishing a NMI in MSATS for new premises or for any existing premises for which NEMMCO requires a new NMI and for checking and updating network load data.

Definition of emergency recoverable works

Emergency work undertaken by a DNSP to repair damage to the distribution system of the DNSP, where the damage is the consequence of the act or omission of a person, for which that person is liable to another (which may include the DNSP) for that damage.
For example, emergency work undertaken by a DNSP to repair damage to the DNSP's distribution system resulting from a motor vehicle collision where the driver was negligent.

Definitions and interpretation

ASP means an accredited service provider and is a person who has been accredited under Part 10 Electricity Supply (General) Regulation 2001 (NSW)

MSATS means the market settlement and transfer system operated by NEMMCO

NMI means a national metering identifier

Service provider means a person who may lawfully undertake customer installation work

The following expressions have the meaning given to them in the *Electricity Supply Act 1995* (NSW):

electricity supply contract
electricity connection contract
retail supplier.

Interpretation of grade or level of accreditation

In this appendix, the reference to a grade or level, means the grade or level for which an ASP is accredited, applying the classification system in table 2 below.

If the classification system in table G.2 is amended during the next regulatory control period, the reference in this appendix to a grade or level will be taken to be a reference to the grade or level in the amended classification system that most closely approximates the grade or level in table G.2.

Table 2: Classification of accreditation

Accreditation	Type of work	Category
Level 1	Construction of transmission and distribution works, including high and low voltage, overhead and underground reticulation and substations.	Underground (UG) Overhead (OH)
Level 2	Service Work: Construction and/or installation of the service line interface between the distribution system and consumer terminals, including metering services	Disconnection and reconnection Underground (UG) service lines Overhead (OH) service lines Metering and energising new installations Installing contestable metering – under review
Level 3	Design of transmission and distribution works	Underground (UG) Overhead (OH)

Fees and charges - miscellaneous services, monopoly services and emergency recoverable works

Levying charges for miscellaneous services, monopoly services and emergency recoverable works

The charge that may be levied by a DNSP for the provision of a miscellaneous service described in section H.3 or emergency recoverable works specified in section H.5, must not be more than (but may be less than) the charge specified or calculated for the miscellaneous service in section H.3 or the emergency recoverable work in section H.5 respectively.

Unless otherwise specified, the charge that is to be levied by a DNSP for the provision of a monopoly service described in section H.4, must not be more than or less than the charge specified or calculated for that monopoly service in that section.

The charges for miscellaneous services, monopoly services and emergency recoverable works in this appendix are to be levied in accordance with the conditions (if any) specified in appendix G of the final decision applying to each service and in accordance with the conditions accompanying the respective sections in this appendix.

Charges for miscellaneous services

The charges in table H.1 below apply:

Table H.1: Charges for miscellaneous services

Miscellaneous service	$
Special meter reading	44
Meter test	73
Supply of conveyancing information – desk inquiry	37
Supply of conveyancing information – field visit	73
Off-peak conversion	59
Disconnection visit (acceptable payment received)	44
Disconnection at meter box	88
Disconnection at pole top/pillar box	148
Rectification of illegal connection	221
Reconnection outside business hours	95

Conditions relating to charges for miscellaneous services

a. Disconnection at meter box and pole/top pillar box.

   For the avoidance of doubt, if, following a request from a customer, the reconnection component of the services described in section H.3.1 as 'disconnection at meter box' and 'disconnection at pole top/pillar box' are provided outside the hours of 7.30 am and 4.00 pm on a working day, the charge that the DNSP may levy for the provision of each of those services will be the charge for each service in section H.3.1 plus the charge for the service described as 'reconnection outside normal business hours', if applicable.

b. Meter test - if the service described as 'meter test' is undertaken on premises serviced by more than one meter the following applies:

   i. if the meter test reveals that all of the meters are operating satisfactorily, a DNSP may only levy one charge for the provision of the service as if the meter test were undertaken on a single meter
   ii. if the meter test reveals that one or more of the meters are not operating satisfactorily, the DNSP may not levy any charge for the provision of the service.

c. Special meter reading.

   A charge may not be levied for the service described as 'special meter reading' in either of the following circumstances:

   i. where the customer is moving or is about to move premises or
   ii. where the service reveals that a scheduled meter reading was inaccurate.

d. Off–peak conversion
   A charge for the service described as 'off–peak conversion' may only be levied for each occasion that the service is provided in excess of once in any 12 month period.

Appendix D – History of service classifications and pricing for M&M services and emergency recoverable works

The following section provides a brief overview of the history of the classification and pricing of M&M services and emergency recoverable works in NSW, including the range of submissions made to the relevant regulatory bodies over time.

