

ATTACHMENT 4.1

CLASSIFICATION PROPOSAL

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1. PURPOSE

The purpose of this paper is to present to the Australian Energy Regulator (AER) Essential Energy's response to the issues raised by the AER in the draft decision *Essential Energy distribution determination (2015-16 to 2018-19) Attachment 13: Classification of distribution services*

2. SUMMARY

Items raised by the AER regarding Essential Energy's classification of services and Essential Energy's response are highlighted in the Table 2-1 below:

Table 2-1: AER's issues and Essential Energy's response

AER item	Summary of AERs reasons and findings	Essential Energy's response
Modifications and regroupings	The AER has applied modifications and regrouped services in alignment with changes recommended by NSW distribution businesses.	Essential Energy accepts these changes and have recommended additional amendments – highlighted in table 13-1.
Load control services	The AER has classified load control equipment integrated within a meter as an alternate control service. This is due to the difficulty in separating these services when load control is provided within integrated metering equipment.	Essential Energy has accepted this alteration as a simple and practical resolution to the classification of integrated metering and load control assets (providing dual functionality) and to allow transition to a competitive market. The AER's approach is consistent with the methodology used to prepare Essential Energy's substantive regulatory proposal.
Residual metering costs	The AER has reclassified the recovery of residual type 5 & 6 metering capital costs as a standard control service.	Essential Energy has accepted this change in classification and has amended its metering proposal to reflect this change in classification. Essential Energy recommends an amendment to classification table to specifically include this alteration of classification.
Meter transfer costs	The AER has classified the administrative costs associated with meter transfers as an alternate control service and recovered through an exit fee.	Essential Energy has updated the proposed exit fee to reflect incremental administrative costs associated with a customer transferring from regulated type 5 & 6 metering to an alternate metering service provider.

3. BACKGROUND

The table 13-1 sets out Essential Energy's revised classification proposal.

In the main, this table adopted the AER's draft decision on service descriptions, services groupings and service classification as outlined in table 13-1 of the AER's draft decision.¹ Essential Energy has made some minor wording changes to the description of the services to provide further clarity. These changes are highlighted in yellow.

4. DISCUSSION

In this section the specific items raised by the AER are discussed:

- > minor clarifications and re-groupings;
- > change to classification of load control services; and
- > changes to classification of metering services.

¹ Draft decision Essential Energy distribution determination (2015-16 to 2018-19) – Attachment 13: Classification of Distribution Services

4.1 Minor clarifications and re-groupings

The AER incorporated the clarifications proposed by NSW distribution businesses in the draft decision. In addition, the AER re-organised some of the grouping of services, with no change to the classification of these services and service groups.

Essential Energy accepts the AER's decision to make these minor clarifications on the basis that they do not represent a material departure from its decision and where relevant, they accorded with the clarifications sought in the substantive proposal

4.2 Changes to classification of integrated load control equipment

In its draft decision, the AER changed the classification relating to load control equipment integrated within a meter, with these assets now being classified as alternate control.

To provide a simple and practical resolution to the classification of integrated metering and load control assets (providing dual functionality) and allow transition to a competitive market, Essential Energy accept the proposal by the AER for the provision of these services to be included in the existing ACS charges. This includes the incremental cost to service this load control functionality for integrated metering/load control assets over and above the base metering costs. This outcome is proposed as a practical approach considering the future regulatory uncertainty for metering (due to the pending rule change for expansion in metering competition) for the following reasons:

- > the relevant costs to provide the service are difficult to separate in each business,
- > the relevant costs are not material as the load control in these circumstances is a marginal cost over and above the meter, and where meters are removed by third parties the asset value will revert back to the regulated asset base under the AER's proposed exit arrangements, and
- > the practical and administrative simplification of new processes.

Essential Energy therefore agrees with the valuation from a pragmatic perspective, but does not agree with any change to the framework and approach that includes load control as an alternate control service.

For load control services provided by devices that are separate to the meters (such as time switches and relays), the AER considered these services to be part of network services and hence continue to be classified as standard control services.

