Services Classification and Control
Mechanisms for Distribution Services

Proposal to the Australian Energy
Regulator under clause 11.16.6
of the National Electricity Rules

March 2008
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Executive Summary

Overview

The Australian Energy Regulator (AER) has been established to implement a consistent national approach to the economic regulation of members of the National Electricity Market in accordance with the National Electricity Rules (the Rules).

ENERGEX’s distribution services are currently regulated by the Queensland Competition Authority (QCA). The making of the National Electricity (Economic Regulation of Distribution Services) Amendment Rules 2007, transfers the responsibility for economic regulation of ENERGEX’s distribution business from the QCA to the AER.

As part of the regulatory determination, ENERGEX is currently preparing a Regulatory Proposal for submission to the AER to determine revenue for the five-year period commencing 1 July 2010. The Regulatory Proposal must be submitted to the AER by 31 May 2009.

ENERGEX will be among the first electricity distribution network service providers to submit a Regulatory Proposal under the amended Rules to the AER.

To assist in the smooth transition to a national framework, ENERGEX has been granted a transitional arrangement as outlined in Clause 11.16.6 of the Rules to make a Stage 1 Framework and Approach proposal (the proposal) to the AER for the next regulatory period in relation to:

- the classification of its services; and
- control mechanisms.

The purpose of this proposal is to seek guidance from the AER on these two cornerstone issues to facilitate the preparation of ENERGEX’s Regulatory Proposal.

In accordance with the process for conducting a regulatory determination and in line with the market notice issued by the AER on 29 February, 2008 matters relating to conditions of supply, including prices for services, will be subject to a full consultation process when ENERGEX’s Regulatory Proposal is lodged in May 2009.

This proposal has been developed to achieve the following:

- to ensure that customers do not see any adverse impacts arising from the regulatory change;
- to provide for funding certainty and the implementation of the recommendations of the “Detailed Report of the Independent Panel – Electricity Distribution and Service delivery for the 21st Century (EDSD);
- to support a regulatory framework that decouples revenue for network services from energy throughput and provides for the encouragement of energy efficiency, exploration of non-network alternatives and the development of environmentally sustainable energy options;
- to match revenue with the cost of providing customer driven services; and
- to provide flexibility to meet the expectations of major customers.
Classification of Services

Overall this proposal nominates various Standard Control Services (10 groups) and a group of Negotiated Distribution Service. ENERGEX's proposal to establish a group of Negotiated Distribution Services responds to representations made by major customers to have the opportunity, particularly in relation to timing, to negotiate sub-transmission connection arrangements with the network service provider. ENERGEX is not proposing any alternative control services in this proposal.

The body of this document assesses each group of services in line with the criteria prescribed in the Rules and then classifies the service accordingly.

In proposing that all services regulated by the QCA will be subject to the regulation of the AER, with the exception of the group of services associated with street lighting and coverage of low voltage mains, there will be minimal change for ENERGEX's customers. ENERGEX believes the Street Lighting Services relating to construction and maintenance of street lighting assets fall outside the criteria for “distribution services” as defined by the Rules. The impact of the change of this service to unregulated will be limited to street light customers, such as councils and the Department of Main Roads.

Control Mechanism

ENERGEX recommends a hybrid Control Mechanism apply to its distribution Services. The hybrid form comprises:

- A Revenue Cap for ENERGEX's shared network services; and
- A Weighted Average Price Cap (WAPC) to be applied to the tariff basket consisting of ENERGEX's connection services (connections) and customer services; and
- A WAPC tariff basket consisting of ENERGEX's remaining standard control services.

ENERGEX submits a Revenue Cap on shared network services will continue to provide funding certainty required for ENERGEX to respond to customer concerns about service and reliability as identified by the Electricity Distribution and Service Delivery for the 21st Century Report (EDSD).

Given the continued requirement for ongoing capital expenditure ENERGEX submits that the existing Revenue Cap continues to be applied to shared network services.

Funding certainty and the findings of the EDSD report also underpin ENERGEX’s proposal for a WAPC on customer driven work including connections and customer services. In relation to connection services in particular, the EDSD report concluded that in times of volatile growth, as experienced by ENERGEX, the Revenue Cap approach had serious shortcomings and alternatives should be considered.
The WAPC control mechanism proposed for connection and customer services provides certainty for ENERGEX’s capital expenditure by aligning revenue with the cost of providing services used by individual customers within South East Queensland’s customer base.

The following table summarises the regulatory changes in this proposal.

<table>
<thead>
<tr>
<th>Existing Control Mechanism</th>
<th>Existing Services (QCA)</th>
<th>Proposed Service Classification (AER)</th>
<th>Proposed Control Mechanism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Cap</td>
<td>Prescribed DUOS Services</td>
<td>Standard Control Services – Shared Network</td>
<td>Revenue Cap</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Standard Control Services – Connection Services &amp; Customer Services</td>
<td>Weighted Average Price Cap</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Negotiated Distribution Services – Sub-transmission Connection Services</td>
<td>Negotiated</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Unregulated – Street Lighting Services</td>
<td>Unregulated</td>
</tr>
<tr>
<td>Schedule of Rates (for quoted) and Review of average prices (for non-quoted)</td>
<td>Previous - Prescribed Non-DUOS Services</td>
<td>Standard Control Services – De-energisations/ Re-energisations, Additions &amp; Alterations, Ancillary Metering Services, Supplementary Services, Enhanced Services, Quoted Services and Temporary Supply Services.</td>
<td>Weighted Average Price Cap</td>
</tr>
<tr>
<td>N/A</td>
<td>Unregulated Activities</td>
<td>Unregulated Activities</td>
<td>N/A</td>
</tr>
</tbody>
</table>

This proposal is limited to two issues, classification of services and control mechanisms, and will have no impact on the delivery of existing services. In summary ENERGEX will continue to:

- deliver current services;
- meet obligations to its customers; and
- manage the distribution network in a sustainable manner through a balanced mix of resources.

**Conclusion**

ENERGEX submits this proposal satisfies the assessment criteria that the AER must have regard to when considering the regulatory framework to apply to ENERGEX.
1 Introduction

ENERGEX’s distribution services are currently regulated by the Queensland Competition Authority (QCA) under the National Electricity Rules (Rules). Following the making of the National Electricity (Economic Regulation of Distribution Services) Amendment Rules 2007 on 16 December 2007, the Australian Energy Regulator (AER) will replace the QCA as ENERGEX’s economic regulator for its next regulatory control period, commencing 1 July 2010.

Chapter 6, clause 6.8.1, of the Rules requires the AER to publish a framework and approach paper in anticipation of its distribution determination.

To assist in the smooth transition to a national framework, the Queensland DNSP’s were granted transitional arrangements outlined in clause 11.16.6 of the Rules, which provide for a specific proposal to be made to the AER about the classification of services and control mechanisms for the next regulatory control period, by 31 March 2008. All other matters outlined in clause 6.8.1(b) will be included in the AER’s framework and approach paper to be published in November 2008.

This proposal considers in detail the nature of the services provided by ENERGEX as well as the rationale supporting the proposed classification of these services and the control mechanisms to be applied. To maintain consistency in the Queensland jurisdiction, ENERGEX and Ergon Energy have worked closely together to, where possible, identify and classify similar services in a uniform manner and to apply similar control mechanisms.

On 29 February 2008, the AER released a market notice “Preparations for Qld distribution determination 2010 to 2015”. In the notice, the AER advised that it would publish the Stage 1: Framework and Approach – classification of services and form of control mechanism in August 2008. This decision will inform the development of ENERGEX’s Regulatory Proposal.

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1 The National Electricity Code version 9.4 was in force at the time of the QCA’s 2005 Final Determination.
2 About ENERGEX

ENERGEX Limited (ENERGEX) is a ‘company Government Owned Corporation’ under the Government Owned Corporations Act 1993\(^2\). It holds a Distribution Authority that is administered by the Director-General of the Queensland Department of Mines and Energy to supply electricity using its distribution system across south east Queensland. Appendix A of this document provides a map of ENERGEX’s supply area.

2.1 ENERGEX’s Customers

ENERGEX provides distribution services to:

- **Retailers** – Retailers purchase wholesale energy that is transported through Powerlink’s transmission system and ENERGEX’s distribution system to end customers. ENERGEX currently provides distribution services to about 20 competing electricity retailers. A Standard Coordination Agreement sets out how ENERGEX and electricity retailers will interact to meet customers’ needs. This agreement can be varied by negotiation;

- **Customers** – ENERGEX provides certain distribution services directly to the customer’s connection point, with no involvement from a retailer as an intermediary. ENERGEX currently has about 1.3 million connections in its distribution area. ENERGEX has Standard Connection Contracts with its customers that cover these distribution services, and these contracts can be varied by negotiation; and

- **Community** – About 2.8 million people\(^3\) currently rely on ENERGEX every day for the safety, quality, reliability and availability of their electricity supply.

A tripartite contractual relationship was established between ENERGEX, its customers and retailers upon the introduction of full retail competition (FRC) in Queensland on 1 July 2007. The nature of this relationship is illustrated in the following diagram:

![Diagram showing the relationship between Customer, Retailer, ENERGEX, Standard or Negotiated Connection Contract, Standard or Market Retail Contract, Standard or Negotiated Coordination Agreement](image)

ENERGEX’s Standard Connection Contract and Standard Coordination Agreement are detailed in Annexure A and Annexure C to the Queensland Electricity Industry Code respectively.

\(^2\) Government Owned Corporations Act 1993, s 6 and s7(3)

\(^3\) South East Queensland Infrastructure Plan and Program 2007-2026, page 16
2.2 ENERGEX’s Distribution System

ENERGEX’s electricity distribution system includes:

- High density areas, such as the Brisbane CBD, Gold Coast and Sunshine Coast city areas, which are supplied by 110/11 kV, 110/33 kV, 132/33 kV, or 132/11 kV injection points;
- Suburban and inner rural areas where 110/33 kV or 132/33 kV bulk supply substations are used to supply 33/11 kV zone substations;
- The Brisbane suburban areas around the CBD, which have extensive older meshed 33 kV underground cable networks that supply zone substations with outdoor busbars;
- Outer suburbs and growth areas to the north, south and west of Brisbane which are supplied via modern indoor substations of modular design that enable further modules to be readily added;
- New subdivisions in suburban areas which are supplied by underground networks with padmount substations; and
- Connections to Powerlink’s high voltage transmission network at various Transmission Network Connection Points.

The following table provides a statistical summary of the lines, cables and equipment that represents ENERGEX’s distribution system in 2006/07.
Summary of ENERGEX’s distribution system:

<table>
<thead>
<tr>
<th>Total Overhead Lines and Underground Cables (kilometres)</th>
<th>50,217</th>
</tr>
</thead>
<tbody>
<tr>
<td>Length of Overhead Lines (kilometres)</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>36,373</td>
</tr>
<tr>
<td>Low-Voltage</td>
<td>14,893</td>
</tr>
<tr>
<td>11 kV</td>
<td>17,709</td>
</tr>
<tr>
<td>33 kV</td>
<td>2,091</td>
</tr>
<tr>
<td>110/132 kV</td>
<td>1,680</td>
</tr>
<tr>
<td>Length of Underground Cables (kilometres)</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>13,844</td>
</tr>
<tr>
<td>Low-Voltage</td>
<td>8,592</td>
</tr>
<tr>
<td>11kV</td>
<td>4,207</td>
</tr>
<tr>
<td>33 kV</td>
<td>942</td>
</tr>
<tr>
<td>110/32 kV</td>
<td>103</td>
</tr>
<tr>
<td>Equipment</td>
<td></td>
</tr>
<tr>
<td>Number of Zone Substations</td>
<td>207</td>
</tr>
<tr>
<td>Number of Bulk Supply Substations</td>
<td>36</td>
</tr>
<tr>
<td>Number of Poles</td>
<td>612,638</td>
</tr>
<tr>
<td>Number of Distribution Transformers</td>
<td>42,261</td>
</tr>
</tbody>
</table>

2.3 ENERGEX’s Operating Environment

ENERGEX’s operating environment presents a range of management challenges that impact on the provision of its services.

Over the last five years the maximum demand in south east Queensland has grown between 6% and 7% per annum. With the proliferation of air-conditioners in homes, the system maximum demand peaks in summer. The change from a winter to a summer maximum demand during the late 1990’s has resulted in lower ratings for electrical plant at times of peak load and added particular operating challenges to the business. These challenges have particularly been driven by:

- An annual increase of around 50,000 people and around 30,000 new connections in south east Queensland with:
  - High density growth in the Brisbane CBD, Gold Coast and Sunshine Coast, including extensive commercial and high rise residential developments; and
  - Urban and semi-rural expansion into previously forested or farming areas of between 20,000 and 24,000 lots per annum.

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5 Summary Report, Planning Information and Forecasting Unit, Department of Local Government, Planning, Sport and Recreation, September 2006
• Strong economic growth in south east Queensland, which is also being reflected in significant infrastructure development for water, roads, bus ways and rail corridors; and

• The rapid take up of domestic air-conditioning, which increases electricity maximum demand.\(^6\)

This rapid growth has required ENERGEX to dramatically increase its capital expenditure. This is reflected in the capital program for the current five year regulatory period from 1 July 2005 to 30 June 2010 where it expects to spend approximately $3.4 billion (June 2004 dollars)\(^7\) on its network. ENERGEX expects the current high rate of growth in maximum demand will continue at least over the next 10 to 15 years and is implementing network demand management initiatives to address this growth.

The climatic conditions in south east Queensland also dramatically impact on ENERGEX’s operations, with:

• Rapid vegetation growth currently requiring ENERGEX to spend more than $1 million per week on vegetation management activity; and

• Periods of sustained high temperatures, high humidity, major summer lightning and wind storm activity presenting significant threats to supply reliability.

ENERGEX currently manages these matters through a targeted annual summer preparedness plan.

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\(^6\) ENERGEX Annual Network Management Plan, 2007/08 to 2011/12, page 5
\(^7\) In accordance with the QCA’s Final Decision: ENERGEX Application for Capital Expenditure Cost Pass-through, March 2007, page 1-3
3 This Proposal

3.1 Background

Clause 6.8.1 of the Rules requires the AER to prepare a framework and approach paper in anticipation of its distribution determination for ENERGEX’s next regulatory control period. This paper will include the AER’s likely approach to the classification of distribution services, the form or forms of control mechanisms that will apply in the next regulatory control period and the AER’s reasons for deciding on these control mechanisms.

Clause 6.8.2(b)(1) of the Rules requires ENERGEX to submit a Regulatory Proposal to the AER for the next regulatory control period by no later than 13 months before the expiry of the current determination, being 31 May 2009.

Clause 6.8.2(c)(1)(i) and (ii) of the Rules requires that:

- ENERGEX’s Regulatory Proposal must include a proposal for classifying its services in accordance with Chapter 6 of the Rules; and
- ENERGEX must justify the reasons for any differences in its services classification from the classification suggested in the AER’s relevant framework and approach paper.

The transitional arrangements in clause 11.16.6 of the Rules give ENERGEX an opportunity to submit a specific proposal to the AER about the classification of its services and its control mechanisms for the next regulatory control period by 31 March 2008. If ENERGEX makes such a proposal, this clause requires the AER to publish its framework and approach paper under clause 6.8.1 of the Rules in relation to these two issues within five months of receiving ENERGEX’s proposal. This would therefore allow ENERGEX to understand the AER’s views regarding its services classification and control mechanisms earlier than would otherwise be the case under clause 6.8.2 of the Rules.

3.2 Purpose of this Proposal

The classification of services and choice of control mechanisms will be cornerstone features of ENERGEX’s forthcoming Regulatory Proposal and of the AER’s subsequent distribution determination. ENERGEX will be among the first electricity distribution network service providers to submit a Regulatory Proposal under the amended Rules to the AER. No precedent exists for applying the service classification framework under the new Chapter 6 of the Rules or of the revised basis on which a control mechanism is chosen to apply to direct control services.

The purpose of this proposal is to seek guidance from the AER on these two cornerstone issues to facilitate the preparation of ENERGEX’s Regulatory Proposal.
Accordingly, this document is a proposal to the AER under clause 11.16.6 of the Rules, it:

- Proposes a basis for classifying ENERGEX’s distribution services, and for establishing the associated control mechanisms, for the next regulatory control period commencing 1 July 2010; and

- Justifies ENERGEX’s proposed service classification and control mechanisms for each subclass of direct control services on the basis of the matters that the AER must have regard to under Chapter 6 of the Rules. Specifically, this proposal addresses:
  - Clause 6.2.1, which sets out the matters that the AER must have regard to when classifying distribution services as direct control services or negotiated services;
  - Clause 6.2.2, which sets out the matters that the AER must have regard to when classifying direct control services as standard control services or alternative control services; and
  - Clause 6.2.5(c), which sets out the matters that the AER must have regard to when deciding on the control mechanism for standard control services.

ENERGEX seeks the AER’s consideration and acceptance of its proposed services classification and control mechanisms, and requests that ENERGEX’s proposal be reflected in the AER’s framework and approach paper. This will enable ENERGEX’s Regulatory Proposal to reflect the services classification and to demonstrate the application of the control mechanisms, in accordance with the requirements of clauses 6.8.2(c)(1) and (3) respectively of the Rules.

This proposal has been prepared following various meetings between ENERGEX and the AER in late 2007 and early 2008 that sought to clarify:

- The nature of the information that the AER expects ENERGEX’s proposal will contain; and

- How the AER expects ENERGEX will address specific provisions of the Rules, including clauses 6.2.1 and 6.2.2 in relation to services classification and clause 6.2.5 of the Rules in relation to the control mechanisms.
3.3 Structure of this Proposal

The remainder of this document is structured as follows:

- Section 4 examines the service classification and control mechanisms that apply to ENERGEX in the current regulatory control period;
- Section 5 identifies the key provisions of the new Chapter 6 of the Rules that are relevant to this proposal;
- Section 6 overviews the nature of ENERGEX’s distribution services;
- Section 7 details ENERGEX’s proposed classification of distribution services between direct control and negotiated services;
- Section 8 details ENERGEX’s proposed classification of direct control services between standard control services and alternative control services;
- Section 9 details ENERGEX’s proposed control mechanisms to apply to its direct control services;
- Section 10 summarises ENERGEX’s proposed classification of services and control mechanisms for its distribution services;
- Section 11 examines the impacts of this proposal on customers;
- Appendix A is a map of ENERGEX’s supply area; and
- Appendix B provides an overview of ENERGEX’s unregulated activities.
4 Current Service Classification and Control Mechanisms

ENERGEX currently has:

- Various prescribed distribution use of system (DUOS) services that are regulated under a fixed revenue cap;
- Various excluded distribution services that are regulated under a variant of a schedule of fixed charges; and
- Various unregulated activities that are not distribution services.

This section details how ENERGEX came to have these service classifications and control mechanisms for its distribution services.