1999–2004 IPART decision

In 1999 IPART determined an exhaustive list of M&M services,[72] and applied the following price controls:

- miscellaneous services: **maximum** fees were set. DNSPs were free to charge less than the maximum fees.
- monopoly services: **mandatory** fees were set. DNSPs were not permitted to charge less or more than the specified amount.[73]

There was no category of 'emergency recoverable works' in IPART's 1999-2004 decision.

2004–09 IPART decision

Miscellaneous and Monopoly services

Following a consultation process with NSW DNSPs from December 2002 to May 2003, IPART decided to maintain its approach to regulating M&M services. That is, a schedule of maximum prices for miscellaneous services and a schedule of mandatory prices for monopoly services.

IPART sought to balance the ideal of cost reflective prices with the benefits of a simple approach. It noted that the relatively small percentage of revenue involved supported a simplified approach to M&M services, and stated that the data provided by DNSPs was often highly aggregated, which made cost reflective pricing difficult.[74]

Service definitions

IPART slightly amended the list of M&M service definitions from its 1999 decision. Overtime rates and travelling time were allowed in calculating monopoly service charges.

Pricing of services

IPART decided that the charges set out in its 1999 determination should be adjusted for the change in CPI since that determination. This resulted in a one-off 17 percent increase at the start of the 2004–09 regulatory control period, with no further increases during that period.

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72 IPART, *Regulation of New South Wales Electricity Distribution Networks, Determination and Rules Under the National Electricity Code*, December 1999, pp.81–88.

73 IPART's final decision notes that DNSPs must 'levy the charge shown every time they provide a monopoly service, regardless of whether they provide it to their contracting business or to an independent ASP' (p.110). This suggests that the mandatory charge for monopoly services is designed to prevent cost shifting.

74 IPART, *Final Decision*, 2004, p.115.

Emergency recoverable works

A definition for emergency recoverable works was formulated in the 2004–09 draft decision; however no decision was made in that draft regarding the regulation of these services. In its final determination IPART decided that the following pricing principles would apply:

> The charge that a DNSP may levy for emergency recoverable works must not exceed the sum of:

- 110 per cent of the costs (other than labour costs) actually incurred in providing the emergency recoverable works; and
- the cost of labour actually used to undertake the emergency recoverable works determined by applying 150 per cent of the R2 labour rate for that labour.

2009-14 AER decision

The AER's discretion in the 2009–14 regulatory review was limited by transitional provisions in the NER which required the AER to adopt substantially the same control mechanisms as those applied by IPART.[75] These transitional provisions were enacted because the short time between the finalisation of the new chapter 6 rules and the start of the NSW determination process resulted in reduced timelines for that determination and the omission of the F&A process.

DNSPs' proposals – Miscellaneous and Monopoly Services

During the regulatory review both Country Energy and EnergyAustralia contended that charges for M&M services were not cost reflective.

Specifically, EnergyAustralia proposed that there should be no fixed prices for M&M services. Rather, they should be regulated under the one WAPC together with Distribution Use of System (DUOS) charges, thereby allowing flexibility to rebalance the prices of these services during the regulatory control period.[76]

Country Energy (now Essential Energy[77]) acknowledged that time constraints in the NSW determination process required a simple approach in setting charges for these services but noted *'…in the future these charges need to be analysed to ensure they are at cost reflective levels in order to signal to retailers and customers the true cost of delivering the services'*.[78]

In particular, Country Energy noted that it does not currently charge fees for the service of disconnecting/reconnecting premises that are holiday homes. This service, known as special meter reading service, falls under miscellaneous services. Country Energy stated that some customers are abusing the current arrangement by disconnecting their holiday homes (situated in remote areas) each time it is unoccupied. This is often resource intensive because of the remote locations and the costs are not recovered.[79]

Country Energy therefore proposed a labour cost escalator in addition to the CPI escalator.

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75 Clause 6.2.5 (c1)(1)(i) Appendix 1 NER.
76 AER, *Final Decision, New South Wales distribution determination 2009-10 to 2013-14*, April 2009, p. 49.
77 As of 1 March 2011, the retail side of the Country Energy was transferred to Origin Energy, while the operations side of Country Energy began operating as Essential Energy.
78 Country Energy, *Country Energy's regulatory proposal*, June 2008, p. 173.
79 AER, *Final Decision, New South Wales distribution determination 2009-10 to 2013-14*, April 2009, p. 51.

Integral Energy[80] submitted that the prices set for its M&M services should reflect CPI changes throughout the regulatory control period.[81]

The revenue and pricing principles in sections 7A(2)(a) and 7A(3)(b) of the NEL provide that a network service provider should be provided with:

- a reasonable opportunity to recover at least the efficient costs in providing direct control services, and
- effective incentives in order to promote economic efficiency including the efficient provision of electricity network services.

