



Attachment 7.01

Service classification

31 January 2023

PowerWater

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Abbreviations

The following table provides a list of abbreviations and acronyms used throughout this document. Defined terms are identified in this document by capitals.

Term	Definition
ACS	Alternative Control Services
AER	Australian Energy Regulator
DNSP	Distribution Network Service Provider
F&A	Framework and Approach
NMI	National Metering Identifier
NT	Northern Territory
NTESMO	Northern Territory Electricity System and Market Operator
ROLR	Retailer of Last Resort
SAPS	Stand Alone Power Systems
SCS	Standard Control Services

Overview

The classification of services is the way in which the Australian Energy Regulator (**AER**) decides on the type of economic regulation which should apply to Power and Water's distribution services during a regulatory control period.

The AER initiated a process to update the Framework and Approach Paper (**F&A**) for the 2024-2029 regulatory control period in December 2021. That process led to the AER's publishing its final F&A in July 2022 in which it set out its position on a number of preliminary matters necessary for DNSPs to prepare a regulatory proposal, including the classification of services.

Power and Water participated in the F&A process and fully supports the AER's proposed classification of Power and Water's distribution services.

This document is Power and Water's Classification Proposal required to be submitted as part of its 2024-2029 Regulatory Proposal. In this classification proposal Power and Water adopts the AER's proposed approach to classification of services in full and is not seeking to depart from the AER's proposed classification of services.

Purpose of Classification of Services

The classification of services is the way in which the AER decides on the level of regulation which should apply to Power and Water's distribution services. The AER makes a decision on the classification of services every five years as part of Power and Water's distribution determination and that decision applies for each regulatory control period.

A service must be a distribution service to be capable of being classified. A distribution service is "provided by means of or in connection with a distribution system". If a service is not a distribution service it cannot be classified by the AER or be subject to economic regulation under a distribution determination.

Once services are classified, an appropriate control mechanism is then applied by the AER to all services within that classification.

Rule Requirements

Rule 6.2 Available Classifications

The service classifications available to the AER are set out in NT NER Rule 6.2. These are:

- **Direct Control Services**, which are further divided into **Standard Control Services (SCS)** and **Alternative Control Services (ACS)**. Direct Control Services are subject to direct control under the AER's determination because the revenue or prices are directly regulated by the AER's determination.
- **Negotiated Distribution Services**. The price or revenue for these services are not directly controlled by the AER's determination. Power and Water and the customers are free to negotiate the terms and conditions, including the price, that apply to a service and any disputes can be resolved by reference to

the AER. There is however a negotiating framework and service criteria approved by the AER which applies to the negotiation of these services. Power and Water’s Negotiating Framework and Negotiated Distribution Service Criteria are discussed further in Attachment 12.03.

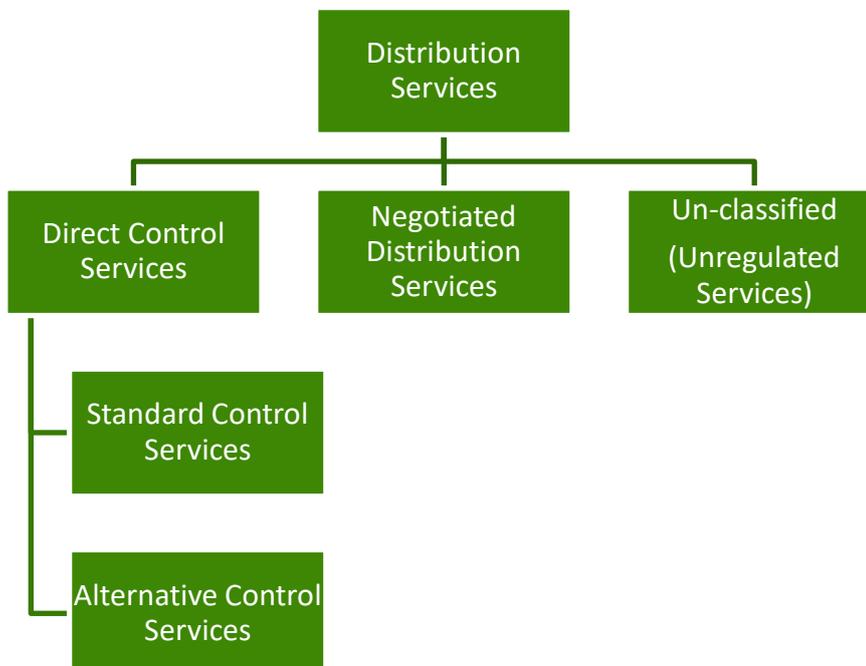
When determining whether to classify direct control services as either SCS or ACS it must have regard to the following matters set out in NT NER 6.2.2 (c):