Essential Energy accepts the AER's decision to change the classification of integrated load control services; Essential Energy has revised its service classification proposal to incorporate the AER's decision.

The AER's approach is consistent with the methodology Essential Energy used to prepare its substantive regulatory proposal; hence revisions to type 5-6 metering services prices and standard control services revenue are not necessary.

4.3 Changes to classification of metering services

The AER decided to classify the recovery of the NSW distributor's residual type 5-6 metering capital costs as a standard control service, the recovery of which is triggered by customers switching to an alternative metering service provider. On the other hand, the cost associated with administering such transfers is to continue to be classified as alternative control service.

Essential Energy's substantive proposal accepted the AER's classification of type 5-6 metering services and accordingly, the substantive proposal sought to propose a cost reflective price for these services. An exit fee was proposed as a means by which costs associated with the provision of type 5-6 metering services could be recovered. This fee is triggered when a customer – who up until that point has been receiving metering services from Essential Energy – decides to switch to an alternate metering service provider. This decision to switch gives rise to the stranded cost (residual capital cost) and administration cost.

The AER accepted that Essential Energy is entitled to recover the residual capital costs but considered that this cost should not be recovered as part of an exit fee charged to alternative control services customers. Rather, the AER decided that this cost is to be recovered from general network tariffs via the 'B' factor in the control

mechanism. The AER also confirmed the cost of administering these meter transfers are to be recovered via an exit fee charged to alternative control services customers.

Essential Energy agrees with the mechanisms for recovering these residual capital costs and administration costs as decided by the AER in the draft decision.

Essential Energy's response to the AER's decision on the administration costs is outlined in attachment 9.4. The business's consideration of the operation of the B factor is detailed in chapter 10 of the revised regulatory proposal.

Table 13-1: Classification of distribution services – Network NSW²

Service group/Activities included in service group	Further description (if any)	AER's draft decision on classification 2014–19	Essential Energy's revised proposal
AER Service group— Network services			
Planning the network	Network/asset planning (asset needs assessment, asset investment planning, asset management planning, asset delivery planning. Includes risk and feasibility assessment, estimating and cost planning) Regulatory planning Demand management planning Network business strategy development, strategic initiatives development and management (including business improvement/efficiency initiatives) Participation in industry planning Governance, policies, procedures, standards	Standard control	Standard control
Designing the network	Design standards and designing the network	Standard control	Standard control
Constructing the network ³	Network construction (other than construction of connection assets provided contestably) Project planning and works management (works program development, procurement, vendor management, contract management, work scheduling and dispatching) Management of environmental issues Asset deployment and commissioning Asset relocation (other than those undertaken at a customer's request) Training for internal staff (e.g. safety) Operational technology supporting the network Pole replacement Augmentations of the network may also be driven by:	Standard control	Standard control

² Networks NSW provided us with a consolidated list of all services provided by the NSW distributors, 13 February 2013 and 27 February 2013

³ It is assumed that an asset relocation at the customer's request will be unclassified and hence unregulated.

	<ul style="list-style-type: none"> ▪ the need to reinforce the network as a result of increasing demand on the network from existing users ▪ improving security of the network where the consequences of supply loss are high ▪ restoring capacity lost due to de-rating of existing assets ▪ addressing voltage or fault duty issues 		
Maintaining the network	<p>Asset maintenance and network/asset performance management including:</p> <p>Performance and condition monitoring</p> <p>Asset optimisation</p> <p>Asset maintenance/replacement/refurbishment program management</p> <p>Asset performance reporting</p> <p>Network systems maintenance</p> <p>Asset retirement</p> <p>Vegetation management, inspection and testing</p> <p>Works to fix damage to the network (other than emergency recoverable works)</p>	Standard control	Standard control
Operating the network for distributor purposes	<p>Implementing Network Management Plan – Implementing the obligations under the Electricity Supply (Safety and Network Management) Regulation</p> <p>Network/asset operations: network control and operation, outage management, load control (other than load control services provided by meters with internally integrated load control devices), emergency management field operations, commissioning of assets</p> <p>Customer interactions (including in relation to network product development, customer service management, complaints and enquiries, record management, debt collection and disconnections)</p> <p>Market operations: includes revenue management, network billing and disputes, processing and publication of notifications of new connections and alterations, market notifications of retailer changes</p> <p>EHS (Environment, Health and Safety) management (risk assessment, monitoring, program management, reporting and training)</p> <p>GIS (Dial Before You Dig services)</p>	Standard control	Standard control