4.1 Current Types of Distribution Services

ENERGEX’s distribution services were classified for the current regulatory control period under the previous National Electricity Code (old Code)\(^8\). The old Code was superseded with the making of the initial National Electricity Rules on 1 July 2005. The new Rules version 18, which commenced on 1 January 2008, contains a number of significant changes to the operation of the distribution regulatory regime and definitions.

Clause 6.10.4 of the old Code provided that all distribution services should be classified as either prescribed distribution services or excluded distribution services. Determining this classification was the responsibility of the jurisdictional regulator, the QCA.

The old Code defined “distribution services” as:

\[\text{The services provided by a distribution system which are associated with the conveyance of electricity through the distribution system. Distribution services include entry services, distribution network use of system services, exit services and network services which are provided by part of a distribution system.}\]

“Prescribed distribution services” were defined in the old Code as being:

\[\text{Distribution services provided by distribution network assets or associated connection assets which are determined by the jurisdictional regulator as those which should be subject to economic regulation under clause 6.10.4(a).}\]

“Excluded distribution services” were defined in the old Code as being:

\[\text{Distribution services, the costs of and revenue for which are excluded from the revenue cap or price cap which applies to prescribed distribution services.}\]

\(^8\) The National Electricity Code version 9.4 was in force at the time of the QCA’s 2005 Final Determination
4.2 The QCA’s Regulatory Determinations

4.2.1 Classification of Services

The QCA issued its “Electricity Distribution: Determination of Prescribed Services” in September 2000. This determination declared all of the distribution services performed by ENERGEX to be prescribed distribution services. The QCA stated that:

\[\text{Initially, all services performed by each DNSP that are associated with, or ancillary to, access to that DNSP’s network for the supply of electricity within that DNSP’s service area are to be declared as ‘prescribed services’ and therefore subject to economic regulation by the Authority.}\]

The QCA provided that either ENERGEX or any other interested party could apply, on a case by case basis, to have prescribed distribution services reclassified as excluded distribution services. It established a test whereby a service could only be re-classified:

\[\text{where it can be demonstrated that the market for such services is ‘contestable’, that is subject to potential – if not actual – competition.}\]

In particular, the QCA required that any application to reclassify prescribed distribution services as excluded distribution services must:

\[\text{Demonstrate that the current level of competition or, alternatively, the lack of significant barriers to entry mean that the DNSP lacks substantial influence in the market.}\]

The QCA applied its September 2000 determination for the purposes of regulating ENERGEX’s distribution services in the regulatory control period 1 July 2001 to 30 June 2005. The QCA determined that all of ENERGEX’s distribution services were to be classified as prescribed distribution services and that there would be no excluded distribution services.

In its 2005 Final Determination, the QCA reapplied its September 2000 determination that all distribution services, including network services, connection services and customer support services would be prescribed distribution services for the regulatory control period 1 July 2005 to 30 June 2010. The QCA detailed a “list of prescribed distribution services used in the preparation of this Final Determination”.

The QCA separated ENERGEX’s prescribed distribution services into two sub-categories: prescribed DUOS services and prescribed non-DUOS services.

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10 ENERGEX and Ergon Energy
11 Ibid., page 8
12 Ibid., page 8
13 Ibid., page 11
The QCA’s 2005 Final Determination stated that prescribed DUOS services:

*means those prescribed distribution services provided by distribution use of system assets (as defined in the Code) and whose revenue is earned from distribution use of system charges.*\(^{15}\)

The QCA stated that prescribed non-DUOS services:

*means those prescribed distribution services that are not DUOS Services and whose revenue is earned from miscellaneous charges. For Energex these services are: recoverable works not subject to legislative provision; temporary builder’s services; and subdivision fees. For Ergon these services are: recoverable works not subject to legislative provision; temporary builder’s services; subdivision fees; and reconnection/disconnection services.*\(^{16}\)

All of the prescribed non-DUOS services relate to services provided to retailers, customers and/or contractors that are non-recurrent services in nature and priced on a fee for service basis, outside of the network tariff. Since the introduction of FRC on 1 July 2007, a number of these services are requested and delivered through business-to-business (B2B) service order requests. The types of prescribed non-DUOS services covered by the B2B procedures include:

- Re-energisations;
- De-energisations;
- Special meter reads;
- Additions and alterations to customer connections;
- Meter re-configurations;
- Meter investigations;
- Supply abolishments; and
- Miscellaneous services.

In August 2007, the QCA released its Final Decision on an amendment to its September 2000 Final Determination “Electricity Distribution: Determination of Prescribed Services”. The amendment established broader criteria for excluding services on the basis of clause 6.2.4(a) of the old Code whereby the QCA may deem a service to be excluded having regard to criteria set out in clause 6.2.4(a). These new criteria allowed the QCA to deem a service to be excluded and to apply a “light handed” form of regulation even where a contestable market cannot be demonstrated.

\(^{15}\) Ibid., page 268

\(^{16}\) Ibid., page 270
Following the August 2007 Final Decision, the QCA consulted on and confirmed in December 2007 its Final Decision “Electricity Distribution: Review of Excluded Distribution Services”\(^{17}\). On the basis of the broader criteria, rather than the market test, in its Final Decision, the QCA reclassified all of ENERGEX’s prescribed non-DUOS services as excluded distribution services. The driver for this decision was the introduction of FRC in Queensland. FRC was expected to trigger an increase in the demand for these prescribed non-DUOS services, which could lead to inappropriate cross-subsidisation between these services and prescribed DUOS services under a fixed revenue cap. As a result, ENERGEX currently has:

- Various prescribed DUOS services;
- No prescribed non-DUOS services; and
- Various excluded distribution services.

### 4.2.2 Control Mechanism

The QCA applied a fixed revenue cap control mechanism to all prescribed distribution services in both its 2001 and 2005 Final Determinations.

The QCA, in adopting a fixed revenue cap in its 2001 Final Determination stated that:

*By controlling the amount of revenue each DNSP is able to raise during a year, the Authority aims to remove the possibility for the DNSPs to use their monopoly position to extract more than a fair price for the services they provide.*\(^{18}\)

The QCA made a decision in June 2003 to retain a fixed revenue cap for the regulatory control period 1 July 2005 to 30 June 2010. It stated that:

*....this reflected the (QCA’s) reluctance to move away from the current fixed revenue cap arrangements so soon after implementing them and with only one year of data and experience to assess how the current regulatory regime was functioning and upon which to base its decision.*

*...The (QCA) consider(ed) that the lack of certainty about the appropriateness of existing distribution prices and the continued removal of monopoly rents while ensuring the financial viability of the distributors (were) important reasons for maintaining the fixed revenue cap arrangements for the next regulatory period.*\(^{19}\)

\(^{19}\) QCA, Final Decision - Form of Regulation of Electricity Distribution to commence from 1 July 2005, (June 2003) page 1
In their respective submissions, ENERGEX and Ergon Energy highlighted the risks of retaining a fixed revenue cap and proposed the following alternatives:

- ENERGEX recommended that the QCA adopt a weighted average price cap (WAPC);\(^ {20}\) and
- Ergon Energy recommended that a hybrid revenue cap be adopted in order to address the risks of forecasting error.\(^ {21}\)

As noted above, the QCA’s December 2007 Final Decision “Electricity Distribution: Review of Excluded Distribution Services” reclassified ENERGEX’s prescribed non-DUOS services as excluded distribution services. As a result, the QCA changed the control mechanism for these services from a revenue cap to a variant of a schedule of fixed charges. The QCA considered that approving prices based on an approved pricing principles statement (a variant on a schedule of fixed charges) would be a more appropriate control mechanism than a revenue cap for ENERGEX’s excluded distribution services. The driver for this decision was the same as the reclassification decision for excluded distribution services – the introduction of FRC in Queensland.

As a result, ENERGEX’s:

- Prescribed DUOS services are currently regulated under a fixed revenue cap; and
- Excluded distribution services are currently regulated under a variant of a schedule of fixed charges.

5 Requirements of Chapter 6 of the Rules

This section details the provisions of the new Chapter 6 of the Rules that are relevant to this proposal.

5.1 Definitions

The Rules and the Law define the following terms that are particularly relevant to this proposal:

- **Alternative control service** – The Rules state that this is “A distribution service that is a direct control service but not a standard control service”;

- **Connection assets** – The Rules state that these are “Those components of a transmission or distribution system which are used to provide connection services”;

- **Direct control service** – Section 2B of the Law states that “A direct control network service is an electricity network service —

(a) the Rules specify as a service the price for which, or the revenue to be earned from which, must be regulated under a distribution determination or transmission determination; or

(b) if the Rules do not do so, the AER specifies, in a distribution determination or transmission determination, as a service the price for which, or the revenue to be earned from which, must be regulated under the distribution determination or transmission determination.”

The Rules state that a direct control service is “A distribution service that is a direct control network service within the meaning of section 2B of the Law”.

- **Distribution network** – the Rules state that this is “A network that is not a transmission network”;

- **Distribution network service provider** (DNSP) – The Rules state that this is “A person who engages in the activity of owning, controlling, or operating a distribution system”;

- **Distribution service** – The Rules state that this is “A service provided by means of, or in connection with, a distribution system”;\(^{22}\)

- **Distribution system** – The Rules state that this is “A distribution network, together with the connection assets associated with the distribution network, which is connected to another transmission or distribution system. Connection assets on their own do not constitute a distribution system”.

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\(^{22}\) Note that this definition is different to that which applied under the old Code and the QCA’s Determinations.
• **Framework and approach paper** – The Rules state that this is “A document prepared and issued as a framework and approach paper under clause 6.8.1”;

• **Negotiated distribution service** – Section 2C of the Law states that “A negotiated network service is an electricity network service —

  (a) that is not a direct control network service; and

  (b) that:

    (i) the Rules specify as a negotiated network service; or

    (ii) if the Rules do not do so, the AER specifies as a negotiated network service in a distribution determination or transmission determination.”

The Rules state that a negotiated distribution service is “A distribution service that is a negotiated network service within the meaning of section 2C of the Law”.

• **Network** – The Rules state that this is “The apparatus, equipment, plant and buildings used to convey, and control the conveyance of, electricity to customers (whether wholesale or retail) excluding any connection assets. In relation to a Network Service Provider, a network owned, operated or controlled by that Network Service Provider”;

• **Regulatory Proposal** – The Rules state that this is “A proposal (by a Distribution Network Service Provider) under rule 6.8”; and

• **Standard control service** – The Rules state that this is “A direct control service that is subject to a control mechanism based on a Distribution Network Service Provider’s total revenue requirement”.

Neither the Rules nor the Law define “non-distribution services” or “unregulated activities”. These are services and activities that are provided by ENERGEX which are not “distribution services” and are therefore not subject to economic regulation by the AER under Chapter 6 of the Rules. The nature of the unregulated activities is discussed in Appendix B of this document.

### 5.2 Distinguishing between Direct Control and Negotiated Distribution Services

Clause 6.2.1(a) of the Rules requires that distribution services be classified as either direct control services or negotiated distribution services and clause 6.2.1(b) of the Rules allows a DNSP’s services to be grouped together for the purposes of classification.

Clause 6.2.1(c) of the Rules sets out the matters that the AER must consider when assessing a DNSP’s classification of services between direct control services or negotiated distribution services:
The AER must, in classifying a distribution service, have regard to:

(1) the form of regulation factors; and

(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.

The form of regulation factors referred to in 6.2.1(c)(1) of the Rules are set out in section 2F of the Law. These factors are:

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

(b) the 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;

(c) the 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;

(d) the 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;

(e) the 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;

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

(g) the 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.
Clauses 6.2.1(d) and (e) of the Rules state that:

(d) 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.

(e) If the Rules, however, require that a particular classification be assigned to a distribution service of a specified kind, a distribution service of the relevant kind is to be classified in accordance with that requirement.

5.3 Distinguishing between Standard Control and Alternative Control Services

Clause 6.2.2 of the Rules requires that direct control services be further classified between two subclasses of distribution services. These subclasses are subject to regulation by the AER under clause 6.2.5 and the nature of this regulation may differ between the subclasses as provided in clause 6.2.6:

- **Standard Control Services** – These services must be regulated via a building block approach based on arrangements defined in the Rules. ENERGEX must prepare a Revenue Proposal that sets out each element of the building block methodology in order to derive the annual revenue requirement (ARR) for each year of the regulatory period for these services; and

- **Alternative Control Services** – These services can be regulated via a building block approach or an alternative method, such as a ‘fair and reasonable’ test, a schedule of fees or some other approach. Importantly, the revenue from these services does not form part of ENERGEX’s ARR.

Clause 6.2.2(c) of the Rules requires that in classifying services between standard and alternative control the AER must have regard for:

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

(2) the possible effects of the classification on administrative costs of the AER, the Distribution Network Service Provider and users or potential users; and

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

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

(6) any other relevant factor.

5.4 Determining Control Mechanisms for Direct Control Services

Clause 6.8.1(c) of the Rules provides that “The framework and approach paper must state 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)”. Clause 6.12.3(c) of the Rules provides that, for the purposes of the AER’s distribution determination, “The control mechanisms must be as set out in the relevant framework and approach paper”. This means that ENERGEX must apply the control mechanism in its Regulatory Proposal that is set out in the AER’s framework and approach paper.

There are six control mechanisms that can be applied to direct control services. Clause 6.2.5(b) of the Rules states that:

(b) the control mechanism for direct control services may consist of:

(1) A schedule of fixed prices; or
(2) Caps on the prices of individual services; or
(3) Caps on the revenue to be derived from a particular combination of services; or
(4) Tariff basket price control; or
(5) Revenue yield control; or
(6) A combination of any of the above.

In deciding on a control mechanism for standard control services, the AER must have regard to the following requirements of clause 6.2.5(c) of the Rules:

(1) the need for efficient tariff structures; and
(2) the possible effects of the control mechanism on administrative costs of the AER, the Distribution Network Service Provider and users or potential users; and
(3) the regulatory arrangements (if any) applicable to the relevant service immediately before the commencement of the distribution determination; and
(4) the desirability for consistency between regulatory arrangements for similar services (both within and beyond the relevant jurisdiction); and
(5) Any other relevant factor.
In deciding on a control mechanism for alternative control services, the AER must have regard to the following requirements of clause 6.2.5(d) of the Rules:

1. the potential for development of competition in the relevant market and how the control mechanism might influence that potential; and
2. the possible effects of the control mechanism on administrative costs of the AER, the Distribution Network Service Provider and users or potential users; and
3. the regulatory arrangements (if any) applicable to the relevant service immediately before the commencement of the distribution determination; and
4. the desirability of consistency between regulatory arrangements for similar services (both within and beyond the relevant jurisdiction); and
5. any other relevant factor.

Clause 6.2.6 of the Rules goes on to state that:

(a) For standard control services, the control mechanism must be of the prospective CPI minus X form, or some incentive-based variant of the prospective CPI minus X form, in accordance with Part C.

(b) For alternative control services, the control mechanism must have a basis stated in the distribution determination.

(c) The control mechanism for alternative control services may (but need not) utilise elements of Part C (with or without modification).
6 Nature of Services Provided by ENERGEX

This section describes the range of distribution services and unregulated activities that ENERGEX provides to retailers and end customers. It identifies the key Queensland and national non-economic legislative and regulatory instruments that define the nature of ENERGEX’s groups of services and the basis on which it provides them.

6.1 Distribution Services

The Rules define a distribution service as “A service provided by means of, or in connection with, a distribution system”. The distribution system is “A distribution network, together with the connection assets associated with the distribution network, which is connected to another transmission or distribution system. Connection assets on their own do not constitute a distribution system”.

ENERGEX proposes the following ten groups of distribution services:

- Network Services;
- Connection Services\(^{23}\);
- Customer Services;
- De-energisations and re-energisations;
- Additions and alterations;
- Ancillary metering services;
- Supplementary services;
- Enhanced services;
- Quoted services; and
- Temporary supply services.

The nature of these groups of services is described below.

6.1.1 Network Services

Section 10 of the Queensland *Electricity Act 1994* defines “network services” as “services for electricity transfer provided by transmission entities and distribution entities to persons connected to a transmission grid or supply network”. The Rules define a “network service” as a “distribution service associated with the conveyance, and controlling the conveyance, of electricity through the network”.

\(^{23}\) Includes both standard control services and negotiated distribution services
Network services involve ENERGEX:

- Providing electricity transfer capacity for its shared distribution network;
- Extending the distribution network for small network users (for which capital contributions may be payable);
- Augmenting the distribution network;
- Controlling and regulating the characteristics (e.g. voltage and harmonics) of the electricity being transferred; and
- Undertaking associated activities to ensure the shared distribution network is fit for purpose, secure from interference, reliable in function and safe in operation. These activities may include conducting load and voltage checks, pole inspections and monitoring the operation of lines and substations.

Network services relate to the ‘shared’ network used to service all network users connected to it. Network services are delivered through the operation of assets such as substations, power lines, communication and control systems, and involve activities such as repairs, maintenance, vegetation clearing, asset replacement/refurbishment and construction of new assets.

As the Distribution Authority for South East Queensland the Electricity Act 1994 grants ENERGEX a legislative obligation to provide network services:

- Section 42 requires a distribution entity to operate, maintain (including repair and replace as necessary) and protect its supply network to ensure the adequate, economic, reliable and safe connection and supply of electricity to its customers;
- Section 44 states that “.....it is a condition of a distribution authority that the entity must provide, as far as technically and economically practicable, network services, on fair and reasonable terms, for persons authorised to connect supply of electricity to the network or take electricity from the network”. This imposes an obligation on ENERGEX to provide network services to authorised persons; and
- Section 230 provides that “A person must not wilfully and unlawfully interfere with an electricity entity’s works”. This means that no third party:
  - Can interfere with ENERGEX’s provision of network services through its shared distribution network; and
  - Can offer any services that involve them doing any activity on ENERGEX’s network unless ENERGEX authorises them to do so.

This clause therefore reinforces the monopoly nature of ENERGEX’s obligations to provide network services.
These services involve the construction or installation of new assets and ENERGEX incurring capital expenditure which generally results in changes to its regulated asset base or involves ENERGEX undertaking works on, or in relation to, the existing regulated asset base. For this reason, costs for these services relate to operating, maintenance and capital expenditure.

6.1.2 Connection Services

Connection services relate to building connection assets at the customer’s premises as well as connecting those connection assets to the distribution network. Connection services are usually dedicated to a particular customer, and not shared with other customers. The connection services cover a broad range of works from establishing a simple service line connection for a small domestic customer to sub-transmission style connections, including establishing a zone substation with dedicated transformers for customers such as a desalination plant. The assets that are built and energised through connection services include:

- Connection assets (e.g. service lines for small domestic customers or dedicated transformers and feeders for larger customers);
- Type 5 to 7 metering installations;
- Permanent unmetered connections (e.g. street lighting, traffic signals, public telephone boxes and public BBQs); and
- Load control equipment.