- The potential for development of competition in the relevant market and how the classification might influence that potential.
- The possible effects of the classification on administrative costs of the AER, the Distribution Network Service Provider (**DNSP**) and users or potential users of the relevant service.
- The regulatory approach (if any) applicable to the relevant service immediately before the commencement of the distribution determination for which the classification is made.
- The desirability of a consistent regulatory approach to similar services (both within and beyond the relevant jurisdiction).
- The extent the costs of providing the relevant service are directly attributable to the person to whom the service is provided.
- Any other relevant factor.

If services are not classified as either Direct Control or Negotiated, then the AER has determined that they do not require any economic regulation and these services are unclassified and therefore unregulated from an economic regulatory perspective. However, the process for providing these services such as connection services may be separately regulated under Chapter 5 of the NT NER for example.

The available service classifications are depicted in Figure OV.1.

Figure OV.1: Available service classifications



Rule 6.2.3A Distribution Service Classification Guidelines

Rule 6.2.3A requires the AER to prepare Distribution Service Classification Guidelines (AER Classification Guidelines) that set out the approach the AER proposes to take when classifying services as direct control service (and then as either SCS or ACS) negotiated services or to leave the services unclassified.

The AER reviewed its Distribution Service Classification Guidelines and republished them August 2022 after the finalisation of the F&A Paper. No material changes were made to the AER's Classification Guideline published in August 2022.

The AER's guidelines:

- Establish high level baseline service grouping which reflect a typical DNSP.
- Sets out in detail how the AER has applied the rule requirements for classification set out in Rule 6.21 and 6.2.2 to derive its approach to classification of the various baseline groupings.

AER Baseline Groupings

The AER's baseline groupings are:

- **Common distribution services** – This grouping relates to the safe and reliable conveyance or flow of electricity through the network for consumers (and includes activities that relate to maintaining network integrity). The common distribution service is the bundle of distribution activities used by customers, relating to their use of the shared network.
- **Network ancillary services** – These services are those offered to customers and/or third parties that are related to common distribution services. While they are related, these services do not form part of the bundled common distribution service because not all customers request or require these services.
- **Metering services** – This grouping of services relates to the measurement of electricity supplied to and from customers through the distribution system.
- **Connection services** – This grouping includes activities relating to the physical connection of a customer to the distribution network.
- **Public lighting services** – This grouping relates to lighting services provided by means of or in connection with a DNSP's distribution system. Power and Water does not provide Public Lighting Services.
- **Negotiated distribution services** – Negotiated distribution services do not have a service grouping. This classification for services that have prices set by the parties to the negotiation. Beyond the initial classification decision, the AER is involved only in approving the negotiating framework and in resolving disputes.

Approach to Classification under the AER's Classification Guideline

The AER's classification guidelines sets out the AER's "starting point" for classification after applying the following factors as required by NT NER 6.2.1:

- The form of regulation factors¹.
- 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).
- The desirability of consistency in the form of regulation for similar services (both within and beyond the relevant jurisdiction).
- Any other relevant factor.

The AER's classification guideline is not binding on the AER or DNSPs, but if the AER makes a Framework and Approach paper or distribution determination that does not accord with the guideline, it must state its reasons for the departure.²

Rule 6.8.1 Framework and Approach Process

For each regulatory control period the AER must decide whether to make and amended or replacement F&A setting out the AER's proposed approach to a range of preliminary matters including the classification of services. It has been the AER's practice to always determine to make a replacement F&A for each distribution determination.

The F&A process must be finalised at least six months prior to the date upon which a DNSP must lodge its regulatory proposal to give DNSPs sufficient time to prepare its regulatory proposal to reflect the proposed approach to classification or whether any departures from the AER's proposed classification are required or justified.

The F&A process followed by the AER with respect to Power and Water's 20024-2029 regulatory control period is explained in detail in Section 1.