	Compliance monitoring and reporting External stakeholder interaction (industry, regulatory, government) Pricing and regulatory affairs Financial and commercial management and reporting		
Network operation and administrative support	Includes call centres, network claim processing, network billing (including consumption data storage and analysis)	Standard control	Standard control
Emergency response	Outage management, emergency management (for example, reinstatement of network after natural disaster)	Standard control	Standard control
AER Service group— Pre-connection services			
Preliminary enquiry service	For services provided to connection applicants making a preliminary enquiry requiring site-specific or written response	Alternative control	Alternative control
Connection offer service (basic or standard)	For services provided by distributors in assessing the applicant’s connection application and making a basic or standard connection offer	Alternative control	Alternative control
Carrying out planning studies and analysis relating to distribution (including sub-transmission and dual function assets) connection applications	This service undertakes necessary planning studies and associated technical analysis to help determine suitable/feasible connection options for further consideration by proponents.	Alternative control	Alternative control
Customer interface coordination for contestable works	This service is proposed where customer connections or asset relocations may require a high level of distributor involvement in order to coordinate a range of inputs from the distributor to help establish the connection.	Alternative control	Alternative control
AER Service group—Connection services			
Premises connection assets	Includes any additions or upgrades to the connection assets located on the customer's premises which are contestable (Note: excludes all metering services). Premises connection assets can be further described as: A. Design and construction of premises connection assets (where these services are provided contestably) B. Part design and construction of connection assets that are not available contestably (generally as a result of safety, reliability or security reasons). Those parts of project works that are performed and funded by the distributor.	A. Unclassified B. Standard control	A. Unregulated B. Standard control

Extensions	<p>An enhancement required to connect a power line or facility outside the present boundaries of the transmission or distribution network owned or operated by a Network Service Provider that is:</p> <p>A. undertaken by an ASP on behalf of a customer</p> <p>B. undertaken by a customer but partly funded by a NSP (NSP contribution would be classified as a standard control service while the customer funded component of the service would be unclassified.)</p> <p>C. undertaken by a network service provider</p>	<p>A. Unclassified</p> <p>B. Unclassified/ standard control based on contribution (see previous column)</p> <p>C. Standard control</p>	<p>A. Unclassified</p> <p>B. Unclassified/ standard control based on contribution (see previous column)</p> <p>C. Standard control</p>
Augmentations	<p>A. Any shared network enlargement/enhancement undertaken by a distributor which is not an extension</p> <p>B. Any shared network enlargement/enhancement undertaken by a customer, but partly funded by a NSP (NSP contribution would be classified as a standard control service while the customer funded component of the service would be unclassified)</p> <p>C. Any shared network enlargement/enhancement undertaken by a customer</p>	<p>A. Standard control</p> <p>B. Unclassified/ standard control based on contribution (see previous column)</p> <p>C. Unclassified</p>	<p>A. Standard control</p> <p>B. Unclassified/ standard control based on contribution (see previous column)</p> <p>C. Unclassified</p>
AER Service group—Post-connection services			
Connection/relocation process facilitation	Providing connection applicants with ongoing information and advice in relation to the connection process and requirements associated with establishing a new or altered connection or a person requesting relocation of existing network assets.	Alternative control	Alternative control
Services to supply and connect temporary supply to one or more customers	Including equipment and related costs) in relation to planned access permits	Alternative control	Alternative control
Reinspection of installation work in relation to customer assets	Reinspection by a distributor of private electrical wiring work undertaken by an electrical contractor, required where the first inspection revealed defective work.	Alternative control	Alternative control
AER Service group— ASP connection services			
Authorisation of ASPs	Annual authorisation of individual employees and sub-contractors of ASPs and additional authorisations at request of ASP. Authorisation excludes training costs.	Alternative control	Alternative control
ASP inspection services	Inspection and re-inspection of contestable connection and relocation works performed by Accredited Service Providers (ASPs)	Alternative control	Alternative control
Investigation, review and	The investigation, review and implementation of remedial actions associated with contestable	Alternative control	Alternative control