The majority of ENERGEX’s connection services relate to connection at the distribution voltage level (11kV and below). ENERGEX also provides sub-transmission connection services for large energy users and large embedded generators at sub-transmission voltages (33kV and above). These sub-transmission connection services typically require specialist expertise due to the complex technical requirements of the connection.

These customers are generally major commercial operations with sufficient capability and capacity to negotiate with a DNSP around the technical and commercial aspects of connections.

ENERGEX is the nominated Responsible Person for Type 5 to 7 metering installations in its supply area in accordance with Chapter 7 of the Rules. As the Distribution Authority for South East Queensland the Electricity Act 1994 grants ENERGEX a legislative obligation to provide connection services:

- Section 40 sets out the circumstances in which a customer who owns or occupies premises may apply to ENERGEX for the provision of connection services. Section 40A of the Electricity Act 1994 imposes a “connection obligation” on ENERGEX to provide customer connection services, that have been applied for, to the premises, subject to certain qualifications that are detailed in sections 40C and 40D;
• Section 42 requires a distribution entity to operate, maintain (including repair and replace as necessary) and protect its supply network to ensure the adequate, economic, reliable and safe connection and supply of electricity to its customers. This imposes an obligation on ENERGEX to provide connection services;

• Section 43 states that “…it is also a condition of a distribution authority that the distribution entity must allow as far as technically and economically practicable for the distribution entity, a person to connect supply to its supply network, or to take electricity from its supply network, on fair and reasonable terms…”;

• Section 230 provides that “A person must not wilfully and unlawfully interfere with an electricity entity’s works”; and

• Section 232 provides that “A person must not unlawfully connect or disconnect supply electricity to a customer or interfere with supply of electricity to a customer”.

In addition, clause 5.1 of ENERGEX’s Standard Connection Contract24, which is annexed to the Queensland Electricity Industry Code, provides that, subject to relevant electricity legislation and various qualifications detailed in clause 5.2 of the Standard Connection Contract, ENERGEX will provide for:

(i) connection of the premises to the supply network to allow the supply of electricity from the supply network to the premises; and

(ii) supply of electricity from the supply network to the premises.

Clause 5.2 of the Standard Connection Contract goes on to state that:

(a) Subject to the electricity legislation, we (ENERGEX) must provide, install and maintain equipment for the provision of customer connection services at the premises in a manner which is safe and in accordance with the electricity legislation.

(b) Our (ENERGEX’s) obligations extend up to the supply point for the delivery of electricity from the supply network for the premises and not beyond.

This means that only ENERGEX can connect new assets to the distribution network. The newly connected assets become part of the distribution system to enable customers to take supply.25

24 This contract was initially approved by the Queensland Government, and any amendments must now be approved by the QCA.

25 Together, the connection assets and the distribution network comprise the distribution system.
Connection services generally involve the construction or installation of new assets and therefore involve additions to ENERGEX’s regulated asset base. Costs for these services relate to capital expenditure.

6.1.3 Customer Services

Customer services relate to a range of services that ENERGEX undertakes as part of its service obligations under statutory instruments, for which there are no customer-specific charges. These services are provided:

- On an on-going basis, such as scheduled meter reads and populating and maintaining NMI standing data in MSATS;

- At the request of retailers acting in their own right, without a direct request for the service from the customer or on behalf of end customers. An example of this kind of service is a request for historical data (within a two year period); and

- At the request of end customers directly. Examples of these services include call outs to attend a loss of supply or a cold water investigation where ENERGEX’s network is at fault.

These services do not generally involve the construction or installation of new assets and therefore do not change ENERGEX’s regulated asset base. Rather, these services involve undertaking works on, or in relation to, the existing regulated asset base. For this reason, costs for these services relate to operating and maintenance expenditure.

As the Distribution Authority for South East Queensland the Electricity Act 1994 grants ENERGEX a legislative obligation to provide customer services:

- Section 42 requires a distribution entity to operate, maintain (including repair and replace as necessary) and protect its supply network to ensure the adequate, economic, reliable and safe connection and supply of electricity to its customers; and

- Section 230 provides that “A person must not wilfully and unlawfully interfere with an electricity entity’s works”.

The way in which ENERGEX must undertake its customer services is set out in various regulatory instruments, including the Electricity Act 1994, the Electricity Regulation 2006, the Electrical Safety Act 2002, the Electrical Safety Regulation 2002 and the Queensland Electricity Industry Code.

In addition, as the Responsible Person (and nominated Metering Data Provider) in accordance with Chapter 7 of the Rules, ENERGEX has an monopoly obligation to provide meter reading services for Type 5 to 7 metering installations in its supply area.
6.1.4 De-energisations and Re-energisations

A de-energisation service relates to the disconnection of an existing premise of ENERGEX’s own volition, such as a result of a need to address safety concerns, or at the request of a retailer or a customer, for which there is a customer-specific charge. It does not relate to a supply dismantling or abolishment.

A re-energisation service relates to the re-connection of an existing premise at the request of a retailer or a customer after it has previously been disconnected through a de-energisation.

The *Electricity Act 1994*, the *Electricity Regulation 2006*, the Queensland Electricity Industry Code, the Standard Connection Contract (between ENERGEX and each of its customers) and the Standard Retail Contract (between a customer and its retailer) set out the circumstances in, and procedures by, which ENERGEX may de-energise and re-energise a customer’s premises. Only ENERGEX can undertake the physical de-energisation and re-energisation in its supply area. ENERGEX must also act in accordance with the national “B2B Procedure – Service Order Process” in relation to these services.26

De-energisations and re-energisations occur at the customer’s connection point. ENERGEX’s monopoly obligation to provide these services is therefore reinforced by Section 230 of the *Electricity Act 1994* which states that “A person must not wilfully and unlawfully interfere with an electricity entity’s works”.

These services do not generally involve the construction or installation of any new assets and therefore do not change ENERGEX’s regulated asset base. Rather, these services involve undertaking works on, or in relation to, the existing regulated asset base. For this reason, costs for these services relate to operating and maintenance expenditure.

6.1.5 Additions and Alterations

Additions and alterations relate to modifications to existing connection assets at the request of a retailer or a customer, for which there is a customer-specific charge. These services do not relate to the shared network. Examples of these services include:

- Exchanging an existing meter;
- Moving a meter;
- Moving a customer’s point of attachment to the network; and
- A supply abolishment.

26 Clause 7.2A.4(k) of the Rules.
The Electricity Act 1994, the Electricity Regulation 2006, the Queensland Electricity Industry Code and the Standard Connection Contract (between ENERGEX and each of its customers) set out the circumstances in, and procedures by, which ENERGEX may undertake additions and alterations. Only ENERGEX can undertake the additions and alterations in its supply area. ENERGEX must also act in accordance with the national “B2B Procedure – Service Order Process” in relation to these services.

Additions and alterations occur at the customer’s connection point. ENERGEX’s monopoly obligation to provide these services is therefore reinforced by Section 230 of the Electricity Act 1994, which states that “A person must not wilfully and unlawfully interfere with an electricity entity’s works”.

Some of these services involve the construction or installation of new assets and thereby may change ENERGEX’s regulated asset base, whereas others of these services do not. For this reason, costs for additions and alterations relate to operating, maintenance and capital expenditure.

6.1.6 Ancillary Metering Services

ENERGEX is the Responsible Person for all Type 5 to 7 metering installations within its distribution area in accordance with clause 7.2.3(d) of the Rules and section 9.1.4(b) of the Queensland Electricity Industry Code. As the Responsible Person, it is the:

- Metering Provider for all Type 5 to 7 metering installations in accordance with clause 7.2.5(a) of the Rules and section 9.3.2(c) of the Queensland Electricity Industry Code; and

- Metering Data Provider for all Type 5 to 7 metering installations in accordance with section 7.2.5(d) of the Rules and section 9.2.4(c) of the Queensland Electricity Industry Code.

ENERGEX is accredited by NEMMCO to undertake both of these roles.

ENERGEX provides and installs new Type 5 to 7 metering installations as a connection service, as discussed in section 6.1.2. The scheduled reading of these meters, meter inspections and meter tampering services are undertaken as customer services, as discussed in section 6.1.3.

ENERGEX classifies all of its other metering-related services for which there is a customer-specific charge, as ancillary metering services. These services include:

- Customer requested meter tests;
- Changing time switch settings on a meter;
- Meter removals; and
- Special meter reads.
The circumstances in, and procedures by, which ENERGEX may undertake ancillary metering services are established through:

- The *Electricity Regulation 2006*;
- The Rules;
- Queensland Electricity Industry Code;
- National Electricity Market (NEM) Metrology Procedure;
- B2B Procedures – Meter Data Process; and

Only ENERGEX can provide ancillary metering services within its supply area because:

- It is the nominated Responsible Person (and Metering Provider and Metering Data Provider) for Types 5 to 7 metering installations;
- Section 230 of the *Electricity Act 1994* states that “A person must not wilfully and unlawfully interfere with an electricity entity’s works”. Because ancillary metering services relate to the customer’s meter, no third party can provide them without ENERGEX’s approval; and
- Section 42 of the *Electricity Regulation 2006* states that, where a Responsible Person has provided a meter or links for the premises, and there is a seal on the meter or links “A person (the first person) must not break or interfere with the seal unless the responsible person has permitted the first person to do so.”

Some ancillary metering services involve changes to the existing asset base whereas others do not. For this reason, costs for these services relate to operating, maintenance and capital expenditure.

### 6.1.7 Supplementary Services

Supplementary services are services that are provided by ENERGEX in the event that it cannot perform certain customer services due to the customer’s action or inaction or where the customer is at fault, for which there is a customer-specific charge. In this sense, these services are derivative services. Examples of these services include a charge for:

- A wasted truck visit; to re-visit a premises in the event that the premises is not ready for the original service to be provided, such as a connection service; and
- Attending a loss of supply complaint where the customer is at fault.

Because these services relate entirely to ENERGEX’s network, or are ancillary to the provision of a customer service in relation to its network, only ENERGEX can provide supplementary services.
These services do not involve the construction or installation of any new assets and therefore do not change ENERGEX’s regulated asset base. Rather, these services involve undertaking works on, or in relation to, the existing regulated asset base. For this reason, costs for these services relate to operating and maintenance expenditure.

6.1.8 Enhanced Services

Enhanced services are services that are provided:

- At a higher standard than the minimum regulatory requirements; or
- Through a non-standard process at a customer’s or retailer’s request.

These services attract a customer-specific charge for the incremental cost of providing the service – the cost of the basic level of service is recovered through the network tariff.

Examples of these enhanced services include the provision of:

- Connection services (excluding Sub-transmission connection services) above minimum requirements or through non-standard processes (including after-hours work); and
- Customer services above minimum requirements or through non-standard processes (including after-hours work).

Because these services relate entirely to ENERGEX’s network and involve enhanced levels of, or non-standard processes for delivering, other distribution services, only ENERGEX can provide these enhanced services.

Some of these services involve the construction or installation of new assets and thereby change ENERGEX’s regulated asset base whereas others do not. For this reason, costs for these services relate to operating, maintenance and capital expenditure.

6.1.9 Quoted Services

Quoted services are services for which ENERGEX must make an assessment of the works required in order to determine the cost associated with its delivery, and therefore the price that is to be charged.

These services are requested by retailers or customers and attract a customer-specific charge.

Examples of these quoted services include:

- The provision of emergency recoverable works on ENERGEX’s network, such as where a car hits an electricity pole;
- Removal or relocation of ENERGEX’s assets at a customer’s request; and
- The provision of detailed design estimate / project fees for a development project in ENERGEX’s distribution area.
As these services relate entirely to ENERGEX’s network, only ENERGEX can provide these quoted services. This is reinforced by section 230 of the *Electricity Act 1994* which states that “A person must not wilfully and unlawfully interfere with an electricity entity’s works”.

ENERGEX is also obligated as the distribution authority for South East Queensland and under section 42 of the *Electricity Act 1994* “to operate, maintain (including repair and replace as necessary) and protect its supply network to ensure the adequate, economic, reliable and safe connection and supply of electricity to its customers”.

Some of these services involve the construction or installation of new assets and thereby change ENERGEX’s regulated asset base whereas others do not. For this reason, costs for these services relate to operating, maintenance and capital expenditure.

### 6.1.10 Temporary Supply Services

Temporary supply services are sought by a customer that requires a temporary connection to ENERGEX’s network. Temporary supplies may be metered, or unmetered. Examples of customers that receive this service include mobile blood bank vans, other health check vans and temporary supply to decorative lights (e.g. Christmas lights). Temporary builders’ supplies are metered. Costs for these services relate to operating, maintenance and capital expenditure.

These services do not include permanent unmetered connections (e.g. telephone booths, barbeques in parks), which are classified as connection services under section 6.1.2 above.

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27 This does not include the provision of temporary builders’ poles.

28 This is a requirement of the Queensland Government’s Gazette (fixing retail prices).
6.2 Unregulated Activities

ENERGEX performs a range of activities that are not distribution services within the meaning of the Rules, i.e. activities that are not provided by means of, or in connection with, ENERGEX’s distribution system. It is proposed that these activities are not classified to be regulated by the AER. Examples of these activities, some of which have historically been associated with distribution services, include:

- Construction and on-going maintenance of existing and new street lighting assets;
- Coverage of low voltage mains (Tiger tails);
- Provision of electricity industry training to external parties by EsiTrain;
- Pole and duct rentals for non electricity related purposes;
- Provision of watchman lights;
- High Load Escort;
- Provision of contestable metering service;
- Provision of contracting services to other network service providers such as Powerlink and Ergon; and
- Non-distribution services at customers’ request.

Further description of these activities and the rationale for why these activities should not be classified as a ‘distribution service’ under the Rules is provided in Appendix B.
7  Proposed Classification between Direct Control and Negotiated Services

This section classifies ENERGEX’s ten distribution services described in section 6 against the criteria in clause 6.2.1(c) of the Rules.

7.1  Requirements of the Rules

Clause 6.2.1(a) of the Rules requires that distribution services be classified as either direct control services or negotiated distribution services and clause 6.2.1(b) of the Rules allows a DNSP’s services to be grouped together for the purposes of this classification.

Clause 6.2.1(c) of the Rules sets out the matters that the AER must have regard for when assessing a DNSP’s classification of services between direct control services or negotiated distribution services:

The AER must, in classifying a distribution service, have regard to:

(1)  the form of regulation factors; and

(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.

The form of regulation factors referred to in 6.2.1(c)(1) of the Rules are set out in section 2F of the Law. These factors are:

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

(b)  the 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;

(c)  the 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;

(d)  the 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;
(e) the 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;

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

(g) the 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.

Clauses 6.2.1(d) and (e) of the Rules state that:

(d) 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.

(e) If the Rules, however, require that a particular classification be assigned to a distribution service of a specified kind, a distribution service of the relevant kind is to be classified in accordance with that requirement.

7.2 Interpreting the Form of Regulation Factors

Neither the Law nor the Rules provide any guidance as to the way in which the form of regulation factors should be applied when classifying distribution services between direct control services and negotiated services. In particular, it is not clearly stated that the presence of market power in the provision of a service means that the service should be classified as a direct control service as opposed to a negotiated service. Rather:

- The Rules simply require the AER to “have regard to” the form of regulation factors in classifying services; and

- The form of regulation factors list a series of market characteristics but do not explicitly say that the presence of particular market characteristics means that a service should be classified as either a direct control service or a negotiated service.
Further, neither the Law nor the Rules provide any guidance as to the way in which the form of regulation factors should be weighted between:

- Each other; and
- The other classification criteria in clause 6.2.1(c)(2) to (4) of the Rules.

Given this, ENERGEX has had regard for the Expert Panel on Energy Access Pricing’s (Expert Panel) April 2006 “Report to the Ministerial Council on Energy”, which set out the economic rationale for the form of regulation factors that were subsequently reflected into the Law. The Expert Panel stated that:

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...... the form of regulation that is likely to be most cost-efficient for different classes of regulated service should be decided on the basis of the degree of market power involved in the supply of relevant services. The general principle to be applied is that more intrusive and potentially costly forms of regulation (principally direct price or revenue controls) will only be warranted where substantial market power is involved. Where the market conditions involve the reality of, or potential for, a measure of contestability or the prospect of meaningful commercial negotiation, less intrusive and costly forms of regulation are likely to be warranted.29
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The Expert Panel went on to say that:

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The Panel considers that the following factors are relevant for making an assessment of the extent of market that is associated with the supply of a network service:
- presence of entry barriers;
- presence of network externalities;
- presence of countervailing power;
- presence of competitive substitution possibilities; and
- degree of information asymmetry. 30
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These factors were used as the basis for developing the form of regulation factors in section 2F of the Law.

ENERGEX has drawn upon the discussion in the Expert Panel’s report to form the following views on the way in which the form of regulation factors should be applied.

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The presence and extent of any barriers to entry in a market for electricity network services – section 2F(a) of the Law.
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30 Ibid., page 47
ENERGEX interprets this clause to mean that a distribution service should be subject to a direct control form of regulation, and should therefore be classified as a direct control service, if the DNSP:

- Has a natural monopoly in the supply of that service;
- Has substantial market power in the supply of that service, which ENERGEX interprets to mean that the DNSP has more than 40%\(^{31}\) of the market share for the service;
- Has a monopoly based in legislation so that no other party can be authorised to provide the service; and
- There are other significant legislative barriers that prevent other parties from providing the service.

The 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 – section 2F(b) of the Law.

The 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 – section 2F(c) of the Law.

ENERGEX interprets the network externality to be the benefit that is attributed to the other service from the provision of the primary service. For ENERGEX, this benefit may arise from operational and economic efficiencies (interdependencies) which by default results in the other service attracting lower costs, enabling the other service to be provided at a lower price.

ENERGEX interprets these clauses to mean that a distribution services should be subject to a direct control form of regulation, and should therefore be classified as direct control services, if:

- The network services that the DNSP offers through its shared network give it a material advantage in the provision of other distribution services and thereby limit competition in the market for these other distribution services;
- The non-network services that the DNSP offers give it a material advantage in the provision of distribution services and thereby limit competition in the market for these distribution services; and
- It is difficult to quantify the incremental and stand alone costs and benefits for users of providing the services.

These factors can each create additional barriers to new entrant suppliers of distribution services that may prevent them competing against the DNSP.

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\(^{31}\) 40% is the level QCA adopted in its September 2000 Final Determination “Electricity Distribution: Determination of Prescribed Services”, page 15.
The 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 – section 2F(d) of the Law.

ENERGEX interprets this clause to mean that a distribution service should be subject to a direct control form of regulation, and should therefore be classified as a direct control service, if:

- There are no large or concentrated groups of customers that have substantial power in negotiating the terms and conditions of supply, including prices, with the DNSP in relation to a service;

- Customers generally do not have a credible ability to by-pass or avoid the provision of the service being provided by the DNSP. This means that customers cannot fulfil their needs in any other way than acquiring the service from the DNSP; and

- The characteristics of the assets that are used to supply the service, and the customer base, are such that there is a low potential for full or partial asset stranding from reduced demand for that service.

