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Via email: classificationguideline2018@aer.gov.au



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Dear Mr Pattas

Submission on Issues Paper—Service classification and asset exemption guidelines, February 2018

Jemena Electricity Networks (Vic) Ltd (**JEN**) welcomes the opportunity to make a submission to the Australian Energy Regulator's (**AER**) issues paper on service classification and asset exemption guidelines (**guidelines**).

Key messages

Service classification

We believe the issues paper adequately describes the service classification, largely reflecting the AER's approach adopted in past regulatory determinations.

JEN supports the AER's 'incremental' approach to service classification that considers the jurisdictional policy position of contestability of services, new services and the Ring-fencing Guideline. We do not believe a fulsome 'bottom up' approach is needed at each determination.

We support the proposed harmonisation of service naming and service description where practicable and to the extent jurisdictional requirements are consistent. Attempting harmonisation across jurisdictions where consistency does not exist, will cause inefficiency; given this, harmonisation of services across jurisdictions in itself should not be the driver for service reclassifications.

We believe the AER decisions on distribution services classification should be limited to the time of F&A consultation and price determination. The guideline should provide descriptions of distribution service groups such that they are flexible for introducing a new service within a service group in the middle of a regulatory period and this must be done in such a way that provides network businesses an opportunity to recover its costs.

Asset exemption

We support a principled based approach to determine whether a Distribution Network Service Provider (**DNSP**) should be permitted to add an asset 'behind the meter' to its regulatory asset base.

Load control equipment is an important network management tool that is well established and embedded in the design and operation of an electricity network. Load control equipment is commonly used by DNSPs to control electric hot water systems and underfloor (slab) heating. DNSPs sequencing designated loads (customer appliances) to turn on and off provides shared network benefits through higher utilisation of the network and the management of peak demand in the network. Load control equipment could also be used to control other loads such as pool pumps, air conditioners and electric vehicle chargers in the future to realise shared network benefits.

The National Electricity Rules (**NER**) makes clear that a *restricted asset* excludes a *network device*. Both these terms are defined in the NER. To continue receiving the benefits, JEN recommends the AER clarifies in the guideline whether or not a load control equipment that controls designated loads at a customer's premises for the purposes of network management is an exempted asset.

We look forward to the workshop to follow and commenting on the draft guidelines when it is issued. Our responses to the questions posed in the issues paper are set out in **Attachment 1**.

If you have any questions in relation to this submission, please contact Siva Moorthy on (03) 9173 8774 or siva.moorthy@jemena.com.au.

Yours sincerely,

[Signed]

Matthew Serpell
Manager Asset Regulation & Strategy

Attachment 1

AER questions	JEN responses
<p>Question 1: Is our existing 'incremental' approach to service classification fit for purpose? Or should the AER review the classifications of each and every service (or service grouping) at every determination?</p> <p>To what extent is harmonisation desirable?</p> <p>Should a harmonised (all jurisdictions) typology and hierarchy of distribution services be a feature or objective of the guideline? If so, why?</p>	<p>JEN supports the AER's 'incremental' approach to service classification that considers the jurisdictional policy position of contestability of services, new services and the Ring-fencing Guideline. We do not believe a fulsome 'bottom up' approach is needed.</p> <p>We support the proposed harmonisation of service naming and service description where practicable and to the extent jurisdictional requirements are consistent. Attempting harmonisation across jurisdictions where consistency does not exist, will cause inefficiency; given this, harmonisation of services across jurisdictions in itself should not be the driver for service reclassifications.</p> <p>We do not support a harmonised (all jurisdictions) typology and hierarchy of distribution services to be a feature or objective of the guideline. The Australian Energy Market Commission's (AEMC) recent "Contestability of energy services' rule change does not call for harmonisation of the service classifications across jurisdictions.</p>
<p>Question 2: Are there other aspects of the new rule that we should take into account in developing the guidelines?</p>	<p>We believe the issues paper has adequately identified the implications of the AEMC's "Contestability of energy services' rule change.</p>
<p>Question 3: Do you agree with our interpretation of the form of regulation factors included in Appendix A? What aspects of the form of regulation factors are unclear?</p>	<p>The form of regulation factors set out in the NER are reproduced in Appendix A. We agree with the AER's interpretation of the factors and use of appropriate examples to explain the factors.</p>
<p>Question 4: What factors should guide our interpretation of a 'distribution service'? Should our views on what is (or is not) a distribution service occur only at the time of service classification, or at other times within the regulatory control period as well?</p>	<p>The definition of 'distribution services' along with the NER should guide the AER's interpretation of a distribution service.</p> <p>We believe the AER decisions on distribution services classification should be limited to the time of F&A consultation and price determination. The guideline should provide descriptions of distribution service groups such that they are flexible for introducing a new service within a service group in the middle of a regulatory period and this must be done in such a way that provides network businesses an opportunity to recover its costs.</p>
<p>Question 5: Should our service</p>	<p>JEN considers there is no need for the AER to</p>