implementation of remedial actions associated with ASPs' connection work	connection works leading to corrective and disciplinary action of an ASP due to unsafe practices, substandard workmanship or other serious circumstances that impact upon ongoing authorisation as an accredited service provider to NSW distributors.		
Administration services relating to work performed by ASPs, including processing work	Work of an administration nature (not included work an administrative nature described in service - Notice of Arrangement or Authorisation of ASPs, including 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.	Alternative control	Alternative control
AER Service group— Metering services			
Types 5 and 6 metering installation	Includes on site connection of a new meter at a customer's premises, and on site connection of an upgraded meter at a customer's premises where the upgrade is initiated by the customer. Excludes installation of replacement types 5 and 6 meters initiated by the DNSP.	Unclassified	Unclassified
Types 5 and 6 metering provision, maintenance, reading and data services	<p>Meter provision refers to the capital cost of purchasing the metering equipment (including meters with internally integrated load control devices) to be installed. Meter maintenance covers works to inspect, test, maintain, repair and replace meters. Meter reading refers to quarterly or other regular reading of a meter. Metering data services are those that involve the collection, processing, storage and delivery of metering data and the management of relevant NMI Standing Data in accordance with the Rules.</p> <p>For the avoidance of doubt, a meter exit fee is triggered when a customer decides to switch to an alternate meter service provider. In this case, the residual capital costs are recovered via the control mechanism for standard control services and the administration costs associated with such transfers are recovered as part of alternative control services (metering services).</p>	Alternative control	Alternative control
Residual type 5 & 6 metering capital costs	The residual type 5 & 6 metering capital costs (the metering RAB component of annual charges that the customer would have paid had they remained a regulated metering customer) associated with customers changing to an alternate metering service provider	Standard Control	Standard Control
Type 7 metering services	Administration and management of type 7 metering installations in accordance with the Rules and jurisdictional requirements. Includes the processing and delivery of calculated metering data for unmetered loads, and the population and maintenance of load tables, inventory tables and on/off tables.	Standard control	Standard control
Ancillary metering services	For example, special meter reading for types 5 and 6 meters; customer or retailer requested meter accuracy testing for type 5 or 6 meters; franchise CT meter install; request for customer energy consumption data, tariff or distribution information; replacement or removal of a type 5 or 6 meter instigated by a customer switching to a non-type 5 or 6 meter that is not covered by any	Alternative control	Alternative control

	other fee; emergency maintenance of failed metering equipment not owned by the network.		
Move in move out meter reads	B2B service orders from retailers to obtain a final read for customer move-outs or to obtain a start read where property has been vacant. This includes customer or retailer requests for a final or start read when a customer movement occurs.	Alternative control	Alternative control
AER Service group— Ancillary network services			
Design related services	Provision of design information, design re-certification services in relation to connection and relocation works provided contestably	Alternative control	Alternative control
Vacant property reconnect/disconnect	At the request of the retailer, a site visit to a customer's premises to disconnect or reconnect the supply of electricity due to: - a vacant premises; or - a site where the power is on. This includes meter read as required by the B2B process.	Alternative control	Alternative control
Reconnections/Disconnections	Disconnection or reconnection visits (site visits only); Disconnection or reconnection (disconnection completed); Disconnections or reconnections (disconnection completed - technical); Disconnections or reconnections (pole top or pillar box); Disconnection or reconnection (site visit only - pole top or pillar box); Disconnections or reconnections outside of business hours. This includes meter read as required by the B2B process	Alternative control	Alternative control
Contestable substation commissioning	Includes Contestable substation commissioning (complex) and Contestable substation commissioning (basic). Involves the process of connecting the substation to the network. Complex involves kiosk and chamber substations that may involve protection settings. Basic is generally pole mounted substations.	Alternative control	Alternative control
Access permits	The provision of an access permit by a distributor to a person authorised to work on or near distribution systems including high voltage.	Alternative control	Alternative control
Clearance to work	The provision of a clearance to work by a distributor to a person authorised to work on or near the system generally at a low voltage.	Alternative control	Alternative control
Access (standby person)	The provision of access to switch rooms, substations and the like to an ASP who is accompanied by a distributor's staff member, 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 distributor's staff	Alternative control	Alternative control