Rule 6.8.2 Regulatory Proposal

A DNSP's regulatory proposal must include a classification proposal showing how the distribution services provided by the DNSP should be classified by the AER. If the proposed classification differs from the classification suggested in the AER's relevant F&A the DNSP must include the reasons for the difference. The AER can only accept a classification which departs from the F&A if the AER considers that a material change in circumstances justify departing from the classification set out in the F&A.

Power and Water's proposed classification of services under the Classification Proposal is set out in Section 2.

¹ These factors are set out in section 2F of the National Electricity Law and relate to assessing the market for the relevant services.

² NT NER 6.2.8(c)(1),

1. Framework and approach

1.1 The AER's F&A Process

1.1.1 Initiation

Following requests from all affected DNSPs in October 2021, the AER initiated the F&A process on 10 November and notified its decision to replace Power and Water's F&A for the 2024-2029 regulatory control period on 10 December 2021.

1.1.2 Preliminary position

The AER published a *Framework and Approach Preliminary Position* paper for Power and Water and the NSW, ACT and Tasmanian distribution business on 11 April 2024 and accepted submissions on that paper until 20 May 2022.

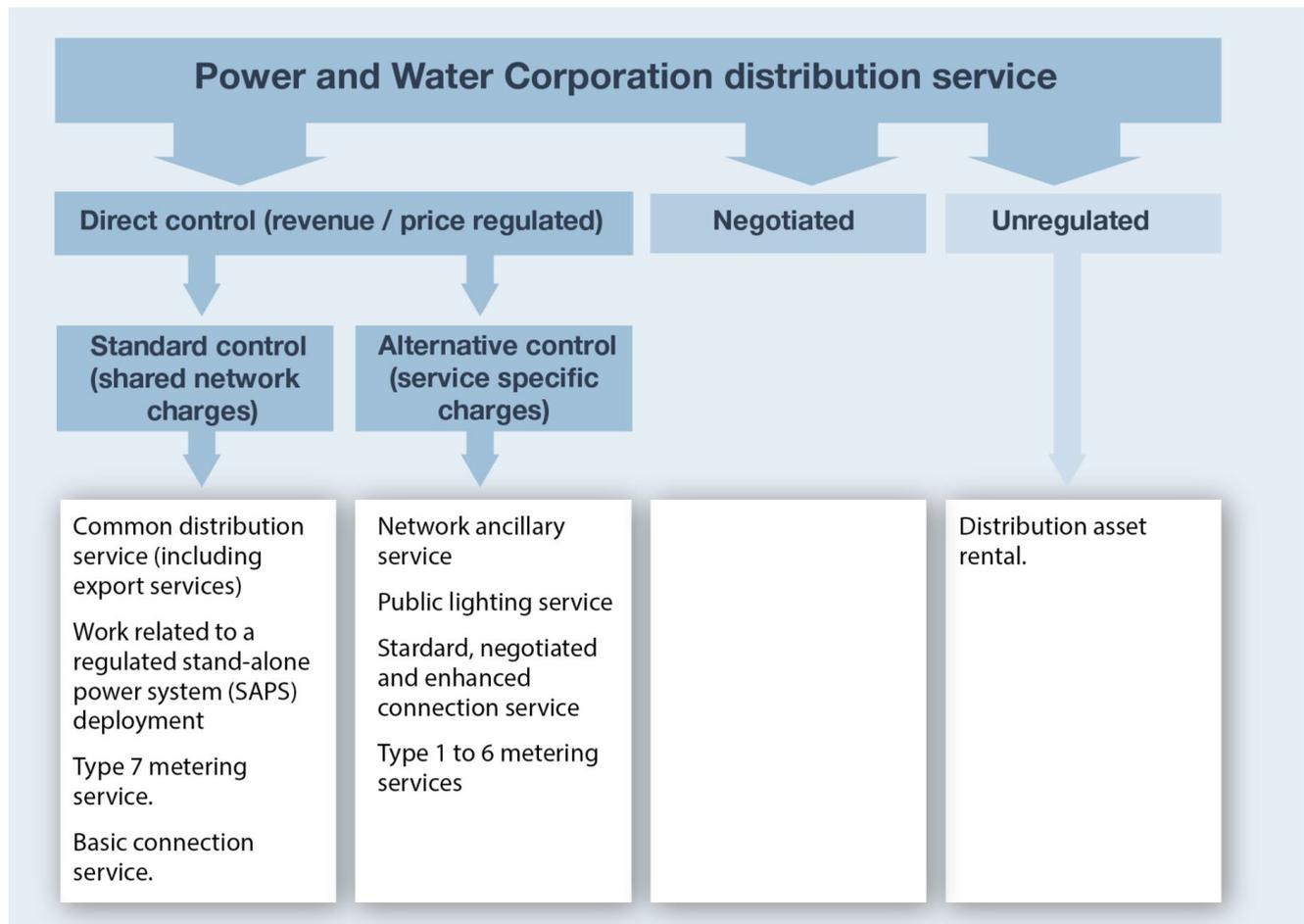
Power and Water broadly supported the AER's proposed approach to service grouping and classification, but sought clarification on several aspects and some refined wording of some of the service descriptions.