The 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 – section 2F(e) of the Law.

The presence and extent of any substitute for, and the elasticity of demand in a market for, electricity or gas (as the case may be) – section 2F(f) of the Law.

ENERGEX interprets these clauses to mean that a distribution service should be subject to a direct control form of regulation, and should therefore be classified as a direct control service, if:

- Customers’ demand for the service is relatively price inelastic (i.e. demand does not fall significantly as the price increases);

- There is limited scope for demand side management as a means of reducing the customer’s total cost of acquiring the service;

- The service being acquired is not a product of choice for the customer; and

- Customers do not have options for sourcing the service from a supplier other than the DNSP.
The 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 – section 2F(g) of the Law.

ENERGEX interprets this clause to mean that a distribution service should be subject to a direct control form of regulation, and should therefore be classified as a direct control service, if the DNSP’s knowledge of its costs, services, infrastructure and market creates a substantial negotiating power imbalance in dealing with customers. As a direct control service, the regulatory framework requires significant disclosure of costs to the market which addresses any information asymmetry.

7.3 Application of Clause 6.2.1 Criteria

7.3.1 Network Services

ENERGEX submits that Network Services satisfy the criteria in the Rules to be classified as a direct control service.

As noted in section 6.1.1 of this proposal, ENERGEX’s legislative monopoly to provide network services is specified in:

- The conditions of its Distribution Authority issued under the *Electricity Act 1994*;
- The *Electricity Act 1994* section 42 requires “a distribution entity to operate, maintain (including repair and replace as necessary) and protect its supply network to ensure the adequate, economic, reliable and safe connection and supply of electricity to its customers”;
- The *Electricity Act 1994* section 44 states that “.....it is a condition of a distribution authority that the entity must provide, as far as technically and economically practicable, network services, on fair and reasonable terms, for persons authorised to connect supply of electricity to the network or take electricity from the network”;
- The *Electricity Act 1994* section 230 provides that “A person must not wilfully and unlawfully interfere with an electricity entity’s works”; and
- The *Electrical Safety Act 2002* section 29 places specific obligations on ENERGEX to ensure that its works are electrically safe and operated in a way that is electrically safe.

In reference to the form of regulation factors, ENERGEX believes that network services should be classified as direct control services based on the existence of:

- High barriers to a new entrant competing with ENERGEX to provide network services within its existing supply area. The *Electricity Act 1994* would need to be amended for competition to occur;
• No customers with counter-veiling market power given that:
  o No customers have substantial power in negotiating the terms and conditions of supply with ENERGEX;
  o Customers generally do not have a credible ability to by-pass or avoid the provision of the service once connected to the network; and
  o There is generally low potential for full or partial asset stranding from reduced demand for network services given the distributed connection nature of the supply network;

• Very limited competitive or substitution possibilities given that:
  o Customers' demand for the service is price inelastic – without a direct control form of regulation ENERGEX could potentially increase prices without impacting significantly on customer demand; and
  o Customers are unable to entirely substitute network services with another service that effectively meets their needs. This means that customers have no choice but to purchase network services from ENERGEX;

ENERGEX considers that significant information asymmetries may exist between ENERGEX and its customers that would create a sufficient power imbalance in negotiating the supply of network services.

The network externalities criteria have not been applied as network services is the primary service provided by ENERGEX. For this criteria to be meaningful the primary service is a regulated service, and therefore no network externalities exist in relation to network services.

The proposal to classify network services as direct control services is consistent with:

• The QCA’s current treatment of ENERGEX’s network services as regulated services prescribed distribution services; and

• The form of regulation for network services in NSW, Victoria, South Australia and the ACT where universally subjected to direct controls.

ENERGEX does not consider there to be any other relevant factors that need to be considered in classifying network services under clause 6.2.1(c) of the Rules.

ENERGEX also considers that, as there is not a different classification proposed, clause 6.2.1(d) of the Rules has been addressed.
7.3.2 Connection Services

ENERGEX submits that Sub-transmission Connection Services satisfy the criteria in the Rules to be classified as a negotiated distribution service.

ENERGEX submits that the Connection Services (excluding Sub-transmission Connection Services) satisfy the criteria in the Rules to be classified as a direct control service.

As noted in section 6.1.2 of this proposal, connection services cover connections at distribution voltages (11kV and below) and sub-transmission voltages (33kV and above) and ENERGEX’s legislative obligation to provide connection services is specified by the following:

• ENERGEX is the nominated Responsible Person for Type 5 to 7 metering installations in its supply area in accordance with Chapter 7 of the Rules;

• The Electricity Act 1994 imposes a legislative obligation on ENERGEX to provide connection services:
  o Section 40 sets out the circumstances in which a customer who owns or occupies premises may apply to ENERGEX for the provision of connection services. Section 40A of the Electricity Act 1994 imposes a "connection obligation" on ENERGEX to provide customer connection services that have been applied for to the premises, subject to certain qualifications that are detailed in sections 40C and 40D;
  o Section 42 requires "a distribution entity to operate, maintain (including repair and replace as necessary) and protect its supply network to ensure the adequate, economic, reliable and safe connection and supply of electricity to its customers. This imposes an obligation on ENERGEX to provide connection services";
  o Section 43 states that "...it is also a condition of a distribution authority that the distribution entity must allow as far as technically and economically practicable for the distribution entity, a person to connect supply to its supply network, or to take electricity from its supply network, on fair and reasonable terms...";
  o Section 230 provides that "A person must not wilfully and unlawfully interfere with an electricity entity’s works”;
  o Section 232 provides that "A person must not unlawfully connect or disconnect supply electricity to a customer or interfere with supply of electricity to a customer"; and

• The Electrical Safety Regulation 2002 (various sections\(^{32}\)) places specific obligations on ENERGEX with respect to the electrical safety of connections and reconnections, including responsibilities for service lines.

\(^{32}\) Electrical Safety Regulation 2002 sections 72, 74, 75, 143, 146, 147, 151, 152, 163, 205 and 208.
In reference to the form of regulation factors, ENERGEX believes that sub-transmission connection services should be classified as negotiated distribution services based on the following:

- Barriers to a new entrant competing with ENERGEX exist in relation to connecting to ENERGEX’s distribution network. The *Electricity Act 1994* would need to be amended for another party to energise connection assets;

- Network externalities given that ENERGEX can use factors of production that relate to its shared network to provide connection services to customers. Specifically, ENERGEX can use the same assets, labour and materials to provide connection and network services;

- Significant opportunities exist for these customers to exert counter-veiling market power in deciding the location, size and connection point to the network.

- Competitive or substitution possibilities exist for the customer to source the provision of unenergised connection assets.

- ENERGEX does not consider that significant information asymmetries exist given that there is information available in the market about the costs of electricity infrastructure constructions. Sub-transmission connection services can be provided by other service providers and are already contestable in NSW.

The proposal to classify sub-transmission connection services as negotiated distribution services is a proposed change from the QCA’s current treatment of these services as prescribed regulated services under a revenue cap control mechanism to a more light-handed form of regulation.

In addition, ENERGEX believes that the EDSD review is a relevant factor in its proposal to classify sub-transmission connection services as negotiated distribution services. The EDSD report recommended that consideration be given to how customer connections could be better managed in the regulatory period. ENERGEX believes that the classification of all sub-transmission connection services as negotiated distribution services will provide the ability to manage large connections; in particular for those sub-transmission connection services that were not foreseen at the commencement of the regulatory period.

For the remaining connection services (excluding sub-transmission connection services), application of clause 6.2.1 criteria to justify the proposed classification as a direct control service is outlined below.

In reference to the form of regulation factors, ENERGEX believes that the remaining connection services (excluding sub-transmission connection services) should be classified as direct control services based on the existence of:

- High barriers to a new entrant competing with ENERGEX to provide connection services within its existing supply area. The *Electricity Act 1994* would need to be amended for another party to energise connection assets and the Rules would need to be amended to enable another party to be the Responsible Person for Type 5 to 7 metering installations;
• Network externalities given that ENERGEX can use factors of production that relate to its shared network to provide connection services to customers. Specifically, ENERGEX can use the same assets, labour and materials to provide connection and network services;

• Limited opportunities for customers to exert counter-veiling market power because, even though other parties can build unenergised connection assets, only ENERGEX can connect assets to the distribution network. This means that:
  
  o No customers have substantial power in negotiating the terms and conditions of connection with ENERGEX; and

  o Customers must be connected to the network by ENERGEX in order to receive supply;

• Very limited competitive or substitution possibilities for connection services given that it is an offence for any other party than ENERGEX to connect unenergised connection assets to ENERGEX’s distribution network.

ENERGEX does not consider that significant information asymmetries exist given that there is information available in the market about the costs of new connections. However, ENERGEX considers that this would not outweigh the above assessment against the other form of regulation factors.

The proposal to classify connection services (excluding sub-transmission connection services) as direct control services is consistent with:

• The QCA’s current treatment of ENERGEX’s connection services as regulated prescribed distribution services; and

• The classification of connection services in Victoria, South Australia and ACT where these services are treated as regulated services.

ENERGEX does not consider there to be any other relevant factors that need to be considered in classifying connection services (excluding sub-transmission connection services) under clause 6.2.1(c) of the Rules.

ENERGEX also considers that, as there is not a different classification proposed, clause 6.2.1(d) of the Rules has been addressed.

### 7.3.3 Customer Services

**ENERGEX submits that Customer Services satisfy the criteria in the Rules to be classified as a direct control service.**

As noted in section 6.1.3 of this proposal, ENERGEX has a monopoly obligation to provide customer services for the benefit of both customers (i.e. network users) and retailers.
In reference to the form of regulation factors, ENERGEX believes that customer services should be classified as direct control services based on the existence of:

- High barriers to a new entrant competing with ENERGEX to provide customer services within its existing supply area:
  - As the distribution authority for South East Queensland the *Electricity Act 1994* section 42 requires “a distribution entity to operate, maintain (including repair and replace as necessary) and protect its supply network to ensure the adequate, economic, reliable and safe connection and supply of electricity to its customers”; and
  - Section 230 of the *Electricity Act 1994* provides that “A person must not wilfully and unlawfully interfere with an electricity entity’s works”
  - The *Electricity Act 1994* would need to be amended for another party to provide services using ENERGEX’s assets; and
  - The Rules would need to be amended to allow another party to be the Responsible Person for Type 5 to 7 metering installations;

- Network externalities given that ENERGEX can use factors of production that relate to its shared network to provide customer services. Specifically, ENERGEX can use the same assets, labour and materials to provide customer and network services;

- No real opportunities for customers or retailers to exert counter-veiling market power because customer services involve either one-off, or recurrent but infrequent, interactions that only ENERGEX can provide given the legislative restrictions on other suppliers. Opportunities are further limited because, for ENERGEX, these services are:
  - High volume;
  - Provided at a relatively low cost; and
  - Charged as part of the standard network tariff, rather than through a customer-specific charge.

This means that, in a practical sense, ENERGEX does not negotiate with customers or retailers in the provision of these services; and

- No real competitive or substitution possibilities for customer services given that it is an offence for any other party than ENERGEX to interfere with ENERGEX’s distribution network.

ENERGEX considers that significant information asymmetries may exist. The majority of customer services are provided without the customer’s express request (e.g. a scheduled meter read) and the remaining services are not negotiated with customers. In any event, all customer services can only be provided by ENERGEX under the current legislative framework.
The proposal to classify customer services as direct control services is consistent with:

- The QCA’s current treatment of ENERGEX’s customer services as regulated prescribed distribution services; and
- ENERGEX’s understanding of the treatment of customer services in other NEM jurisdictions.

ENERGEX does not consider there to be any other relevant factors that need to be considered in classifying customer services under clause 6.2.1(c) of the Rules.

ENERGEX also considers that, as there is not a different classification proposed, clause 6.2.1(d) of the Rules has been addressed.

7.3.4 De-energisations and Re-energisations

As noted in section 6.1.4 of this proposal, ENERGEX has a monopoly obligation to provide de-energisations and re-energisations.

In reference to the form of regulation factors, ENERGEX believes that de-energisations and re-energisations should be classified as direct control services based on the existence of:

- High barriers to a new entrant competing with ENERGEX to provide de-energisations and re-energisations within its existing supply area given the existing provisions of the Electricity Act 1994, the Electricity Regulation 2006, the Queensland Electricity Industry Code, the Standard Connection Contract, the Electrical Safety Act 2002, the Electrical Safety Regulation 2002 and the “B2B Procedure – Service Order Process”;
- Network externalities given that ENERGEX can use factors of production that relate to its shared network to provide de-energisations and re-energisations. Specifically, ENERGEX can use the same assets, labour and materials to provide de-energisations and re-energisations and network services;
- No real opportunities for customers to exert counter-veiling market power in relation to de-energisations and re-energisations given that:
  - Customers do not always initiate the service – de-energisations and re-energisations can be initiated by a retailer, a DNSP or a customer;
  - Customers generally do not request more than one service at a time nor can requests readily be aggregated; and
  - For ENERGEX, these services are high volume and can be provided at a relatively low cost.

This means that, in a practical sense, ENERGEX does not negotiate with customers and retailers in the provision of these services; and

- No real competitive or substitution possibilities for de-energisations and re-energisations given that it is an offence for any other party than ENERGEX to interfere with ENERGEX’s distribution network.
ENERGEX considers that significant information asymmetries may exist as these services can be initiated by a retailer or ENERGEX without the customer’s express request (e.g. a disconnection for debt).

The proposal to classify de-energisations and re-energisations as direct control services is consistent with:

- The QCA’s current treatment of ENERGEX’s de-energisations and re-energisations as regulated excluded distribution services; and
- Other NEM jurisdictions where de-energisations and re-energisations are treated as regulated services.

ENERGEX does not consider there to be any other relevant factors that need to be considered in classifying de-energisations and re-energisations under clause 6.2.1(c) of the Rules.

ENERGEX also considers that, as there is not a different classification proposed, clause 6.2.1(d) of the Rules has been addressed.

### 7.3.5 Additions and Alterations

**ENERGEX submits that Additions and Alterations satisfy the criteria in the Rules to be classified as a direct control service.**

As noted in section 6.1.5 of this proposal, ENERGEX has a monopoly obligation to provide additions and alterations.

In reference to the form of regulation factors, ENERGEX believes that additions and alterations should be classified as direct control services based on the existence of:

- High barriers to a new entrant competing with ENERGEX to provide additions and alterations within its existing supply area given the existing provisions of the *Electricity Act 1994*, the *Electricity Regulation 2006*, the Queensland Electricity Industry Code, the Standard Connection Contract, the *Electrical Safety Act 2002*, the *Electrical Safety Regulation 2002* and the “B2B Procedure – Service Order Process”;
- Network externalities given that ENERGEX can use factors of production that relate to its shared network to provide additions and alterations. Specifically, ENERGEX can use the same assets, labour and materials to provide additions and alterations and network services;
- No real opportunities for customers to exert counter-veiling market power in relation to additions and alterations given that:
  - Customers do not always initiate the service – different additions and alterations can be initiated by a retailer, a DNSP or a customer; and
  - Customers generally do not request more than one service at a time nor can requests readily be aggregated; and
  - For ENERGEX, these services are low volume and can be provided at a relatively low cost.
This means that, in a practical sense, ENERGEX does not negotiate with customers in the provision of these services; and

- No real competitive or substitution possibilities for additions and alterations given that it is an offence for any other party than ENERGEX to interfere with ENERGEX's distribution network.

ENERGEX considers that significant information asymmetries may exist given that there is little information available in the market about additions and alterations. Individual customers also have limited capacity or incentive to familiarise themselves with ENERGEX's underlying cost structure because these services are infrequently demanded and ENERGEX is the monopoly supplier.

The proposal to classify additions and alterations as direct control services is consistent with:

- The QCA's current treatment of ENERGEX's additions and alterations as regulated excluded distribution services; and
- Other NEM jurisdictions where additions and alterations are treated as regulated services.

ENERGEX does not consider there to be any other relevant factors that need to be considered in classifying additions and alterations under clause 6.2.1(c) of the Rules.

ENERGEX also considers that, as there is not a different classification proposed, clause 6.2.1(d) of the Rules has been addressed.

### 7.3.6 Ancillary Metering Services

**ENERGEX submits that Ancillary Metering Services satisfy the criteria in the Rules to be classified as a direct control service.**

As noted in section 6.1.6 of this proposal, ENERGEX has a monopoly obligation to provide ancillary metering services because:

- These services relate to works on ENERGEX's assets. As noted above, section 230 of the *Electricity Act 1994* provides that "A person must not wilfully and unlawfully interfere with an electricity entity's works"; and
- It is the nominated Responsible Person (and Metering Provider and Metering Data Provider) for Types 5 to 7 metering installations, which means that no other person can provide services in relation to metering assets.

In reference to the form of regulation factors, ENERGEX believes that ancillary metering services should be classified as direct control services based on the existence of:
• High barriers to a new entrant competing with ENERGEX to provide ancillary metering services within its existing supply area given the existing provisions of the Rules, the Queensland Electricity Industry Code, the NEM Metrology Procedure, the “B2B Procedure – Service Order Process” and the “B2B Procedure – Meter Data Process”;

• Network externalities given that ENERGEX can use factors of production that relate to its shared network to provide ancillary metering services. Specifically, ENERGEX can use the same assets, labour and materials to provide ancillary metering services and network services;

• No real opportunities for customers to exert counter-veiling market power in relation to ancillary metering services given that:
  o Customers do not always initiate the service – different ancillary metering services can be initiated by a retailer, a DNSP or a customer; and
  o Customers generally do not request more than one service at a time nor can requests readily be aggregated; and
  o For ENERGEX, these services are low volume and can be provided at a relatively low cost.

This means that, in a practical sense, ENERGEX does not negotiate with customers or retailers in the provision of these services; and

• No real competitive or substitution possibilities for ancillary metering services given that ENERGEX has regulated monopoly obligations to provide these services and it is an offence for any other party than ENERGEX to interfere with ENERGEX’s distribution network, including its metering.

ENERGEX considers that significant information asymmetries may exist given that there is little information available in the market about ancillary metering services. Individual customers also have limited capacity or incentive to familiarise themselves with ENERGEX’s underlying cost structure because these services are infrequently demanded and ENERGEX is the monopoly supplier.

The proposal to classify ancillary metering services as direct control services is consistent with:

• The QCA’s current treatment of ENERGEX’s ancillary metering services as regulated excluded distribution services; and

• Other NEM jurisdictions where ancillary metering services are treated as regulated services.

ENERGEX does not consider there to be any other relevant factors that need to be considered in classifying ancillary metering services under clause 6.2.1(c) of the Rules.