Section 16 of the NEL requires the AER to take these principles into account when exercising its discretion in making those parts of a distribution determination relating to direct control network services. This includes decisions on the classifications and control mechanisms for M&M services.

DNSPs' proposals - Emergency recoverable works

During the 2009–14 regulatory review, EnergyAustralia submitted that emergency recoverable works are not distribution services and therefore should not be subject to AER regulation. The AER stated that it needed a greater understanding of the services before it could consider whether they were in fact non-distribution services, and noted this could be done as part of the F&A process for the 2014–19 review.

The definition of emergency recoverable works in the AER determination is:

> Emergency work undertaken by a DNSP to repair damage to the distribution system of the DNSP, where the damage is the consequence of the act or omission of a person, for which that person is liable to another (which may include the DNSP) for that damage. For example, emergency work undertaken by a DNSP to repair damage to the DNSP's distribution system resulting from a motor vehicle collision where the driver was negligent.

EnergyAustralia submitted that emergency recoverable works are not 'distribution services'. It argued that where a DNSP repairs its assets when damaged by a third party, the DNSP is not providing a 'distribution service' to the third party.[82] For this reason, EnergyAustralia suggested that emergency recoverable works should be unclassified and therefore not regulated by the AER.[83]

A further issue relevant to emergency recoverable works is the possibility of double counting. Country Energy's regulatory proposal for the 2009-2014 determination noted the forecast operating expenditure of fault and emergency repair and restoration of supply included '*fault and emergency repair and restoration of supply for planned and unplanned interruptions by*

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80 Since 1 March 2011, Integral Energy's retail customers and brand is owned by Origin Energy following the sale of Integral Energy's retail business as part of the NSW Government's energy reform strategy. Integral energy network business has not been sold and remains NSW government-owned. It was renamed Endeavour Energy from 1 March 2011.

81 Integral Energy, *Submission to the AER on the preliminary positions paper on matters relevant to distribution determinations for ACT and NSW DNSPs for 2009-2014*, 4 January 2008, pp. 7-8.

82 Although the NER does not define 'service', it defines a 'distribution service' as '*a service provided by means of, or in connection with, a distribution system*'. Although emergency recoverable works are clearly undertaken in connection with a distribution system, it is not clear whether emergency recoverable works are a 'service'.

83 EnergyAustralia, *EnergyAustralia's regulatory proposal*, June 2008, p. 176.

events such as storms, equipment failures, acts of vandalism, and vehicle collisions.'[84] It will be important to ensure that repairs for vehicle collisions are not included in both operating expenditure and emergency recoverable works.

AER draft decision

Due to insufficient time, the AER could not consider whether emergency recoverable works were non-distribution services and therefore proposed to adopt IPART's definitions and mechanisms for the regulation of M&M services and emergency recoverable works. The schedule of prices and labour rates set out in IPART's decision were increased to coincide with the changes in the costs of goods and services, that is, the consumer price index (CPI).

Revised proposals

EnergyAustralia rejected the AER's draft decision to maintain the schedule of prices for M&M services, and to decline to treat emergency recoverable works as non-distribution services.

In addition to reiterating arguments in its regulatory proposal, EnergyAustralia argued that the AER's approach of escalating fixed prices for M&M services prevented the recovery of efficient costs. Therefore, it was argued, the AER had failed to take into account the revenue and pricing principles in section 7A of the NEL.[85]

EnergyAustralia claimed that the draft decision would allow EnergyAustralia to recover only 57 percent of its cost of providing M&M services in 2009-2010.

EnergyAustralia noted that IPART had intended to include M&M services together with DUOS charges under the weighted average price cap in 2004, but had declined to do so for legal reasons.[86]

Country Energy reiterated its proposal to include a real labour cost escalator to the 2004 charges. Integral Energy accepted the AER's draft decision.

AER final decision

The AER accepted that there were some real cost increases in the provision of distribution services (such as timber poles) and that this increase may continue into the 2009-2014 regulatory control period. It therefore decided to add a 'real cost escalator', which reflects the changes to real costs, in addition to the CPI escalator used in determining the prices of non-DUOS distribution services set out in the draft decision.

The AER stated:

> The AER accepts that there may be some prices for MM [miscellaneous and monopoly] services that are currently not fully cost reflective or may become less cost reflective over the course of the next regulatory control period. This knowledge was implicit in the draft

84 Country Energy, *Country Energy's regulatory proposal*, June 2008, p.58.

85 Sections 7A(2)(a) and 7A(3)(b) of the NEL require a NSP to be provided with:
- a reasonable opportunity to recover at least the efficient costs in providing direct control services; and
- effective incentives in order to promote economic efficiency including the efficient provision of electricity network services.

Section 16 of the NEL requires the AER to take these principles into account when exercising discretion in making a determination relating to direct control network services.