1.1.3 Final F&A paper

On 29 July 2022, the AER published its F&A paper for Power and Water for the 2024-29 regulatory control period commencing 1 July 2024 to 30 June 2029.

The AER's proposed service classification is shown in Figure 1.1.

Figure 1.1: High Level Diagram of AER’s classification of Power and Water’s distribution services



Source: AER Framework and approach.³

1.2 Summary of changes requested by Power and Water during F&A process

Power and Water’s services generally aligned to the AER’s baseline services. However, some of the detailed descriptions required refinement or adjustment to reflect Power and Water’s operational and jurisdictional requirements and anticipated changes to its regulatory environment.

Consequently, during the F&A process Power and Water requested, and the AER accepted, a number of changes to the service classification list for the 2024-2029 period. The key changes were:

- Inclusion of an expanded range of services anticipated to be provided by Power and Water as part of its Common Distribution services such as regulated stand alone power systems, essential system services, and activities related to NT jurisdictional technical and safety obligations as part of the Common Distribution Service.
- Classification of Standard and Negotiated connection services as alternative control along with a new service groupings of Connection Management Services and Enhanced Connection Services.

³ AER, *Framework and approach: Power and Water Corporation (Northern Territory): Regulatory control period commencing 1 July 2024*, July 2022, p.6

1.2.1 Power and Water and Negotiated Distribution Services

The AER did not propose to classify any of Power and Water's distribution services as negotiated services under its final F&A. However, the NT NER makes special provision in relation to services provided by Power and Water's transmission network.

Power and Water's network is both a transmission and distribution network for the purposes of the NT NER. This is because under the NT NER, a transmission network is a network operating at nominal voltages of 66kV and above.⁴

For the purposes of economic regulation by the AER, the NT NER provides⁵ that all of Power and Water Corporation's regulated network services are treated as distribution service so that services that would be prescribed transmission services are classified as direct control services and subject to economic regulation under Chapter 6, so that the same regulatory proposal and determination are made in relation to those services.

The NT NER further provides that services that would be negotiated transmission services will be taken to be a negotiated distribution service.⁶

Under the NT NER, negotiated transmission services are defined in the Chapter 10 Glossary as:

Any of the following services:

- (a) a shared transmission service that:
 - (1) exceeds the network performance requirements (whether as to quality or quantity) (if any) as that shared transmission service is required to meet under any jurisdictional electricity legislation; or*
 - (2) except to the extent that the network performance requirements which that shared transmission service is required to meet are prescribed under any jurisdictional electricity legislation, exceeds or does not meet the network performance requirements (whether as to quality or quantity) as are set out in schedule 5.1a or 5.1;**
- (b) connection services that are provided to serve a Transmission Network User, or group of Transmission Network Users, at a single transmission network connection point, other than connection services that are provided by one Network Service Provider to another Network Service Provider to connect their networks where neither of the Network Service Providers is a Market Network Service Provider;*
- (c) services specified to be negotiated transmission services under clause 5.2A.4; or*
- (d) undertaking system strength connection works, but does not include an above-standard system shared transmission service or a market network service.*

Element (b) of the definition captures connections to Power and Water's transmission network.

⁴ NT NER, Chapter 10, Glossary definition of transmission network.

⁵ NT NER Rule 6.0A(b)(1)

⁶ NT NER Rule 6.0A (b)(2)

This means that services related to connection to Power and Water's transmission network under Chapter 5 (Rule 5.3) are classified as negotiated transmission services and are taken to be classified as Negotiated Distribution Services.

This is addressed further in Attachment 12.03 as part of Power and Water's Negotiating Framework and the AER's Negotiated Distribution Service Criteria.