ENERGEX also considers that, as there is not a different classification proposed, clause 6.2.1(d) of the Rules has been addressed.
7.3.7 Supplementary Services

ENERGEX submits that Supplementary Services satisfy the criteria in the Rules to be classified as a direct control service.

As noted in section 6.1.7 of this proposal, supplementary services are services that are provided by ENERGEX in the event that it cannot perform certain customer and connection services due to the customer’s action or inaction or where the customer is at fault.

In reference to the form of regulation factors, ENERGEX believes that supplementary services should be classified as direct control services based on the existence of:

- High barriers to a new entrant competing with ENERGEX to provide customer services, as was discussed in section 7.3.3, and supplementary services are derivatives of these services;
- Network externalities given that ENERGEX can use factors of production that relate to its shared network to provide supplementary services. Specifically, ENERGEX can use the same assets, labour and materials to provide supplementary and network services;
- No real opportunities for customers to exert counter-veiling market power because supplementary services are derivatives of customer services which for ENERGEX are high volume and can be provided at a relatively low cost. This means that, in a practical sense, ENERGEX does not negotiate with customers in the provision of supplementary services; and
- No real competitive or substitution possibilities for supplementary services given that no party can provide these services other than ENERGEX.

ENERGEX considers that significant information asymmetries may exist. The majority of supplementary services are provided without the customer’s express request (e.g. a charge for a wasted truck visit) and are not consulted with customers.

The proposal to classify supplementary services as direct control services is consistent with:

- The QCA’s current treatment of ENERGEX’s supplementary services as regulated excluded distribution services; and
- Other NEM jurisdictions where supplementary services are treated as regulated services.

ENERGEX does not consider there to be any other relevant factors that need to be considered in classifying supplementary services under clause 6.2.1(c) of the Rules.

ENERGEX also considers that, as there is not a different classification proposed, clause 6.2.1(d) of the Rules has been addressed.
7.3.8 Enhanced Services

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<th>ENERGEX submits that Enhanced Services satisfy the criteria in the Rules to be classified as a direct control service.</th>
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As noted in section 6.1.8 of this proposal, enhanced services are services that relate to the provision of connection services and customer services:

- At a higher standard than the minimum regulatory requirements; or
- Through a non-standard process at the customer’s or retailer’s request.

In reference to the form of regulation factors, ENERGEX believes that enhanced services should be classified as direct control services based on the existence of:

- High barriers to a new entrant competing with ENERGEX to provide connection services, customer services and network services, as was discussed in sections 7.3.1, 7.3.2 and 7.3.3. Supplementary services are simply variations of these services provided at a higher standard or through a non-standard process;
- Network externalities given that ENERGEX can use factors of production that relate to its shared network to provide enhanced services. Specifically, ENERGEX can use the same assets, labour and materials to provide enhanced and network services;
- No real opportunities for customers to exert counter-veiling market power because, even though customers can define the alternative standard of, and process for delivering, the service will still be delivered via ENERGEX’s network. This means that only ENERGEX can provide these services and therefore, in a practical sense, it does not negotiate with customers in the provision of enhanced services; and
- No real competitive or substitution possibilities for enhanced services given that no party can provide these services other than ENERGEX.

ENERGEX considers that significant information asymmetries may exist as customers are not in a position to assess the incremental cost of providing enhanced services compared with ‘standard’ connection services (excluding sub-transmission connection services) and ‘standard’ customer services.

The proposal to classify enhanced services as direct control services is consistent with:

- The QCA’s current treatment of ENERGEX’s enhanced services as regulated excluded distribution services; and
- Other NEM jurisdictions where enhanced services are treated as regulated services.

ENERGEX does not consider there to be any other relevant factors that need to be considered in classifying enhanced services under clause 6.2.1(c) of the Rules.

ENERGEX also considers that, as there is not a different classification proposed, clause 6.2.1(d) of the Rules has been addressed.
7.3.9 **Quoted Services**

**ENERGEX submits that Quoted Services satisfy the criteria in the Rules to be classified as a direct control service.**

Quoted services are services for which ENERGEX must make an assessment of the works required before the service can be delivered in order to determine the cost associated with its delivery, and therefore the price that is to be charged.

As noted in section 6.1.9 of this *proposal*, ENERGEX has a monopoly obligation to provide quoted services.

In reference to the form of regulation factors, ENERGEX believes that quoted services should be classified as direct control services based on the existence of:

- High barriers to a new entrant competing with ENERGEX to provide quoted services within its existing supply area given ENERGEX's role as the distribution authority in South East Queensland and the existing provisions of the *Electricity Act 1994*;
- Network externalities given that ENERGEX can use factors of production that relate to its shared network to provide quoted services. Specifically, ENERGEX can use the same assets, labour and materials to provide quoted services and network services;
- No real opportunities for customers to exert counter-veiling market power because, even though customers can define the nature of the service that is required, the service will still be delivered by ENERGEX using its assets and will be in relation to its distribution network. This means that only ENERGEX can provide these services and therefore, in a practical sense, it does not negotiate with customers in the provision of quoted services; and
- No real competitive or substitution possibilities for quoted services given that it is an offence for any other party than ENERGEX to interfere with ENERGEX's distribution network.

ENERGEX considers that significant information asymmetries may exist given that there is little information available in the market about quoted services. Individual customers also have limited capacity or incentive to familiarise themselves with ENERGEX’s underlying cost structure because these services are infrequently demanded and ENERGEX is the monopoly supplier.

The proposal to classify quoted services as direct control services is consistent with:

- The QCA’s current treatment of ENERGEX’s quoted services as regulated excluded distribution services; and
- Other NEM jurisdictions where quoted services are treated as regulated services.

ENERGEX does not consider there to be any other relevant factors that need to be considered in classifying quoted services under clause 6.2.1(c) of the Rules.

ENERGEX also considers that, as there is not a different classification proposed, clause 6.2.1(d) of the Rules has been addressed.
Temporary Supply Services

Temporary supply services are sought by customers that require a temporary connection to ENERGEX's network. These temporary connections can be metered or unmetered.

Under the *Electricity Act 1994*, ENERGEX has a legislative monopoly obligation to provide temporary supply services:

- Section 40 sets out the circumstances in which a customer who owns or occupies premises may apply to ENERGEX for the provision of connection services. Section 40A of the *Electricity Act 1994* imposes a “connection obligation” on ENERGEX to provide customer connection services, that have been applied for, to the premises, subject to certain qualifications that are detailed in sections 40C and 40D; and

- Section 230 provides that “A person must not wilfully and unlawfully interfere with an electricity entity’s works”.

In reference to the form of regulation factors, ENERGEX believes that temporary supply services should be classified as direct control services based on the existence of:

- High barriers to a new entrant competing with ENERGEX to provide unmetered and temporary supply services within its existing supply area. The *Electricity Act 1994* would need to be amended for another party to energise these assets;

- Network externalities given that ENERGEX can use factors of production that relate to its shared network to provide unmetered and temporary supply services to customers. Specifically, ENERGEX can use the same assets, labour and materials to provide unmetered and temporary supply services and network services;

- Limited opportunities for customers to exert counter-veiling market power because only ENERGEX can connect assets to the distribution network. Moreover, individual customers have no real negotiating power because the NEM Metrology Procedure and the Queensland Government’s Gazette (for fixing retail prices) set the rules for these services; and

- Very limited competitive or substitution possibilities for temporary supply services given that it is an offence for any other party than ENERGEX to connect assets to ENERGEX’s distribution network.

ENERGEX considers that significant information asymmetries may exist given that there is little information available in the market about unmetered and temporary supply services. Individual customers also have limited capacity or incentive to familiarise themselves with ENERGEX’s underlying cost structure because these services are relatively low cost and infrequently demanded.

The proposal to classify temporary unmetered services as direct control services is consistent with:
• The QCA’s current treatment of ENERGEX’s unmetered and temporary supply services as regulated excluded distribution services; and

• The classification of unmetered and temporary supply services in the other NEM jurisdictions where these services are treated as regulated services.

ENERGEX does not consider there to be any other relevant factors that need to be considered in classifying temporary unmetered services under clause 6.2.1(c) of the Rules.

ENERGEX also considers that, as there is not a different classification proposed, clause 6.2.1(d) of the Rules has been addressed.
7.3.11 Conclusion

On the basis of the above assessment against the criteria in clause 6.2.1 of the Rules, ENERGEX considers that:

- Sub-transmission Connection Services should be classified as negotiated services; and

- the following distribution services, set out in section 6.1 of this proposal, should be classified as direct control services.
  
  - Network Services;
  - Connection Services (excluding Sub-transmission Connection Services);
  - Customer Services;
  - De-energisations and re-energisations;
  - Additions and alterations;
  - Ancillary metering services;
  - Supplementary services;
  - Enhanced services;
  - Quoted services; and
  - Temporary supply services.
8 Proposed Classification between Standard Control and Alternative Control Services

This section classifies ENERGEX’s ten direct control services described in section 6, and analysed in section 7, as either standard control services or alternative control services on the basis of the criteria in clause 6.2.2(c) of the Rules.

8.1 Requirements of the Rules

Clause 6.2.2(a) of the Rules requires that direct control services be classified as either standard control services or alternative control services and clause 6.2.2(b) of the Rules allows a DNSP’s services to be grouped together for the purposes of classification.

Clause 6.2.2(c) of the Rules sets out the following matters that the AER must have regard for in classifying services between standard and alternative control services:

1. the potential for development of competition in the relevant market and how the classification might influence that potential; and
2. the possible effects of the classification on administrative costs of the AER, the Distribution Network Service Provider and users or potential users; and
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; and
4. the desirability of a consistent regulatory approach to similar services (both within and beyond the relevant jurisdiction); and
5. the extent the costs of providing the relevant service are directly attributable to the customer to whom the service is provided; and
6. any other relevant factor.

8.2 Interpreting the Criteria in Clause 6.2.2(c)

The Rules do not provide clear guidance on the way in which the criteria set out in clause 6.2.2(c) of the Rules should be applied in classifying direct control services. In particular, the Rules do not indicate which service classification should be adopted once the service has been assessed against the criteria.

For clarity, ENERGEX has set out below its interpretation as to when a service should be classified as a standard control service or an alternative control service based on the criteria in clause 6.2.2(c) of the Rules.
The potential for development of competition in the relevant market and how the classification might influence that potential – clause 6.2.2(c)(1) of the Rules.

ENERGEX interprets this to mean that a direct control service should be classified as a standard control service if:

- There is no potential for the development of competition in the market for that service or, even if a competitor was to enter, the DNSP would inevitably retain a very dominant position in the market; or
- The classification of the service as a standard control service could result in the DNSP offering the service on a basis that could prevent a potential competitor entering the market for that service.

The possible effects of the classification on administrative costs of the AER, the Distribution Network Service Provider and users or potential users – clause 6.2.2(c)(2) of the Rules.

ENERGEX interprets this to mean that a direct control service should be classified as a standard control service if the administrative costs of being classified as an alternative control service exceed the administrative costs of being classified as a standard control service, having regard for the assessment against the other criteria in clause 6.2.2(c) of the Rules.

The regulatory approach (if any) applicable to the relevant service immediately before the commencement of the distribution determination for which the classification is made – clause 6.2.2(c)(3) of the Rules.

ENERGEX interprets this to mean that a direct control service should be classified as a standard control service if the service was previously classified for the DNSP as a prescribed distribution service, the basis of that classification was consistent with the criteria in clause 6.2.2(c) of the Rules, and if the market for that service has not materially changed.

ENERGEX submits that if the criteria used for the classification under the previous regulatory approach conflicts with the criteria in clause 6.2.2(c) of the Rules, then less emphasis should be placed on the previous regulatory approach for the service.

The desirability of a consistent regulatory approach to similar services (both within and beyond the relevant jurisdiction) – clause 6.2.2(c)(4) of the Rules.

ENERGEX interprets this to mean that a direct control service should be classified as a standard control service if the service is currently classified as a prescribed distribution service in Queensland or other jurisdictions and:

- The basis of that classification was consistent with the criteria in clause 6.2.2(c) of the Rules; and
- The underlying legislative framework for the service, and the nature of the market in which the service is provided, are sufficiently similar to enable a meaningful comparison to be made.
ENERGEX submits that if the service was classified elsewhere using criteria that conflicts with the criteria in clause 6.2.2(c) of the Rules, or the nature of the legislative framework or market is not similar to ENERGEX’s, then less emphasis should be placed on the desire for a consistent regulatory approach.

_The extent the costs of providing the relevant service are directly attributable to the customer to whom the service is provided – clause 6.2.2(c)(5) of the Rules._

ENERGEX interprets this to mean that a direct control service should be classified as an alternative control service if, other things being equal, all of the costs of providing that service are directly attributable to the individual customer that is being charged for the service.

This means that a service should be classified as a standard control service if, other things being equal, the costs involve allocations of costs.

_Any other relevant factor – clause 6.2.2(c)(1) of the Rules._

ENERGEX does not believe that there are any other relevant factors that need to be taken into account by the AER in determining the classification of direct control services into standard control and alternative control services.

### 8.3 Application of Clause 6.2.2(c) Criteria

#### 8.3.1 Network Services

ENERGEX submits that Network Services satisfy the criteria in the Rules to be classified as a standard control service.

As noted in section 6.1.1 of this proposal, ENERGEX has legislative monopoly obligations to provide network services as specified in the _Electricity Act 1994_:

- Section 44 states that “.....it is a condition of a distribution authority that the entity must provide, as far as technically and economically practicable, network services, on fair and reasonable terms, for persons authorised to connect supply of electricity to the network or take electricity from the network”; and

- Section 230 provides that “A person must not wilfully and unlawfully interfere with an electricity entity’s works”.

ENERGEX believes that network services should be classified as standard control services because:

- There is neither competition nor the potential for the development of competition for these services. The _Electricity Act 1994_ would need to be amended in order for any other party than ENERGEX to provide these services;
• The classification of ENERGEX’s network services as a standard control service would not impede a new entrant from providing these services in competition with ENERGEX. Regardless of the service classification, without legislative amendments, these services cannot be provided by any other party than ENERGEX;
• Classifying network services as standard control services will involve no significant change in administrative costs for ENERGEX and the AER. Additional costs would be involved with classifying these services as alternative control services. ENERGEX also considers that the benefits of the protection that standard control services provide to customers by virtue of the application of Part C of the Rules, exceed the costs that would be involved with changing to alternative control services;
• This is consistent with the QCA’s current treatment of ENERGEX’s network services as prescribed distribution services;
• This is consistent with the classification of network services in NSW, Victoria, South Australia and the ACT, where these services are currently universally classified as prescribed distribution services33; and
• The costs of providing network services are not directly attributable to individual customers, and involve extensive allocations of costs for pricing purposes. This means the basis for the calculation does not reflect the precise costs of any particular customer. Network prices are instead based upon the characteristics of groups of users at a general level.

8.3.2 Connection Services (excluding sub-transmission connection services)

As noted in section 6.1.2 of this proposal, ENERGEX has legislative obligations to provide connection services as specified below:

• ENERGEX is the nominated Responsible Person for Type 5 to 7 metering installations in its supply area in accordance with Chapter 7 of the Rules; and
• The Electricity Act 1994 imposes legislative obligations on ENERGEX to provide its other connection services:
  o Section 40 sets out the circumstances in which a customer who owns or occupies premises may apply to ENERGEX for the provision of connection services. Section 40A of the Electricity Act 1994 imposes a connection obligation” on ENERGEX to provide customer connection services, that have been applied for, to the premises, subject to certain qualifications that are detailed in sections 40C and 40D; and
  o Section 230 provides that “A person must not wilfully and unlawfully interfere with an electricity entity’s works”.

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33 Prescribed services have been mapped as standard control services under the transitional provisions for NSW and ACT.
ENERGEX believes that connection services (excluding sub-transmission connection services) should be classified as standard control services because:

- There is neither competition nor the potential for the development of competition for these services. The Electricity Act 1994 would need to be amended in order for any other party than ENERGEX to provide these services;

- The classification of ENERGEX’s connection services (excluding sub-transmission connection services) as a standard control service would not impede a new entrant from providing these services in competition with ENERGEX. Regardless of the service classification, without legislative amendments, these services cannot be provided by any other party than ENERGEX;

- Classifying connection services (excluding sub-transmission connection services) as standard control services will involve no significant change in administrative costs for ENERGEX and the AER. Additional costs would be involved with classifying these services as alternative control services. ENERGEX also considers that the benefits of the protection that standard control services provide to customers by virtue of the application of Part C of the Rules, exceed the costs that would be involved with changing to alternative control services;

- This is consistent with the QCA’s current treatment of ENERGEX’s connection services as prescribed distribution services where initial connections have always been charged for as part of the network tariff, rather than through a customer specific charge;

- This is consistent with the classification of connection services in the ACT, however inconsistent with the approach in NSW34, Victoria35, and South Australia36 where connection services are classified as excluded distribution services. This inconsistency results from the existence of legislative prohibitions on third parties undertaking these services in Queensland under section 230 of the Electricity Act 1994; and

- The total costs of providing the majority of connection services (excluding sub-transmission connection services) can not be directly attributed to individual customers and are determined through a cost allocation process.

8.3.3 Customer Services

ENERGEX submits that Customer Services satisfy the criteria in the Rules to be classified as a standard control service.

As noted in section 6.1.3 of this proposal, ENERGEX has a monopoly obligation to provide customer services.

ENERGEX believes that customer services should be classified as standard control services because:

- There is neither competition nor the potential for the development of competition for these services. The Electricity Act 1994 would need to be amended in order for any other party than ENERGEX to provide these services;

- The classification of ENERGEX’s customer services as a standard control service would not impede a new entrant from providing these services in competition with ENERGEX. Regardless of the service classification, without legislative amendments, these services cannot be provided by any other party than ENERGEX;

- Classifying customer services as standard control services will involve no significant change in administrative costs for ENERGEX and the AER. Additional costs would be involved with classifying these services as alternative control services. ENERGEX also considers that the benefits of the protection that standard control services provide to customers by virtue of the application of Part C of the Rules, exceed the costs that would be involved with changing to alternative control services;

- This is consistent with the QCA’s current treatment of ENERGEX’s customer services as prescribed distribution services where the cost of maintaining the customer’s connection to the network has always been charged for as part of the network tariff, rather than through a customer specific charge;

- This is consistent with the classification of customer services in NSW, Victoria, South Australia and the ACT, where these services are currently universally classified as prescribed distribution services; and

- The costs of providing customer services are not all directly attributable to individual customers and are largely determined through a cost allocation process.
**8.3.4 De-energisations and Re-energisations**

| ENERGEX submits that De-energisation and Re-energisation satisfy the criteria in the Rules to be classified as a standard control service. |

As noted in section 6.1.4 of this proposal, ENERGEX has a monopoly obligation to provide de-energisations and re-energisations.