86 EnergyAustralia, *EnergyAustralia's revised proposal*, January 20009 p.166.

> decision to undertake a review of the pricing of MM [miscellaneous and monopoly] services as part of the framework and approach process for the 2014-2019 regulatory control period…the AER reiterates its decision to look more closely at the pricing of MM services for the 2014-19 regulatory control period.[87]

The AER also restated its decision not to amend the control mechanism applied to emergency recoverable works.

[87] AER, *Final Determination*, 2009, p. 58.

Appendix E – Services of similar nature across Australia

Miscellaneous services

Table 2: Comparison of services of similar nature to 'miscellaneous services' across jurisdictions

NSW miscellaneous services	ACT miscellaneous services	QLD quoted and fee based services	VIC fee based services	SA other services	TAS fee based services
Supply of conveyancing Information desk inquiry	N/A	N/A	N/A	N/A	N/A
Supply of conveyancing information field visit	N/A	N/A	N/A	N/A	N/A
Meter test	N/A	Quoted services - Ancillary metering services (type 5–7 metering)	Fee based – Metering services	Meter testing at the request of a distribution network user	Fee based services –meter testing
Special meter reading	Field visit read only (for de-energisation non-payment)	Quoted services - Ancillary metering services (type 5–7 metering)	Fee based - Special meter reading	Other services – investigation and testing services	Fee based services – energisation, de-energisation and re-energisation (includes disconnections and reconnections)
Disconnection visit (acceptable payment received)	Business hours –de-energise	Fee based services- De-energisation and re-energisation	Fee based – De-energisation and energisation of existing connections	Other services – Disconnection services provided to a retailer or distribution network user	Fee based services – energisation, de-energisation and re-energisation (includes disconnections and reconnections)
Disconnection at meter box	De-energise premises for non-payment	Fee based services- De-energisation and re-energisation	Fee based – De-energisation and energisation of existing connections	Other services – Disconnection services provided to a retailer or distribution network user	Fee based services – energisation, de-energisation and re-energisation (includes disconnections and reconnections)
Disconnection at pole top/pillar box	N/A	Fee based services- De-energisation and re-energisation	Fee based – De-energisation and energisation of existing connections	Other services – Disconnection services provided to a retailer or distribution network user	Fee based services – energisation, de-energisation and re-energisation (includes disconnections and reconnections)
Rectification of illegal connection	N/A	Fee based services- De-energisation and re-energisation	Fee based – De-energisation and energisation of existing connections	N/A	Fee based services – disconnection service connection
Off–peak conversion	N/A	Quoted services - After hours provision of any service	N/A	N/A	N/A
Reconnection outside normal business hours	After hours –re-energise	Quoted services - After hours provision of any service	N/A	Other services – reconnection due to a distribution network user's fault.	Fee based services – energisation, de-energisation and re-energisation (includes disconnections and reconnections)

Monopoly Services

Table 3: Comparison of services of a similar nature to 'monopoly services' across jurisdictions

NSW monopoly services	ACT miscellaneous services	QLD quoted services	VIC quoted services	SA other services	TAS network services
Design information	Issue of copies of electrical drawings	Quoted services - Specification and design enquiry fees	Quoted services - Specification and design enquiry fees	N/A	Network services – planning and designing the distribution network
Design certification	N/A	Quoted services - Auditing of design and construction	Quoted services - Auditing of design and construction	N/A	Network services – planning and designing the distribution network
Design rechecking	N/A	Quoted services - Auditing of design and construction	Quoted services - Auditing of design and construction	N/A	Network services – planning and designing the distribution network
Inspection of service work (level 1 work)	N/A	N/A	N/A	N/A	N/A
Inspection of service work (level 2 work)	N/A	N/A	N/A	N/A	N/A
Re–inspection of level 1 or level 2 work	N/A	N/A	N/A	N/A	N/A
Re–inspection of work of a service provider	N/A	N/A	N/A	N/A	N/A
Access permit	N/A	N/A	N/A	N/A	N/A
Substation commissioning	N/A	N/A	N/A	N/A	N/A
Administration	N/A	N/A	N/A	Other services – application for an account or new supply	Network services – Administrative support
Notice of arrangement	N/A	N/A	N/A	N/A	N/A
Access	N/A	N/A	N/A	N/A	N/A
Authorisation	N/A	N/A	N/A	N/A	N/A
Site establishment	N/A	N/A	N/A	N/A	N/A

Emergency recoverable works

Table 4: Comparison of emergency recoverable works across jurisdictions

NSW service	ACT service	QLD service	VIC service	SA service	TAS service
Emergency recoverable works	N/A	Emergency recoverable works are included as part of quoted services	Emergency recoverable works are included as part of quoted fee services	N/A	Emergency recoverable works are included as part of fee based services