2. Proposed classification of services

Power and Water's proposed classification of services for the 2024-2029 period is to adopt, without departure, the proposed Classification of Services set out in Appendix C to the AER's Framework and Approach Paper July 2022.

Power and Water's proposed classification is attached as Appendix A.

Appendix A

Proposed classification of services

The following table provides the proposed service classification of Power and Water distribution services for the period 2024–29.⁷

Service group / activities included	Further description	Current classification 2019–24	Proposed classification 2024–29
Common distribution services—use of the distribution network for the conveyance/flow of electricity (including services relating to network integrity)			
Common distribution services	<p>The suite of activities that includes, but is not limited to, the following:</p> <ul style="list-style-type: none"> – the planning, design, repair, maintenance, construction and operation of the distribution network – the relocation of assets that form part of the distribution network but not relocations requested by a third party (including a customer) – works to fix damage to the network⁸ (including recoverable works caused by a customer or third party) – support for another distributor during an emergency event – procurement and provision of network demand management for distribution purposes – training internal staff and contractors undertaking direct control services – activities related to ‘shared asset facilitation’ of distributor assets⁹ 	Standard control	Standard control

⁷ The examples and activities listed in the ‘Further description’ column are not intended to be an exhaustive list and some distributors may not offer all activities listed. Rather the examples provide a sufficient indication of the types of activities captured by the service.

⁸ May include the provision of temporary stand-alone power systems to restore supply.

⁹ Revenue for these services is charged to the relevant third party and is treated in accordance with the shared asset guideline. ‘Shared asset facilitation’ refers to administrative costs. It does not refer to the costs associated with providing the unregulated service itself.

Service group / activities included	Further description	Current classification 2019–24	Proposed classification 2024–29
	<ul style="list-style-type: none"> – emergency disconnect for safety reasons and work conducted to restore a failed component of the distribution system to an operational state upon investigating a customer outage – bulk supply metering – activities relating to monitoring the flow of electricity through the distribution network. – rectification of simple customer fault relating to a life support customer or other critical health and safety issues the distributor is able to address – Site establishment services including: <ul style="list-style-type: none"> > liaising with NT Market Operator (NTESMO) or market participants for the purpose of establishing NMIs in market systems, for new premises or for any existing premises for which market rules or NTESMO require a new national metering identifier (NMI) and for validation of and updating network load data. This includes processing and assessing requests for a permanently unmetered supply device > site alteration, updating and maintaining NMI and associated data in market systems > NMI extinction, processing a request by the customer or their agent for permanent disconnection and the extinction of a NMI in market systems 		

Service group / activities included	Further description	Current classification 2019–24	Proposed classification 2024–29
	<ul style="list-style-type: none"> > confirming or correcting metering or network billing information in market business to business or network billing systems, due to insufficient or incorrect information received from retailers or metering providers – establishment and maintenance of NMIs in market and/or network metering systems, and other market and regulatory obligations – ongoing inspection of private electrical works (not part of the shared network) required under legislation for safety reasons – neutral integrity test - to identify the source of a fault following detection from a network issued device. Rectification work to render the network safe is limited to distribution network infrastructure. – customer requested network inspection undertaken to – determine the cause of a customer outage where there may be a safety and or reliability impact on the network or related component and associated works to rectify a customer caused impact on the network. – meet NT jurisdictional technical and safety obligations, including network neutral integrity test, emergency response and review of and maintaining of technical codes – work related to a regulated stand-alone power system (SAPS) deployment, operation and maintenance, 		

Service group / activities included	Further description	Current classification 2019–24	Proposed classification 2024–29
	(including fault and emergency repairs) ¹⁰ and customer conversion activities <ul style="list-style-type: none"> – management of metering and billing data as per NT jurisdictional obligations – Essential System Services required to be provided under NT Market arrangements 		
Network ancillary services—customer and third party initiated services related to the common distribution service			
Design related services	Activities include: <ul style="list-style-type: none"> – provision of design information, design rechecking services in relation to connection and relocation works – specialist services where the design is non-standard, technically complex or environmentally sensitive and any enquiries related to distributor assets – the provision of engineering consulting (related to the shared distribution network), including retaining external engineering consultants 	Alternative control	Alternative control
Access permits, oversight and facilitation	Activities include: <ul style="list-style-type: none"> – a distributor issuing access permits or clearances to work to a person authorised to work on or near distribution systems including high and low voltage 	Alternative control	Alternative control

¹⁰ Includes simple customer fault rectification on generation service of regulated SAPS.