ENERGEX believes that de-energisations and re-energisations should be classified as standard control services because:

- There is neither competition nor the potential for the development of competition for these services. The *Electricity Act 1994*, *Electrical Safety Act 2002* and *Electricity Safety Regulation 2002* would need to be amended in order for any other party than ENERGEX to provide these services;

- The classification of ENERGEX’s de-energisations and re-energisations as standard control services would not, impede a new entrant from providing these services in competition with ENERGEX. Regardless of the service classification, without legislative amendments, these services cannot be provided by any other party than ENERGEX;

- Classifying de-energisations and re-energisations as standard control services will involve no significant change in administrative costs for ENERGEX and the AER. Additional costs would be involved with classifying these services as alternative control services. ENERGEX also considers that the benefits of the protection that standard control services provide to customers by virtue of the application of Part C of the Rules, exceed the costs that would be involved with changing to alternative control services;

- Although this is inconsistent with the QCA’s current treatment of ENERGEX’s de-energisations and re-energisations as excluded distribution services, the QCA’s classification decision was not made on the same basis as the criteria set out in clause 6.2.2(c) of the Rules.

Rather, the QCA deemed that non-DUOS services, including de-energisations and re-energisations, are excluded on the basis that a contestable market cannot be demonstrated. This reclassification was implemented due to the expected increase in service volumes under FRC.\(^{37}\) The QCA considered that, if these services continued to be regulated under the revenue cap, the increased demand for de-energisations and re-energisations would result in unintended cross-subsidisation of other prescribed distribution services.

As a result, ENERGEX does not consider that the AER needs to have regard for the current classification of these services in deciding on the appropriate classification for the next regulatory control period;

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\(^{37}\) The commencement of FRC on 1 July 2007, mid-way through ENERGEX’s current regulatory period (2005-10), was not anticipated at the time the QCA fixed ENERGEX’s revenue cap in April 2005.
• This is consistent with the classification of de-energisations and re-energisations in NSW and the ACT, and re-energisations in South Australia, where these services are currently classified as prescribed distribution services. This is inconsistent with the approach in Victoria and South Australia (de-energisation only), where these services are classified as excluded distribution services; and

• The costs of providing network services are mainly directly attributable to customers, and involve limited allocations of costs. ENERGEX considers that this would not outweigh the assessment against the other criteria, given that ENERGEX is the only party that can currently provide these services and that legislative changes would be required to enable competition.

8.3.5 Additions and Alterations

ENERGEX submits that Additions and Alterations satisfy the criteria in the Rules to be classified as a standard control service.

As noted in section 6.1.5 of this proposal, ENERGEX has a monopoly obligation to provide additions and alterations.

ENERGEX believes that additions and alterations should be classified as standard control services because:

• There is neither competition nor the potential for the development of competition for these services. The Electricity Act 1994 would need to be amended in order for any other party than ENERGEX to provide these services;

• The classification of ENERGEX's additions and alterations as a standard control service would not impede a new entrant from providing these services in competition with ENERGEX. Regardless of the service classification, without legislative amendments, these services cannot be provided by any other party than ENERGEX;

• Classifying additions and alterations as standard control services will involve no significant change in administrative costs for ENERGEX and the AER. Additional costs would be involved with classifying these services as alternative control services. ENERGEX also considers that the benefits of the protection that standard control services provide to customers by virtue of the application of Part C of the Rules, exceed the costs that would be involved with changing to alternative control services;

• Although this is inconsistent with the QCA’s current treatment of ENERGEX’s additions and alterations as excluded distribution services, the QCA’s classification decision was not made on the same basis as the criteria set out in clause 6.2.2(c) of the Rules.
Rather, the QCA deemed that non-DUOS services, including additions and alterations, are excluded on the basis that a contestable market cannot be demonstrated. This reclassification was implemented due to the expected increase in service volumes under FRC. The QCA considered that, if these services continued to be regulated under the revenue cap, the increased demand for additions and alterations would result in unintended cross-subsidisation of other prescribed distribution services.

As a result, ENERGEX does not consider that the AER needs to have regard for the current classification of these services in deciding on the appropriate classification for the next regulatory control period;

- Although this is inconsistent with the classification of additions and alterations in NSW, Victoria, South Australia, this inconsistency results from the existence of legislative prohibitions on third parties undertaking these services in Queensland under section 230 of the *Electricity Act 1994*; and

- The costs of providing additions and alterations are mainly directly attributable to customers, and involve limited allocations of costs. ENERGEX considers that this would not outweigh the assessment against the other criteria, given that ENERGEX is the only party that can currently provide these services and that legislative changes would be required to enable competition.

### 8.3.6 Ancillary Metering Services

ENERGEX submits that Ancillary Metering Services satisfy the criteria in the Rules to be classified as a standard control service.

As noted in section 6.1.6 of this *proposal*, ENERGEX has a monopoly obligation to provide ancillary metering services because:

- These services relate to works on ENERGEX’s assets and section 230 of the *Electricity Act 1994* provides that “A person must not wilfully and unlawfully interfere with an electricity entity’s works”; and

- It is the nominated Responsible Person (and Metering Provider and Metering Data Provider) for Types 5 to 7 metering installations, which means that no other person can provide services in relation to metering assets.

ENERGEX believes that ancillary metering services should be classified as standard control services because:

- There is neither competition nor the potential for the development of competition for these services. The *Electricity Act 1994* and the Rules would need to be amended in order for any other party than ENERGEX to provide these services;

- The classification of ENERGEX’s ancillary metering services as a standard control service would not impede a new entrant from providing these services in competition with ENERGEX. Regardless of the service classification, without legislative amendments, these services cannot be provided by any other party than ENERGEX;
• Classifying ancillary metering services as standard control services will involve no significant change in administrative costs for ENERGEX and the AER. Additional costs would be involved with classifying these services as alternative control services. ENERGEX also considers that the benefits of the protection that standard control services provide to customers by virtue of the application of Part C of the Rules, exceed the costs that would be involved with changing to alternative control services;

• Although this is inconsistent with the QCA’s current treatment of ENERGEX’s ancillary metering services as excluded distribution services, the QCA’s classification decision was not made on the same basis as the criteria set out in clause 6.2.2(c) of the Rules.

Rather, the QCA deemed that non-DUOS services, including ancillary metering services, are excluded on the basis that a contestable market cannot be demonstrated. This reclassification was implemented due to the expected increase in service volumes under FRC. The QCA considered that, if these services continued to be regulated under the revenue cap, the increased demand for ancillary metering services would result in unintended cross-subsidisation of other prescribed distribution services.

As a result, ENERGEX does not consider that the AER needs to have regard for the current classification of these services in deciding on the appropriate classification for the next regulatory control period;

• A review of the interstate treatment of ancillary metering services indicates that the services within this grouping are classified in a variety of ways within each jurisdiction.

While there is no single regulatory approach to classifying these services across NEM jurisdictions, ENERGEX understands that where the service can only be provided by the DNSP it is typically classified as a prescribed distribution service. While there are exceptions to this general practice, such as in Victoria where some non-competitive services are treated as excluded distribution services, ENERGEX understands that the classifications were not made on the same basis as the criteria set out in clause 6.2.2(c) of the Rules; and

• The costs of providing ancillary metering services are mainly directly attributable to customers, and involve limited allocations of costs. ENERGEX considers that this would not outweigh the assessment against the other criteria, given that ENERGEX is the only party that can currently provide these services and that legislative and Rule changes would be required to enable competition.
8.3.7 Supplementary Services

**ENERGEX submits that Supplementary Services satisfy the criteria in the Rules to be classified as a standard control service.**

As noted in section 6.1.7 of this *proposal*, supplementary services are services that are provided by ENERGEX in the event that it cannot perform certain customer services due to the customer’s action or inaction or where the customer is at fault.

ENERGEX believes that supplementary services should be classified as standard control services because:

- There is neither competition nor the potential for the development of competition for these services. These services are derivative to the supply of network, connection and customer services, and can only be provided by ENERGEX under the *Electricity Act 1994*;

- The classification of ENERGEX’s supplementary services as standard control services would not impede a new entrant from providing these services in competition with ENERGEX. Regardless of the service classification, these services cannot be provided by any other party than ENERGEX;

- Classifying supplementary services as standard control services will involve no significant change in administrative costs for ENERGEX and the AER. Additional costs would be involved with classifying these services as alternative control services. ENERGEX also considers that the benefits of the protection that standard control services provide to customers by virtue of the application of Part C of the Rules, exceed the costs that would be involved with changing to alternative control services;

- Although this is inconsistent with the QCA’s current treatment of ENERGEX’s supplementary services as excluded distribution services, the QCA’s classification decision was not made on the same basis as the criteria set out in clause 6.2.2(c) of the Rules.

Rather, the QCA deemed that non-DUOS services, including supplementary services, are excluded on the basis that a contestable market cannot be demonstrated. This reclassification was implemented due to the expected increase in service volumes under FRC. The QCA considered that, if these services continued to be regulated under the revenue cap, the increased demand for supplementary services would result in unintended cross-subsidisation of other prescribed distribution services.

As a result, ENERGEX does not consider that the AER needs to have regard for the current classification of these services in deciding on the appropriate classification for the next regulatory control period;

- This is consistent with other NEM jurisdictions where supplementary services are generally classified in the same manner as the related service. That is, where a service is supplementary to another prescribed distribution service, then the supplementary service will also be classified as a prescribed distribution service; and
• The costs of providing supplementary services are mainly directly attributable to customers, and involve limited allocations of costs. ENERGEX considers that this would not outweigh the assessment against the other criteria, given that ENERGEX is the only party that can currently provide these services and that legislative changes would be required to enable competition.

8.3.8 Enhanced Services

As noted in section 6.1.8 of this proposal, enhanced services are services that relate to the provision of connection services (excluding sub-transmission connection services) and customer services:

• At a higher standard than the minimum regulatory requirements; or

• Through a non-standard process at the customer’s or retailer’s request.

ENERGEX believes that enhanced services should be classified as standard control services because:

• There is neither competition nor the potential for the development of competition for these services. These services are enhanced variations of connection (excluding sub-transmission connection services) and customer services, and can only be provided by ENERGEX under the Electricity Act 1994 and the Rules;

• The classification of ENERGEX’s enhanced services as standard control services would not impede a new entrant from providing these services in competition with ENERGEX. Regardless of the service classification, these services cannot be provided by any other party than ENERGEX;

• Classifying enhanced services as standard control services will involve no significant change in administrative costs for ENERGEX and the AER. Additional costs would be involved with classifying these services as alternative control services. ENERGEX also considers that the benefits of the protection that standard control services provide to customers by virtue of the application of Part C of the Rules, exceed the costs that would be involved with changing to alternative control services;

• Although this is inconsistent with the QCA’s current treatment of ENERGEX’s enhanced services as excluded distribution services, the QCA’s classification decision was not made on the same basis as the criteria set out in clause 6.2.2(c) of the Rules.

Rather, the QCA deemed that non-DUOS services, including enhanced services, are excluded on the basis that a contestable market cannot be demonstrated. This reclassification was implemented due to the expected increase in service volumes under FRC. The QCA considered that, if these services continued to be regulated under the revenue cap, the increased demand for enhanced services would result in unintended cross-subsidisation of other prescribed distribution services.

ENERGEX submits that Enhanced Services satisfy the criteria in the Rules to be classified as a standard control service.
As a result, ENERGEX does not consider that the AER needs to have regard for the current classification of these services in deciding on the appropriate classification for the next regulatory control period;

- This is consistent with other NEM jurisdictions, where enhanced services are generally classified in the same manner as the related base level of service. That is, where a service is an enhanced variation of a current prescribed distribution service, for example a more frequent meter read or a higher level of metering data than would otherwise have been provided, then the enhanced service would also be classified as a prescribed distribution service; and

- The costs of providing enhanced services are mainly directly attributable to customers, and involve limited allocations of costs. ENERGEX considers that this would not outweigh the assessment against the other criteria, given that ENERGEX is the only party that can currently provide these services and that legislative changes would be required to enable competition.

### 8.3.9 Quoted Services

ENERGEX submits that Quoted Services satisfy the criteria in the Rules to be classified as a standard control service.

Quoted services are services for which ENERGEX must make an assessment of the works required before the service can be delivered in order to determine the cost associated with its delivery, and therefore the price that is to be charged.

As noted in section 6.1.9 of this proposal, ENERGEX has a monopoly obligation to provide quoted services.

ENERGEX believes that quoted services should be classified as standard control services because:

- There is neither competition nor the potential for the development of competition for these services. Prices for these services cannot be set in advance as costs are determined by the customer’s specific requirements. In all cases, quoted services can only be provided by ENERGEX under the *Electricity Act 1994* and the Rules, and therefore are not competitive;

- The classification of ENERGEX’s quoted services as standard control services would not impede a new entrant from providing these services in competition with ENERGEX. Regardless of the service classification, these services relate to ENERGEX’s assets and ENERGEX’s distribution system, and therefore cannot be provided by a party other than ENERGEX;

- Classifying quoted services as standard control services will involve no significant change in administrative costs for ENERGEX and the AER. Additional costs would be involved with classifying these services as alternative control services. ENERGEX also considers that the benefits of the protection that standard control services provide to customers by virtue of the application of Part C of the Rules, exceed the costs that would be involved with changing to alternative control services;
• Although this is inconsistent with the QCA’s current treatment of ENERGEX’s quoted services as excluded distribution services, the QCA’s classification decision was not made on the same basis as the criteria set out in clause 6.2.2(c) of the Rules.

Rather, the QCA deemed that non-DUOS services, including quoted services, are excluded on the basis that a contestable market cannot be demonstrated. This reclassification was implemented due to the expected increase in service volumes under FRC. The QCA considered that, if these services continued to be regulated under the revenue cap, the increased demand for quoted services would result in unintended cross-subsidisation of other prescribed distribution services.

As a result, ENERGEX does not consider that the AER needs to have regard for the current classification of these services in deciding on the appropriate classification for the next regulatory control period;

• Although this is inconsistent with the classification of quoted services in NSW, Victoria, and South Australia, where these services are classified as excluded, this inconsistency results from the existence of legislative prohibitions on third parties undertaking these services in Queensland under section 230 of the Electricity Act 1994; and

• The costs of providing quoted services are mainly directly attributable to customers, and involve limited allocations of costs. ENERGEX considers that this would not outweigh the assessment against the other criteria, given that ENERGEX is the only party that can currently provide these services and that legislative changes would be required to enable competition.

8.3.10 Temporary Supply Services

ENERGEX submits that Temporary Supply Services satisfy the criteria in the Rules to be classified as a standard control service.

As noted in section 6.1.10 of this proposal, ENERGEX has legislative monopoly obligations to provide temporary supply services arising from the Electricity Act 1994:

• Section 40 sets out the circumstances in which a customer who owns or occupies premises may apply to ENERGEX for the provision of connection services. Section 40A of the Electricity Act 1994 imposes a “connection obligation” on ENERGEX to provide customer connection services that have been applied for to the premises, subject to certain qualifications that are detailed in sections 40C and 40D; and

• Section 230 provides that “A person must not wilfully and unlawfully interfere with an electricity entity’s works”.

ENERGEX believes that temporary supply services should be classified as standard control services because:

- There is neither competition nor the potential for the development of competition for these services. The *Electricity Act 1994* would need to be amended in order for any other party than ENERGEX to provide these services;

- The classification of ENERGEX’s temporary supply services as a standard control service would not impede a new entrant from providing these services in competition with ENERGEX. Regardless of the service classification, without legislative amendments, these services cannot be provided by any other party than ENERGEX;

- Classifying temporary supply services as standard control services will involve no significant change in administrative costs for ENERGEX and the AER. Additional costs would be involved with classifying these services as alternative control services. ENERGEX also considers that the benefits of the protection that standard control services provide to customers by virtue of the application of Part C of the Rules, exceed the costs that would be involved with changing to alternative control services;

- Although this is inconsistent with the QCA’s current treatment of ENERGEX’s temporary supply services as excluded distribution services, the QCA’s classification decision was not made on the same basis as the criteria set out in clause 6.2.2(c) of the Rules. Rather, the QCA deemed that non-DUOS services, including temporary supply services, are excluded on the basis that a contestable market cannot be demonstrated. This reclassification was implemented due to the expected increase in service volumes under FRC. The QCA considered that, if these services continued to be regulated under the revenue cap, the increased demand for temporary supply services would result in unintended cross-subsidisation of other prescribed distribution services.

As a result, ENERGEX does not consider that the AER needs to have regard for the current classification of these services in deciding on the appropriate classification for the next regulatory control period;

- This is consistent with the classification of temporary supply services in NSW, Victoria, South Australia; and

- The costs of providing temporary supply services are mainly directly attributable to customers, and involve limited allocations of costs for pricing purposes. ENERGEX considers that this would not outweigh the assessment against the other criteria, given that ENERGEX is the only party that can currently provide these services and that legislative changes would be required to enable competition.

### 8.3.11 Conclusion

On the basis of the above assessment against the criteria in clause 6.2.2(c) of the Rules, ENERGEX considers that all of its direct control services set out in section 8.3 of this *proposal* should be classified as standard control services.
9 Proposed Control Mechanisms

This section sets out the control mechanism that ENERGEX proposes to apply to its standard control services and alternative control services.

9.1 Requirements of the Rules

The Rules provide that, in deciding on a control mechanism for standard control services, the AER must have regard to the following requirements of clause 6.2.5(c) of the Rules:

(1) the need for efficient tariff structures; and

(2) the possible effects of the control mechanism on administrative costs of the AER, the Distribution Network Service Provider and users or potential users; and

(3) the regulatory arrangements (if any) applicable to the relevant service immediately before the commencement of the distribution determination; and

(4) the desirability for consistency between regulatory arrangements for similar services (both within and beyond the relevant jurisdiction); and

(5) any other relevant factor.

In deciding on a control mechanism for alternative control services, the AER must have regard to the following requirements of clause 6.2.5(d) of the Rules:

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

(2) the possible effects of the control mechanism on administrative costs of the AER, the Distribution Network Service Provider and users or potential users; and

(3) the regulatory arrangements (if any) applicable to the relevant service immediately before the commencement of the distribution determination; and

(4) the desirability of consistency between regulatory arrangements for similar services (both within and beyond the relevant jurisdiction); and

(5) any other relevant factor.
Clause 6.2.6 of the Rules goes on to state that:

(a) For standard control services, the control mechanism must be of the prospective CPI minus X form, or some incentive-based variant of the prospective CPI minus X form, in accordance with Part C.

(b) For alternative control services, the control mechanism must have a basis stated in the distribution determination.

(c) The control mechanism for alternative control services may (but need not) utilise elements of Part C (with or without modification).

9.2 Interpreting Clause 6.2.5

Clause 11.16.6(a) of the Rules allows ENERGEX to propose the control mechanism that will apply to its direct control services. Without this clause, the AER would publish the control mechanism(s) in its framework and approach paper in accordance with clause 6.8.1(c).