	member,.		
Notices of arrangement	Work of an administrative nature performed by a distributor where a local council requires evidence in writing from the distributor that all necessary arrangements have been made to supply electricity to a development. This may include receiving and checking linen plans and 88 B instruments, copying linen plans, checking and recording easement details, preparing files for conveyancing officers, liaising with developers if errors or charges are required, checking and receiving duct declarations and any amended linen plans and 88B instruments approved by a conveyancing officer and preparing notifications of arrangement.	Alternative control	Alternative control
Conveyancing information	Supply of conveyancing information – desk inquiry; Supply of conveyancing information – field visit	Alternative control	Alternative control
Site establishment fee services	Site establishment services, including issuing of meters (where applicable) and liaising with the Australian Energy Market Operator (AEMO) or market participants for the purpose of establishing NMIs in market systems, for new premises or for any existing premises for which AEMO requires a new NMI and for validation of and updating network load data.	Alternative control	Alternative control
Off-peak conversion	The alteration of the off-peak metering equipment at a customer's premises for the purpose of changing the hours of the metering equipment's operation.	Alternative control	Alternative control
Rectification works	Includes rectification of illegal connections, provision of service crew/additional crew, fitting of tiger tails, high load escorts	Alternative control	Alternative control
Services involved in obtaining deeds of agreement in relation to property rights associated with contestable connection works	Services related to the acquisition of tenure over and access to distributor assets associated with contestable connection works.	Alternative control	Alternative control
Network tariff change request	When a retailer's customer or retailer requests an alteration to an existing network tariff (for example, a change from an Inclining Block Tariff to a Time of Use tariff), the NSW distributors conduct tariff and load analysis to determine whether the customer meets the relevant tariff criteria. The NSW distributors also process changes in their IT systems to reflect the tariff change.	Alternative control	Alternative control
Recovery of debt collection costs – dishonoured transactions	The incurrance of costs, including bank fees by a NSW distributor resulting from the dishonour of a customer or ASP's cheques tendered in payment of network related services.	Alternative control	Alternative control

Services provided in relation to a Retailer of Last Resort (ROLR) event	<p>The NSW distributors may be required to perform a number of services as a distributor when a ROLR event occurs. These include:</p> <p>Preparing lists of affected sites, and reconciling data with AEMO listings; handling in-flight transfers; identifying open service orders raised by the failed retailer and determining actions to be taken in relation to those service orders; arranging estimate reads for the date of the ROLR event and providing data for final NUOS bills in relation to affected customers; preparing final invoices for NUOS and miscellaneous charges for affected customers; preparing final debt statements; extracting customer data, providing it to the ROLR and handling subsequent enquiries; handling adjustments that arise from the use of estimate reads; assisting the retailer with the provision of network tariffs to be applied and the customer move in process; administration of any 'ROLR cost recovery scheme distributor payment determination'.</p>	Alternative control	Alternative control
Attendance at customers' premises to perform a statutory right where access is prevented.	A follow up attendance at a customer's premises to perform a statutory right where access was prevented or declined by the customer on the initial visit.	Alternative control	Alternative control
AER Service group— Public lighting services			
Provision, construction and maintenance of public lighting and emerging public lighting technology		Alternative control	Alternative control
Unclassified distribution services			
Emergency recoverable works	Work to repair damage to the distribution network cause by a third party	<p>Unclassified</p> <p>For instances where costs are not recoverable from a third party, these are not emergency recoverable works form part of standard control services</p>	<p>Unclassified</p> <p>For instances where costs are not recoverable from a third party, these are not emergency recoverable works form part of standard control services.</p>