Service group / activities included	Further description	Current classification 2019–24	Proposed classification 2024–29
	<ul style="list-style-type: none"> – a distributor issuing confined space entry permits and associated safe entry equipment to a person authorised to enter a confined space – a distributor providing access to switch rooms, substations and the like to a non-Local Network Service Provider party who is accompanied and supervised by a distributor's staff member. May also include a distributor providing safe entry equipment (fall-arrest) to enter difficult access areas – specialist services (which may involve design related activities and oversight/inspections of works) where the design or construction is non-standard, technically complex or environmentally sensitive and any enquiries related to distributor assets – facilitation of generator connection and operation of the network – facilitation of activities within clearances of distributor's assets, including physical and electrical isolation of assets 		
Sale of approved materials or equipment	Includes the administration and sale of approved materials/equipment to third parties for construction of connection assets that are gifted back to the DNSP to become part of the shared distribution network	N/A	Alternative control
Notices of arrangement and completion notices	<p>Examples include:</p> <ul style="list-style-type: none"> – work of an administrative nature where a local council requires evidence in writing from the distributor that 	Alternative control	Alternative control

Service group / activities included	Further description	Current classification 2019–24	Proposed classification 2024–29
	<p>all necessary arrangements have been made to supply electricity to a development. This may include receiving and checking subdivision plans, copying subdivision plans, checking and recording easement details, assessing supply availability, liaising with developers if errors or changes are required and preparing notifications of arrangement.</p> <ul style="list-style-type: none"> – provision of a completion notice (other than a notice of arrangement). This applies where the customer/developer requests distributor to provide documentation confirming progress of work. Usually associated with discharging contractual arrangements (e.g. progress payments) to meet contractual undertakings. 		
Network related property services	<p>Activities include:</p> <ul style="list-style-type: none"> – network related property services such as property tenure services related to obtaining deeds of agreement, deeds of indemnity, leases, easements or other property tenure in relation to property rights associated with connection or relocation – conveyancing inquiry services relating to the provision of property conveyancing information at the request of a customer 	Alternative control	Alternative control
Network safety services	<p>Examples include:</p> <ul style="list-style-type: none"> – provision of traffic control services by the distributor or third party where required 	Alternative control	Alternative control

Service group / activities included	Further description	Current classification 2019–24	Proposed classification 2024–29
	<ul style="list-style-type: none"> – Provision, installation, fitting and removing of tiger tails and aerial markers – high load escorts – third party request for de-energising wires for safe approach (e.g. for tree pruning) 		
Network tariff change request	<p>Activities including a retailer's customer or retailer requesting an alteration to an existing network tariff, requiring the distributor to conduct tariff and load analysis to determine whether the customer meets the relevant tariff criteria</p> <p>Where a distributor processes changes in its IT systems to reflect a tariff change request</p>	Alternative control	Alternative control
Services provided in relation to a Retailer of Last Resort (ROLR) event	<p>The distributors may be required to perform a number of services as a distributor when a retailer of last resort (ROLR) event occurs, including under clause 9 of the <i>NT Electricity Retail Supply Code</i></p>	Alternative control	Alternative control
Customer requested network outage or rescheduling of a planned interruption	<p>Examples include:</p> <ul style="list-style-type: none"> – where the customer requests to reschedule a distributor planned interruption and agrees to fund the additional cost of performing this distribution service outside of normal business hours – customer initiated network outage (e.g. to allow customer and/or contractor to perform maintenance on the customer's assets, work close or for safe approach). 	Alternative control	Alternative control

Service group / activities included	Further description	Current classification 2019–24	Proposed classification 2024–29
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
Inspection and auditing services	Activities include: <ul style="list-style-type: none"> – inspection and reinspection by a distributor, of gifted assets or assets that have been or are proposed to be installed or relocated by a third party – investigation, review and implementation of remedial actions that may lead to corrective and disciplinary action of a third party service provider due to unsafe practices or substandard workmanship – auditing of a third party service provider's work practices in the field – re-test at a customer's installation, where the installation fails the initial test and cannot be connected 	N/A	Alternative control
Provision of training to third parties for network related access	Training services provided to third parties that result in a set of learning outcomes that are required to obtain a distribution network access authorisation specific to a distributor's network. Such learning outcomes may include those necessary to demonstrate competency in the distributor's electrical safety rules, to hold an access authority on the distributor's network and to carry out switching on the distributor's network. Examples of training	Alternative control	Alternative control