ENERGEX has interpreted that the Rules do not apply any ranking to the possible control mechanisms and therefore the control mechanisms will be decided on the basis of appropriate regard for the matters detailed in clause 6.2.5(c) and 6.2.5(d).

ENERGEX also believes that clause 6.2.5 of the Rules requires that, if a single control mechanism is proposed for all standard control services, then there is only a need for a single assessment of that control mechanism against the matters detailed in clause 6.2.5(c).

However, ENERGEX considers that clause 6.2.5 is intended to allow more than one control mechanism to be applied to standard control services, demonstrated by the reference in clause 6.5.9(b)(3)(ii) of the Rules to “separate control mechanisms for different standard control services”.

If multiple control mechanisms are proposed then there is a need to assess the control mechanism that will apply to each group of standard control services against the matters detailed in clause 6.2.5(c).

As a result, the remainder of this section sets out the control mechanisms that ENERGEX proposes for its direct control services and why it believes that these are appropriate given the matters detailed in clauses 6.2.5(c) and 6.2.5(d) of the Rules.
9.2.1 Proposed Control Mechanisms for Standard Control Services

ENERGEX proposes a hybrid\textsuperscript{38} control mechanism for standard control services, comprising of:

- *Revenue Cap* – this will cover only ENERGEX’s network services;
- *Weighted Average Price Cap* -
  - Tariff basket for ENERGEX’s connection services and customer services; and
  - Tariff basket for all remaining standard control services for ENERGEX.

In determining the control mechanisms for standard control services, ENERGEX has considered factors such as the nature of services and the way charges are developed and levied. Accordingly, the control mechanisms have been proposed to reflect these factors.

9.2.2 Interpreting Clause 6.2.5(C) Criteria

For clarity, ENERGEX has set out below its interpretation of clause 6.2.5(c) of the Rules, which details the matters to be considered by the AER in deciding on a control mechanism for standard control services.

*The need for efficient tariff structures – clause 6.2.5(c)(1) of the Rules.*

ENERGEX interprets this to mean that a proposed control mechanism is acceptable if it would not result in inefficient tariff structures. ENERGEX proposes that efficient tariff structures:

- Promote the efficient use of the network and include appropriate signalling to users of their impact on existing and future network capacity and costs,
- Promote cost reflectivity, where the tariff for the service reflects the actual cost of providing the service; and
- Minimise cost averaging or cross subsidy, where the services and costs can be attributed to users or groups of users based on utilisation or demand for the services.

*The possible effects of the control mechanism on administrative costs of the AER, the Distribution Network Service Provider and users or potential users – clause 6.2.5(c)(2) of the Rules.*

ENERGEX interprets this to mean that a proposed control mechanism is acceptable if the administrative costs of the mechanism are less than or comparative to the administrative costs of other mechanisms, which may include the existing mechanism, having regard for the assessment against the other criteria in clause 6.2.5(c) of the Rules.

\textsuperscript{38} In accordance with clause 6.2.5(b)(6) the control mechanism may consist of a combination of any of the control mechanisms.
The regulatory arrangements (if any) applicable to the relevant service immediately before the commencement of the distribution determination – clause 6.2.5(c)(3) of the Rules.

ENERGEX interprets this to mean that, other things being equal, the AER will be predisposed to retaining the current revenue cap that applies to prescribed distribution services for standard control services in the next regulatory control period unless there is an appropriately clear reason to change control mechanisms.

The desirability for consistency between regulatory arrangements for similar services (both within and beyond the relevant jurisdiction) – clause 6.2.5(c)(4) of the Rules.

ENERGEX interprets this to mean that, other things being equal, the AER will be predisposed to aligning the control mechanisms that apply to ENERGEX with that applied to equivalent services for other DNSP’s in the NEM.

Any other relevant factor – clause 6.2.5(c)(5) of the Rules.

The Electricity Distribution and Service Delivery Review (EDSD Report) resulted in a number of recommendations to ensure reliable networks for the 21st Century. In response to the EDSD report the Queensland Government, ENERGEX, Ergon Energy and the QCA developed an action plan for Queensland Electricity Distribution. This action plan is still being progressed.

ENERGEX submits that the AER should consider the recommendations of the EDSD report and the status of the Queensland Government’s action plan in determining the control mechanisms that are to apply to standard control services.

9.2.3 Interpreting Clause 6.2.5(D) Criteria

For clarity, ENERGEX has set out below its interpretation of clause 6.2.5(d) of the Rules, which are the matters to be considered by the AER in deciding on a control mechanism for alternative control services

The potential for development of competition in the relevant market and how the control mechanism might influence that potential – clause 6.2.5(d)(1) of the Rules.

ENERGEX interprets this to mean that a proposed control mechanism is acceptable if it would either:

- Assist to develop competition in the relevant market; or
- Not detract from other factors that may assist to develop competition in the relevant market.
The possible effects of the control mechanism on administrative costs of the AER, the Distribution Network Service Provider and users or potential users – clause 6.2.5(d)(2) of the Rules.

ENERGEX interprets this to mean that a proposed control mechanism is acceptable if the administrative costs of the mechanism do not exceed the benefits of changing the control mechanism, having regard for the assessment against the other criteria in clause 6.2.5(d) of the Rules.

The regulatory arrangements (if any) applicable to the relevant service immediately before the commencement of the distribution determination – clause 6.2.5(d)(3) of the Rules.

Alternative control services do not exist in the current regulatory control period. Therefore, ENERGEX interprets this clause to mean that, other things being equal, the AER will be predisposed to retaining the current control mechanisms that apply to ENERGEX’s distribution services, being a revenue cap for prescribed distribution services and a variant of a schedule of fixed prices for excluded distribution services.

The desirability of consistency between regulatory arrangements for similar services (both within and beyond the relevant jurisdiction) – clause 6.2.5(d)(4) of the Rules.

With the AER’s recent decision under the transitional rules, ACT and NSW are the only jurisdictions to have alternative control services. ENERGEX interprets this clause to mean that, other things being equal, the AER will be predisposed to aligning the control mechanisms that apply to ENERGEX’s distribution services with those applied to equivalent services for other DNSPs in the NEM.

Any other relevant factor – clause 6.2.5(d)(5) of the Rules.

ENERGEX does not believe that there are any other relevant factors that need to be taken into account by the AER in determining the control mechanism that is to apply to alternative control services.

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39 Street lighting in NSW and metering in ACT were deemed under the transitional rules for ACT/NSW to be alternative control services.
9.3 Application of Clause 6.2.5(C) Criteria

9.3.1 Justification of Revenue Cap for Network Services (Service 1)

ENERGEX believes that a revenue cap is an appropriate control mechanism for its network services. Under a revenue cap, the AER would specify a cap on ENERGEX’s allowed revenue for each year of the regulatory control period.

The revenue that ENERGEX would receive under this control mechanism is the actual tariff (and components of tariffs) escalated by the CPI-X mechanism, multiplied by the actual volume for that year. Revenue derived under this control mechanism is capped at the maximum allowable revenue.

The basic form of the revenue control is:

\[ \sum_{i=1}^{n} \sum_{j=1}^{m} p_{ij}^{t+1} q_{ij}^{t+1} \leq MAR^{t+1} \]

Where:

- “MAR” is the value of the revenue constraint (maximum allowable revenue);
- “p” are prices (dollars and cents);
- “q” are quantities (e.g. kWh delivered);
- “t” is the current year of the regulatory period;
- “i” denotes each tariff classification (e.g. residential) of a total “n” classifications; and
- “j” denotes tariff components (e.g. fixed monthly charge) of a total “m” components.

ENERGEX believes that a revenue cap is an appropriate control mechanism for its network services on the basis of clause 6.2.5(c) of the Rules because it:

- Is one of the control mechanisms that is allowed under clause 6.2.5(b)(3) of the Rules;
- Although applying a revenue cap will involve administrative costs for ENERGEX and the AER, ENERGEX considers that these costs are not greater than the administrative costs of other mechanisms. ENERGEX also considers that the revenue cap control mechanism will provide revenue certainty that will ensure ENERGEX can invest in the necessary network infrastructure regardless of volume fluctuations;
Would not result in inefficient tariff structures, given that the revenue cap control mechanism allows the DNSP to propose individual tariffs in order to recover the revenue cap, subject to any specific side-constraints that may be imposed by the AER, including determining the split between fixed, demand and volume components of tariffs. Under a revenue cap, ENERGEX would also be allow to introduce new tariffs throughout the regulatory control period as required, subject to the AER’s approval.

ENERGEX also notes that its network tariffs have been approved by the QCA for the past two regulatory control periods on the basis that the pricing principles of cost reflectivity and efficiency have been met;

Is consistent with the current control mechanism that is applied to network services, which is a fixed revenue cap. ENERGEX considers that the concerns raised by the Independent Panel that undertook the review of “Electricity Distribution and Service Delivery for the 21st Century” (EDSD review) and the QCA about the forecasting risks inherent in a revenue cap control mechanism have been addressed through improved operational procedures. ENERGEX believes it can now forecast its investment requirements with reasonable confidence. This means that there is no appropriately clear reason to change the current control mechanism that is applied to network services;

There is no one single form of control mechanism across all the NEM jurisdictions. The proposed revenue control is consistent with the control mechanism that has been used for network services in Tasmania and the ACT, but is inconsistent with that used in Victoria, NSW and South Australia; and

The EDSD report highlighted the need for investment certainty and sufficient funding to enable the provision of an effective preventative maintenance programme, decrease in utilisation rates and move to “N-1” capacity for the sub-transmission network. Continuation of the revenue cap control mechanism will provide ENERGEX with funding certainty to support an intensive capital program.

When considered on an overall basis, ENERGEX proposes the application of a revenue cap control mechanism for network services in the next regulatory control period.

It is also noted that there is a similarity between network services in distribution and transmission shared network. Revenue caps are the prescribed form of control mechanism for transmission network service providers. ENERGEX’s proposal for a revenue cap for network services is therefore consistent with the transmission regulation framework.
9.3.2 Justification of Weighted Average Price Cap for Connection (excluding Sub-transmission Connection Services) and Customer Services (Services 2 and 3)

ENERGEX believes that a WAPC is an appropriate control mechanism for connection (excluding sub-transmission connection services) and customer services. Under a WAPC, also known as a tariff basket, a cap is placed on a weighted average of the prices of a basket of services, rather than the revenue received for the services.

Under a WAPC, the revenue derived by ENERGEX would be the approved tariff (and tariff components) escalated by CPI-X, multiplied by the actual tariff for that year. The most common form of a WAPC is represented as:

\[
\sum_{i=1}^{n} \sum_{j=1}^{m} p_{ij}^{t+1} \cdot q_{ij}^{t-1} \leq (1 + CPI) - X
\]

The left hand side of this constraint represents the ratio of prices weighted by quantity and the right hand side specifies the amount by which prices can move. Prices would therefore move by inflation minus an X factor determined by the AER.

ENERGEX believes that a WAPC is an appropriate control mechanism for connection and customer services on the basis of clause 6.2.5(c) of the Rules because:

- It is the same as a “tariff basket price control”, which is one of the control mechanisms that is allowed under clause 6.2.5(b)(4) of the Rules;
- Although applying a WAPC will involve administrative costs for ENERGEX and the AER, ENERGEX considers that these costs are comparative to other mechanisms, including the existing mechanism of a Revenue Cap. ENERGEX also considers that a WAPC control mechanism will provide additional benefits of tariff flexibility and the ability to deal with unexpected volume variations;
- It would not result in inefficient tariff structures, because:
  - Subject to any side-constraints, the WAPC allows individual tariffs (and components of individual tariffs) to be rebalanced each year by more or less than the overall CPI-X constraint on the basis of variations in demand or customer numbers, provided that the average tariff is not escalated by more than CPI-X. This would allow ENERGEX to ensure that tariffs remain efficient throughout a regulatory control period; and
Subject to the AER’s approval, the WAPC also allows new tariffs to be introduced during the revenue control period where variations in underlying customer demand or numbers are significant enough that the existing tariffs are no longer efficient. The conventional method for introducing new tariffs requires proxy historic data to be developed for new tariffs, and back casting of the previous year’s data for the purposes of estimating consumption. This method has been used extensively in Victoria and NSW;

- These services are currently subject to a revenue cap. However, ENERGEX believes that a WAPC is more appropriate given the circumstances in which ENERGEX operates and the services to which it will apply. This matter was considered by the Independent Panel in the EDSD review.

In relation to connection services, the Independent Panel found that “In times of volatile load growth, the revenue cap approach has serious shortcomings because the facts on which the original submissions and determination are based can change significantly during the period. This results in the revenue cap being below what it should be.”

In particular, the Independent Panel recommended that: “Government and the QCA consider alternative arrangements for increasing ENERGEX and Ergon Energy’s investment certainty during a regulatory period, including but not limited to the possibility of mid-period re-openings, flexible revenue caps and rulings issued by the QCA in relation to new investments.”

The application of a WAPC to connection services is consistent with this recommendation.

- It is consistent with the control mechanism that has been used for prescribed distribution services in Victoria and NSW, where a WAPC has been applied for the last two regulatory control periods. But is not consistent with Tasmania and the ACT where a revenue cap is applied.

On this basis, ENERGEX proposes the application of a WAPC control mechanism for connection (excluding sub-transmission connection services) and customer services in the next regulatory control period.

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41 Ibid., page 57
9.3.3 Justification of Weighted Average Price Cap for all other Standard Control Services (Services 4-10)

ENERGEX believes that a WAPC is an appropriate control mechanism for all other standard control services (services 4-10). Under a WAPC, also known as a tariff basket, a cap is placed on a weighted average of the prices of a basket of services, rather than the revenue received for the services.

Under a WAPC, the revenue derived by ENERGEX would be the approved tariff (and tariff components) escalated by CPI-X, multiplied by the actual tariff for that year. The most common form of a WAPC is represented as:

$$\sum_{i=1}^{n} \sum_{j=1}^{m} p_{ij}^{t+1} * q_{ij}^{t-1} \leq (1 + CPI) - X$$

The left hand side of this constraint represents the ratio of prices weighted by quantity and the right hand side specifies the amount by which prices can move. Prices would therefore move by inflation minus an X factor determined by the AER.

ENERGEX believes that a WAPC is an appropriate control mechanism for all other standard control services on the basis of clause 6.2.5(c) of the Rules because:

- It is the same as a “tariff basket price control”, which is one of the control mechanisms that is allowed under clause 6.2.5(b)(4) of the Rules;

- Although applying a WAPC will involve administrative costs for ENERGEX and the AER, ENERGEX considers that these costs are comparative to other mechanisms, including the existing mechanism of a variant of a schedule of prices. ENERGEX also considers that the WAPC control mechanism will provide benefits of tariff flexibility and the ability to deal with unexpected volume variations;

- It would not result in inefficient tariff structures, because:
  - Subject to any side-constraints, the WAPC allows individual tariffs (and components of individual tariffs) to be rebalanced each year by more or less than the overall CPI-X constraint on the basis of variations in demand or customer numbers, provided that the average tariff is not escalated by more than CPI-X. This would allow ENERGEX to ensure that tariffs remain efficient throughout a regulatory control period; and
  - Subject to the AER’s approval, the WAPC allows new tariffs to be introduced during the revenue control period where variations in underlying customer demand or numbers are significant enough that the existing tariffs are no longer efficient. The conventional method for introducing new tariffs requires proxy historic data to be developed for new tariffs, and back casting of the previous year’s data for the purposes of estimating consumption. This method has been used extensively in Victoria and NSW;
• The application of a WAPC to these services is consistent with the QCA’s 2007 decision to re-classify these services as excluded distribution services in order to apply a schedule of prices control mechanism rather than a revenue cap to better accommodate volume variations and so avoid cross-subsidisation of other services; and

• It is consistent with the control mechanism that has been used for prescribed distribution services in Victoria and NSW, where a WAPC has been applied for the last two regulatory control periods.

On this basis, ENERGEX proposes the application of a WAPC control mechanism for all other standard control services (services 4-10) in the next regulatory control period.
10 Summary of ENERGEX’s Classification of Services and Control Mechanisms

The following table summarises ENERGEX’s proposed classification of services and control mechanism for its distribution services on the basis of the outcomes detailed in sections 7 to 9 of this document.

<table>
<thead>
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<th>Service Number</th>
<th>Service Title</th>
<th>Classification</th>
<th>Control Mechanism</th>
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<tbody>
<tr>
<td>1</td>
<td>Network Services</td>
<td><strong>Standard Control Services</strong></td>
<td>Revenue Cap</td>
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<td></td>
<td>Includes:&lt;br&gt; - Shared network assets&lt;br&gt; - Augmentation&lt;br&gt; - Shared network extensions for small network users&lt;br&gt; - Maintenance, vegetation clearing, asset inspection&lt;br&gt; - Delivery of energy to all connection points including Street Lighting &amp; permanent unmetered supplies&lt;br&gt; - Network control systems and equipment</td>
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<td>2</td>
<td>Connection Services (excluding Sub-transmission connection services)</td>
<td><strong>Standard Control Services</strong></td>
<td>WAPC</td>
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<td></td>
<td>Includes:&lt;br&gt; - Connection assets dedicated to network users including:&lt;br&gt; - small users’ service lines and meters (currently Types 5-7) and load control equipment&lt;br&gt; - large users’ dedicated lines, transformers and meters (if Types 5-7)&lt;br&gt; - NMI creation for new connections</td>
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<td>3</td>
<td>Customer Services</td>
<td><strong>Standard Control Services</strong></td>
<td>WAPC</td>
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<td></td>
<td>Includes:&lt;br&gt; - Scheduled meter reading&lt;br&gt; - Final meter reading&lt;br&gt; - Meter removals&lt;br&gt; - Electrical installation &amp; meter inspections, tampering investigations&lt;br&gt; - Inspection&lt;br&gt; - NMI Discovery and NMI maintenance</td>
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<td>4</td>
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<td><strong>Standard Control Services</strong></td>
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<td>Includes:&lt;br&gt; - De-energisation by physical disconnection&lt;br&gt; - De-energisation at the fuse, meter, switchboard&lt;br&gt; - All re-energisation, including after debt</td>
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<td>Additions and Alterations</td>
<td>Standard Control Services</td>
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<td>Supplementary Services</td>
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<td>Re-test fee</td>
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<td>8</td>
<td>Enhanced Services</td>
<td>Standard Control Services</td>
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<td>Connection Services above minimum standards</td>
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<td>Customer Services above minimum standards</td>
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<tr>
<td>9</td>
<td>Quoted Services</td>
<td>Standard Control Services</td>
<td>WAPC</td>
</tr>
<tr>
<td></td>
<td>Includes:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Fees for subdivision</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Temporary disconnection &amp; reconnection</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Emergency recoverable works</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Conversion of aerial bundled cables</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Removal/relocation of assets at user’s request</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Provision of a service crew</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Overhead to Underground conversion</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Temporary Supply Services (including Temporary Unmetered Supplies)</td>
<td>Standard Control Services</td>
<td>WAPC</td>
</tr>
<tr>
<td></td>
<td>Includes:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Metered temporary builders’ supplies</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Unmetered temporary supplies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service Number</td>
<td>Service Title</td>
<td>Classification</td>
<td>Control Mechanism*</td>
</tr>
<tr>
<td>----------------</td>
<td>---------------------------------------------------------</td>
<td>------------------------</td>
<td>--------------------</td>
</tr>
<tr>
<td>11</td>
<td>Sub-transmission connection services</td>
<td>Negotiated Services</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>Includes: Connection for Customers and Embedded Generators connected at 33kV and above</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Services 1 – 3 will be recovered through network tariff and Services 4 – 10 will be recovered through fee for service. This advice is indicative only. Details on pricing methods will be included in the Pricing Proposal submitted with the Regulatory Proposal (to be lodged with the AER by 31 May 2009).
10.1 Mapping Existing (QCA) Regime to the new (AER) Regime

In summary, the mapping of existing services to the new arrangements in the Rules is proposed to be:

<table>
<thead>
<tr>
<th>Existing Control Mechanism</th>
<th>Existing Services (QCA)</th>
<th>Proposed Service Classification (AER)</th>
<th>Proposed Control Mechanism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Cap</td>
<td>Prescribed DUOS Services</td>
<td>Standard Control Services – Shared Network</td>
<td>Revenue Cap</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Standard Control Services – Connection Services &amp; Customer Services</td>
<td>Weighted Average Price Cap</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Negotiated Distribution Services – Sub-transmission connection services</td>
<td>Negotiated</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Unregulated – Street Lighting Services</td>
<td>Unregulated</td>
</tr>
<tr>
<td>Schedule of Rates (for quoted) and Review of average prices (for non-quoted)</td>
<td>Previous - Prescribed Non-DUOS Services Now - Excluded Distribution Services</td>
<td>Standard Control Services – De-energisations/ Re-energisations, Additions &amp; Alterations, Ancillary Metering Services, Supplementary Services, Enhanced Services, Quoted Services and Temporary Supply Services.</td>
<td>Weighted Average Price Cap</td>
</tr>
<tr>
<td>N/A</td>
<td>Unregulated Activities</td>
<td>Unregulated Activities</td>
<td>N/A</td>
</tr>
</tbody>
</table>

The most significant changes from the existing arrangements are:

- Classification of excluded distribution services to standard control services;
- Changing from a revenue cap to a WAPC for connection services and customer services;
- Changing from prescribed distribution services regulated under a revenue cap to unregulated activities for street light services; and
- Classification of sub-transmission connection services as negotiated services.