<p>classification decisions make clear those services we have decided not to classify because they are not distribution services?</p>	<p>make a full list of unregulated services in their service classification decisions, as it is not possible to know all of the services—now or in the future—in this domain to be able to develop the list. DNSPs are able to get advice and determine whether or not a <i>new</i> service is an unregulated distribution service in relation to compliance with the Ring-fencing Guideline.</p>
<p>Question 6: Is there any other guidance that should be included in the asset exemption guideline?</p>	<p>See below.</p>
<p>Question 7: What criteria should we use to determine whether a DNSP should be permitted to add an asset to its regulatory asset base? What are some examples of restricted assets that should be granted exemptions, and why? Should conditions be imposed on exemptions, for example a limit on the time during which applications for exemption can be made?</p>	<p>We support a principled based approach to determine whether a DNSP should be permitted to add an asset ‘behind the meter’ to its regulatory asset base.</p> <p>Load control equipment is an important network management tool that is well established and embedded in the design and operation of an electricity network. Load control equipment is commonly used by DNSPs to control electric hot water systems and underfloor (slab) heating. DNSPs sequencing designated loads (customer appliances) to turn on and off provides shared network benefits through higher utilisation of the network and the management of peak demand in the network. Load control equipment could also be used to control other loads such as pool pumps, air conditioners and electric vehicle chargers in the future to realise shared network benefits.</p> <p>The NER is clear in that a restricted asset excludes a <i>network device</i>. A network device is defined in the NER as:</p> <p>“Apparatus or equipment that:</p> <p>(a) enables a <i>Local Network Service Provider</i> to monitor, operate or control the network for the purposes of providing <i>network services</i>, which may include switching devices, measurement equipment and control equipment”. [Emphasis added]</p> <p>However it is not clear whether a load control equipment that turns designated loads on and off at a customer’s premises is considered a network device.</p> <p>Given load control equipment are commonly deployed by DNSPs for network management, JEN suggests the AER clarifies in the guideline whether or not a load control equipment used exclusively for the purposes of network management is an exempted</p>

	asset.
Question 8: Do you agree that there will be relatively few occasions on which we would grant an exemption beyond those already provided for in the rules (i.e. grandfathered assets and network devices)? Please suggest examples of assets that should be granted exemptions.	Load control equipment that turns on and off designated loads at a customers' premises for the purposes of network management should be exempt. Our rationale is set out in our response to Question 7.
Question 9: What are stakeholder views about the likely impact of confidential information affecting the transparency of asset exemption decisions?	JEN suggests the AER manage this issue on a case by case basis in consultation with the DNSP seeking asset exemption
Question 10: How can the asset exemption guideline address uncertainties about future market development when these markets may often be in their infancy?	Uncertainties about future market development can be addressed through an application to the AER for asset exemption.
Question 11: Do you agree that we should review the service classification and asset exemption guidelines only at this stage but acknowledge the implications this may have for revision of the other guidelines at a later stage?	<p>The AER notes that when making the service classification and asset exemption guidelines, there needs to be awareness of the of interlinkages between the various guidelines and ensure consistency and alignment.¹ With this in mind, we believe the risk of any inconsistency and conflict is very low.</p> <p>We support the AER's proposed approach of first developing the guidelines and not undertaking any parallel review of other guidelines. If necessary, the review of other guidelines can be undertaken after these guidelines are finalised.</p>

¹ AER Service classification and asset exempt guidelines—Issues paper, p 29.