Service group / activities included	Further description	Current classification 2019–24	Proposed classification 2024–29
	might include high voltage training, protection training or working near power lines training		
Authorisation and approval of third party service providers' design, work and materials	Activities include: <ul style="list-style-type: none"> – authorisation or re-authorisation of individual employees and subcontractors of third party service providers and additional authorisations at the request of the third party service providers (excludes training services) – acceptance of third party designs and works – assessing an application from a third party to consider approval of alternative material and equipment items that are not specified in the distributor's approved materials list 	N/A	Alternative control
Security lights	Provision, installation, operation, and maintenance of equipment mounted on distribution equipment used for security services, e.g. nightwatchman lights Note: excludes connection services	N/A	Alternative control
Customer or third party initiated/funded network asset relocations/re-arrangements	Relocation of assets that form part of the distribution network in circumstances where the relocation was initiated by a third party (including a customer)	N/A	Alternative control
Customer or third party requested provision of electricity network data or information	Data and information requests by customers or third parties including requests for the provision of electricity network data or consumption data outside of legislative obligations	Alternative control	Alternative control

Service group / activities included	Further description	Current classification 2019–24	Proposed classification 2024–29
Metering services—activities relating to the measurement of electricity supplied to and from customers through the distribution system (excluding network meters)			
Type 1 to 6 metering services¹¹	Provide type 1 to 6 metering services as set out in chapter 7A of the NER (NT), including but not limited to: <ul style="list-style-type: none"> – metering coordinator – metering provider, including: providing, installing, maintaining, inspecting, replacing, recovery and disposal, and testing meters – meter reading including scheduled and special meter reads (e.g. move in and move out meter reading, final read on removed meter) – meter data services including collection, processing, management, delivery and storage of metering data 	Alternative control	Alternative control
Type 7 metering services	Administration and management of type 7 metering installations in accordance with the chapter 7A of NER (NT) 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
Connection services —services relating to the electrical or physical connection of a customer to the network			
Basic connection services	Means a connection service related to a connection (or a proposed connection) between a distribution system and a retail customer’s premises (excluding a non-registered	Standard control	Standard control

¹¹ Type 5 meters are currently not approved for use in the Northern Territory. When referring to type 1 to 6 metering services, this includes services relating to pre-payment meters.

Service group / activities included	Further description	Current classification 2019–24	Proposed classification 2024–29
	<p>embedded generator’s premises) in the following circumstances:</p> <ul style="list-style-type: none"> a. either: <ul style="list-style-type: none"> i. the retail customer is typical of a significant class of retail customers who have sought, or are likely to seek, the service; or ii. the retail customer is, or proposes to become, a micro embedded generator; and b. the provision of the service involves minimal or no augmentation of the distribution network; and c. a model standing offer has been approved by the AER for providing that service as a basic connection service. 		
Standard connection services	Means a connection service (other than a basic connection service) for a particular class (or sub-class) of connection applicant and for which a model standing offer has been approved by the AER	N/A	Alternative Control
Negotiated connection services	Means a connection service (other than a basic connection service) for which a DNSP provides a connection offer for a negotiated connection contract	N/A	Alternative Control
Enhanced connection service¹²	Other or enhanced connection services provided at the request of a customer or third party that include those that are:	N/A	Alternative Control

¹² Includes enhancements for both consumption and export services.

Service group / activities included	Further description	Current classification 2019–24	Proposed classification 2024–29
	<ul style="list-style-type: none"> – provided with higher quality of reliability standards, or lower quality of reliability standards (where permissible) than required by the NER or any other applicable regulatory instruments – in excess of levels of service or plant ratings required to be provided by the distributor 		
Connection management services	Works initiated by a customer or retailer which are specific to the connection point. This includes, but is not limited to: <ul style="list-style-type: none"> – connection application related services – connection point management services 	Alternative control	Alternative control
Unregulated distribution services			
Distribution asset rental	Rental of distribution assets to third parties (e.g. office space rental, pole and duct rental for hanging telecommunication wires etc.)	N/A	Not classified

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