These are discussed further below.
10.2 Classification of Excluded Distribution Services to Standard Control Services

The potential for development of competition is a key distinguishing feature between standard control services and alternative control services in the Rules. The same test existed in the previous Rules, regulated by the QCA, for distinguishing between prescribed distribution services and excluded distribution services. If this test was applied and satisfied, it could be assumed that excluded distribution services would be classified as alternative control services under the amended Rules\(^\text{42}\); however the test for competition was not the deciding factor in the QCA decision.

When deciding on the classification for existing excluded distribution services, the QCA’s first step was to determine if competition or potential for competition, for these services existed. As noted in section 4.2.1, the QCA in December 2007 deemed the services to be excluded on the basis of clause 6.2.4(a) of the previous Rules. This allows the QCA to deem a service to be excluded and apply a “light handed” regulation where a contestable market cannot be demonstrated. This decision by the QCA suggests that competition, or potential for competition, for these services do not exist. ENERGEX submits that the basis of the QCA’s decision on excluded services means that these services should not be classified as alternative control services under the amended Rules.

ENERGEX has reviewed all excluded distribution services to determine if alternative providers currently exist or if legislation allows competition to be developed, and determined those services for which competition, or potential for competition, exists. For the remaining services, identified in sections 8.3.4 to 8.3.10, ENERGEX concluded that no viable alternative providers exist for the suite of services and that only ENERGEX can provide these services. These services, according to the criteria in the Rules, should therefore be classified as standard control services.

10.3 WAPC for Connection Services and Customer Services

ENERGEX’s understanding of the Rules’ requirements and of the decisions the AER must make in choosing a control mechanism is set out in section 9.2. These criteria include a predisposition to retaining the current revenue cap for what will be standard control services.

ENERGEX is proposing to retain a revenue cap for network services, which account for the majority of the existing revenue cap services thus providing revenue certainty for the core distribution activities of shared network operation, maintenance and augmentation.

\(^{42}\) Section 6.2.2(c)(1) of the Rules.
Ensuring the integrity of the shared network was a key feature of the EDSD review. This EDSD review was sought by the Queensland Government following community concerns about service and reliability of both Queensland DNSPs’ networks. ENERGEX agreed to the recommendations in the EDSD review, including committing to an intensive capital spending program, improving network utilisation rates and moving to N-1 security for the sub-transmission network.

ENERGEX therefore seeks to preserve its ability to appropriately budget and forecast expenditure on its shared network by retaining a revenue cap for network services, and by keeping this aspect of its distribution business separate from its other distribution services.

The EDSD review found that, specifically in relation to connection services, in times of volatile growth (i.e. growth in both load and customer numbers), the revenue cap approach has serious shortcomings because the facts on which the original submissions and regulatory determination are based can change unexpectedly and significantly within the regulatory period. The EDSD review stated “This results in the revenue cap being below what it should be.” The EDSD review also included a recommendation that the Queensland Government and the QCA consider alternatives, including “flexible revenue caps”.

ENERGEX is proposing to separate (by use of a different control mechanism) its network services from the more volatile and customer-specific connection services and customer services. This ‘hybrid’ approach is permissible under the Rules.

It is ENERGEX’s view that the WAPC control mechanism for connection services and customer services will more clearly attribute costs of these services to the service user’s types, rather than apportion the cost of these services across all customers.

10.4 Unregulated for Street Lighting

Street lighting services are currently regulated by the QCA as prescribed distribution services under the revenue cap, and street lighting assets are included in the regulatory asset base. For ENERGEX, street lighting assets in 2006/07 were 4.3% of the regulatory asset base.

The reason street lighting has been included as prescribed distribution services until now arises from historical practices whereby the vertically integrated electricity entities (ENERGEX and Ergon Energy’s predecessor entities) provided the majority of street lights. However, over the last several decades, parties with responsibility for providing lighting to public carriage-ways (mainly Local Government and Queensland Department of Main Roads) have exercised choice of providers. For example, Queensland DNSPs provide minimal street lighting for major roads under the control of Queensland Department of Main Roads.

44 Ibid. – page 57
45 Rules clause 6.2.5(a) and (b)(6)
ENERGEX believes that street lighting services relating to construction and maintenance of street lighting assets fall outside the criteria for ‘distribution services’ as defined in Chapter 10 of the Rules\textsuperscript{46} (refer definitions in section 5.1). Consequently street lighting services should not be classified by the AER.

Given that the regulatory regime has evolved, and in particular distribution services have become more clearly defined, it is now appropriate to match the regulatory regime with what are now the well established practices of end-users and the DNSPs - i.e. street lighting is currently provided by alternative providers in a competitive market.

It is therefore proposed that street lighting not be classified by the AER, and instead be treated as unregulated activities. As an unregulated activity street lighting providers could erect their own poles or under a coordination agreement with ENERGEX perform street lighting activities on ENERGEX’s poles, or work within the safety approach zones.

This proposal to classify street lighting services as unregulated does not mean ENERGEX will withdraw its current street lighting services from the South East Queensland distribution area.

10.5 Classification of Sub-transmission Connection Services as Negotiated Distribution Services

It is proposed that sub-transmission connection services for large energy users and large embedded generators be classified as Negotiated Distribution Services. This classification is in response to representations made by major customers to have the opportunity, particularly in relation to timing, to negotiate connection arrangements with distribution network service providers. Sub-transmission connections generally require significant technical resources and are typically a component of a larger construction project. Timing of the electricity connection works is dependent on the progress of the overall project. ENERGEX may have restricted flexibility to cost effectively meet the timing needs of these projects without compromising the delivery of its capital program. ENERGEX believes that if sub-transmission connection services are classified as negotiated distribution services, ENERGEX and its customers will have the flexibility to negotiate an acceptable outcome.

This proposal for negotiated distribution services will also address concerns raised in the EDSD report. In relation to connection services in particular, the EDSD report concluded that consideration be given to how customer connections could be better managed in the regulatory period. ENERGEX believes that the classification of all sub-transmission connection services as negotiated distribution services will provide the ability to manage large connections; in particular for those sub-transmission connection services that were not foreseen at the commencement of the regulatory period.

\textsuperscript{46} The conveyance of electricity to street lights is proposed to continue as a network service under a revenue cap.
ENERGEX proposes that the minimum negotiated distribution services price is the price which would be applied as if the customer were to be connected under a standard control service arrangement with the same connection assets.

It is ENERGEX’s view that the introduction of negotiated distribution services will provide the opportunity for funding certainty for ENERGEX and for flexibility for customers, particularly in relation to timing.
11 Impacts of Proposal

Under ENERGEX's proposed classification of services and control mechanisms, the majority of services remain subject to legislation with limited material change to the current regulatory arrangements. The impacts of this proposal therefore have minimal impact on the majority of its 2.8 million customers.

ENERGEX proposes to retain a Revenue Cap control mechanism for shared network services, which account for the majority of the existing revenue-capped services but has proposed some changes to the regulatory framework which are individually discussed in relation to impact.

11.1 Funding Certainty and the Revenue Cap

ENERGEX submits a Revenue Cap on shared network services will continue to provide funding certainty required for ENERGEX to respond to customer concerns about service and reliability as identified by the Electricity Distribution and Service Delivery for the 21st Century Report (EDSD).

In July 2004 ENERGEX agreed to implement the recommendations of the Queensland government commissioned report, which required an intensive capital program, decreases in utilisation rates and a move to N-1 security for the sub-transmission network.

Given the requirement for ongoing capital expenditure, ENERGEX submits that the existing Revenue Cap continue to apply to shared network services. The proposal to retain the current control mechanism for shared network services means that there will be no change to the current arrangements for the majority of ENERGEX’s distribution services.

11.2 Funding Certainty and the WAPC

ENERGEX's proposal for a WAPC on customer driven work including connections and customer services will also deliver a level of funding certainty for ENERGEX and pricing certainty for customers.

In relation to connection services in particular, the EDSD report concluded that in times of volatile growth, as experienced by ENERGEX, the Revenue Cap approach had serious shortcomings and alternatives should be considered.

The WAPC control mechanism proposed for connections and customer services enables ENERGEX to separate its ‘shared’ distribution network assets and activities from customer-specific assets and activities.

The adoption of the WAPC control mechanism will more closely match revenue with the cost of providing customer driven services. The WAPC control mechanism will more clearly attribute costs of these services to the service user’s types, rather than apportion the cost of these services across all customers.
As connections and customer services will remain a regulated service, customers will continue to benefit from the regulatory oversight of prices in relation to each service and the customer experience will remain unchanged.

### 11.3 Reliable electricity and a Sustainable Environment

The proposed framework, and in particular the retention of a revenue cap for shared network services provides for the decoupling of revenue from energy throughput and therefore ensures there is no disincentive to ENERGEX pursuing demand side management initiatives and implementing energy efficiency programs.

The South East Queensland community and Queensland government have an expectation that ENERGEX will respond responsibly to climate change. ENERGEX has agreed to pursue a number of demand side management initiatives in line with the findings of the EDSD report. In addition, the state government has requested that ENERGEX contribute to its ClimateSmart 2050 strategy.

Specifically the decoupling or separation of revenue from the volume of energy consumed provides a regulatory framework for ENERGEX to:

- encourage energy efficiency;
- Implement both demand side and supply side initiatives;
- explore non-network alternatives; and
- investigate and develop environmentally sustainable energy options.

This proposal will align ENERGEX’s regulatory framework with the expectations of customers, state government and the South East Queensland community.

### 11.4 Negotiated Distribution Services and major customers

The impact of the proposal to classify sub-transmission connection services for large energy users and large embedded generators as Negotiated Distribution Services is limited to customers requiring connections in relation to the sub-transmission network.

This classification is proposed in response to representations made by major customers to have the opportunity, particularly in relation to timing, to negotiate connection arrangements with distribution network service providers (DNSP).

ENERGEX submits that these customers are generally major commercial operations with sufficient capability and capacity to negotiate with a DNSP around the technical and commercial aspects of connections. Sub-transmission style connections include the establishment of a zone substation with dedicated transformers for customers such as a desalination plant.
This proposal for negotiated distribution services will also address concerns raised in the EDSD report. In relation to connection services in particular, the EDSD report concluded that consideration be given to how customer connections could be better managed in the regulatory period. ENERGEX believes that the classification of all sub-transmission connection services as negotiated distribution services will provide the ability to manage large connections; in particular for those sub-transmission connection services that were not foreseen at the commencement of the regulatory period.

ENERGEX submits that the introduction of negotiated distribution services will provide this opportunity for funding certainty for ENERGEX and flexibility for customers, particularly in relation to timing.

### 11.5 Proposal for Street Lighting Services to be Unregulated

It is proposed that Street Lighting Services, previously regulated as a distribution service by the QCA, be classified as unregulated activities from 2010.

ENERGEX believes the Street lighting services relating to construction and maintenance of street lighting assets fall outside the criteria for “distribution services” as defined by the Rules.

The impact of the change of this service to unregulated will be limited to street light customers such as councils and the Department of Main Roads.

Local Authorities and the Queensland Department of Main Roads, as the parties responsible for lighting carriageways, currently have the ability to source alternative service providers for the construction, operation and ongoing maintenance of street lighting. A market for the provision of these services currently exists with a variety of service providers available in South East Queensland.

This proposal to classify street lighting services as unregulated activities does not mean ENERGEX will withdraw its current street lighting services from the South East Queensland distribution area.

ENERGEX will progress the outcomes of this proposal through extensive consultation with the relevant stakeholders including Local Government Association of Queensland, individual local authorities and the Queensland Department of Main Roads.
11.6 Proposal for Coverage of Low Voltage Mains to be Unregulated

Coverage of low voltage mains (Tiger Tails) is currently classified as an excluded service. The service involves the clipping of synthetic tubes over powerlines to prevent a person (such as crane operators, bricklayers, roof tilers, plumbers, builders, painters etc) operating plant or a vehicle from any accidental contact with live powerlines when working in close proximity to the powerlines. They are used as a visual indicator of electrical wires only. Alternative options to coverage of low voltage mains are:

- have the power lines de-energised; or
- re-directed away from the work area; or
- engage appropriately qualified licensed electrical workers to undertake the installation of visual covers ('Tiger Tails') when working in close proximity to the powerlines in accordance with the ENERGEX’s requirements

ENERGEX believes that the service relating to the coverage of low voltage mains falls outside the criteria for “distribution services” as defined by the Rules and proposes that this activity be unregulated. This proposal is limited to the low voltage network, on the basis that access to high voltage mains is restricted to ENERGEX under the Electrical Safety Regulation 2002 (s13).

The change of this service to unregulated will primarily impact users of the service such as construction companies and tradesmen.

Currently there are other parties such ENERGEX’s service providers who can provide this service.

If the AER agrees to classify these services as unregulated activities, ENERGEX will undertake consultation to ensure a smooth and safe transition. ENERGEX will continue to provide safety advice to third parties and issue permit for working close.

11.7 Delivery of Services Unchanged

The purpose of this proposal is limited to two issues; classification of services and control mechanisms, therefore this Regulatory Proposal will have no impact on the delivery of existing services.

ENERGEX will continue to;

- deliver current services;
- meet obligations to its customers; and
- manage the distribution network in a sustainable manner through a balanced mix of resources.
11.8 Consultation

ENERGEX has had limited time to fully consult stakeholders and other interested parties in relation to this proposal. It notes that the Rules make provision for consultation and stakeholder feedback to be incorporated into the AER’s consideration of this proposal. ENERGEX would welcome the opportunity to work with the AER address any issues that may arise from the formal consultation process.

If this proposal is adopted for the 2010-15 revenue determination ENERGEX will progress its consultation process to manage any impact on affected stakeholders and service users.
A. Map of ENERGEX’s Supply Area
B. Unregulated Activities

In relation to the treatment of unregulated activities:

- Clause 6.1.1 of the Rules provides that:
  
  “The AER is responsible, in accordance with this Chapter for the economic regulation of distribution services provided by means of, or in connection with, distribution systems that form part of the national grid.”

  The AER’s responsibilities with respect to economic regulation of services, including their classification, only apply to services which are distribution services, i.e. services which are provided by means of, or in connection with, a distribution system.

- The note to clause 6.2.1 of the Rules further states that:
  
  “If the AER decides against classifying a distribution service, the service is not regulated under the Rules.”

  ENERGEX considers that this note is intended to clarify that the AER has the flexibility to determine that a distribution service is to be an unregulated service in circumstances where it decides against classifying the distribution service as a direct control or a negotiated distribution service.

ENERGEX currently provides a range of services that do not fit the definition of “distribution services” as set out in the Rules and therefore should not be subject to regulation by the AER. Examples of such activities are:

- Provision of electricity industry training to external parties by EsiTrain

  ESITrain is a registered training organisation and provides technical/specialist training to the electricity distribution supply industry in industry specific skills such as live lineperson, underground cable jointing and metering. It is not a distribution service as defined in the Rules. This training activity is a competitive business and is not subject to regulation.

- Pole and duct rentals for non electricity related purposes

  This activity is not a distribution service as defined in the Rules. It involves the management of non-electricity related use of the assets by external parties such as broadband service providers.
• Provision of watchman lights

This activity involves the provision of flood lights at car yards and other private properties. Watchman lighting is not a distribution service as defined in the Rules. Other parties can provide, operate and maintain watchman lighting.

• High Load Escort

High Load Escorting is not a distribution service as defined in the Rules. Other parties can be authorised by the relevant DNSP to perform work in close proximity to its power lines, including lifting. There is already an existing market for the provision of high load escort services by parties other than the DNSPs.

• Provision of contestable metering service

Type 1 to 4 metering services have been ‘contestable’ since the commencement of the National Electricity Market and are not subject to regulation across all jurisdictions.

• Provision of contracting services to other network service providers such as Powerlink and Ergon

ENERGEX has some specialists such as transmission cable jointers that provide services to other entities. This service is not a distribution service as defined in the Rules and is provided on a contestable basis.

• Non-distribution services at customers’ request

Examples of these services are erection of additional poles within customers’ premises/land, locating underground cable and equipment testing. These services are not a distribution service as defined in the Rules. There are other parties who can provide these services.

In addition to the above activities, ENERGEX proposes that for the regulatory period commencing 1 July 2015, provision of street lighting services and coverage of low voltage mains should not be subject to regulation by the AER. The rationale and impacts of this proposal is outlined in Sections 11.5 and 11.6 respectively.