

Draft Decision

**Power and Water Corporation
Electricity Distribution
Determination 2024 to 2029
(1 July 2024 to 30 June 2029)**

**Attachment 13
Classification of services**

September 2023

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13 Classification of services

Service classification determines the nature of economic regulation, if any, applicable to specific distribution services. Classification is important to customers as it determines which network services are included in basic electricity charges, the basis on which additional services are sold, and those services we will not regulate. Our decision reflects our assessment of a number of factors, including existing and potential competition to supply these services.

We are required to make a decision on the classification of Power and Water Corporation's distribution services in accordance with the National Electricity Rules as applied in the Northern Territory (NT NER).¹ First we decide whether a service should be regulated or unregulated. Regulated services are classified as direct control services or negotiated distribution services. Direct control services are further classified as standard control services or alternative control services. The classification that we apply determines the nature of the economic regulation we will apply to those services.

The classification of distribution services must be as set out in the relevant framework and approach (F&A) paper unless we consider that a material change in circumstances justifies departing from that proposed classification.² We set out our proposed approach to the classification of distribution services for Power and Water Corporation in our final F&A.³ We proposed to group Power and Water Corporation's distribution services as follows:

- common distribution services
- network ancillary services
- metering services
- connection services
- public lighting services
- unregulated distribution services

Power and Water Corporation proposes to adopt the service classification as described in our draft decision. Please see **Error! Reference source not found.** below.

Power and Water Corporation does not propose to offer any negotiated services.

¹ NT NER, cl. 6.12.1(1).

² NT NER, cl. 6.12.3(b).

³ AER, *Final framework and approach for Power and Water Corporation (Northern Territory) for the 2024-29 regulatory control period*, July 2022

13.1 Draft decision

Our draft decision is to maintain the classification set out in our final F&A published in July 2022⁴, with the exceptions of classifying each component of connection services separately and removing standard connection from the service classification table.

Our draft decision classifies each component of connection services separately to improve the clarity on how connection charges are applied for each type of connection services avoid confusion. That is to classify:

- Premises connection asset of Negotiated Connection Services as Alternative Control Services
- Extension asset as of Negotiated Connection Services as Alternative Control Services
- Shared network augmentation charge of Negotiated Connection Services as Standard Control Services.

Also, since Power and Water Corporation's proposed connection policy does not include standard connections, we have removed this type of connection service from the service classification table.

We consider the 'material change in circumstances' threshold has been met for a change in classification in this draft decision because:

- Our F&A classification grouped connection services into high level groups of basic connections; standard connections; and negotiated connections, to align them with the terminology and descriptions in Chapter 5A of the NT NER.⁵
- Power Water Corporation's revenue proposal supported our F&A service classification. However, after consultation with us the distributor submitted that the broad classification outlined in the F&A did not reflect its circumstances:⁶
 - Power Water Corporation has not offered standard connection services in the current 2019-24 regulatory period and will not offer standard connection services in the 2024-29 regulatory period, and therefore this classification is not required.
 - The broad grouping for negotiated connection services under alternative control service will not allow Power and Water Corporation to offset for the Incremental Revenue Rebate, as required by our connection charge

⁴ AER, *Final framework and approach for Power and Water Corporation (Northern Territory) for the 2024-29 regulatory control period*, July 2022

⁵ AER, *Framework and approach Power and Water Corporation (Northern Territory) Regulatory control period commencing*, July 2022, pp. 28–30.

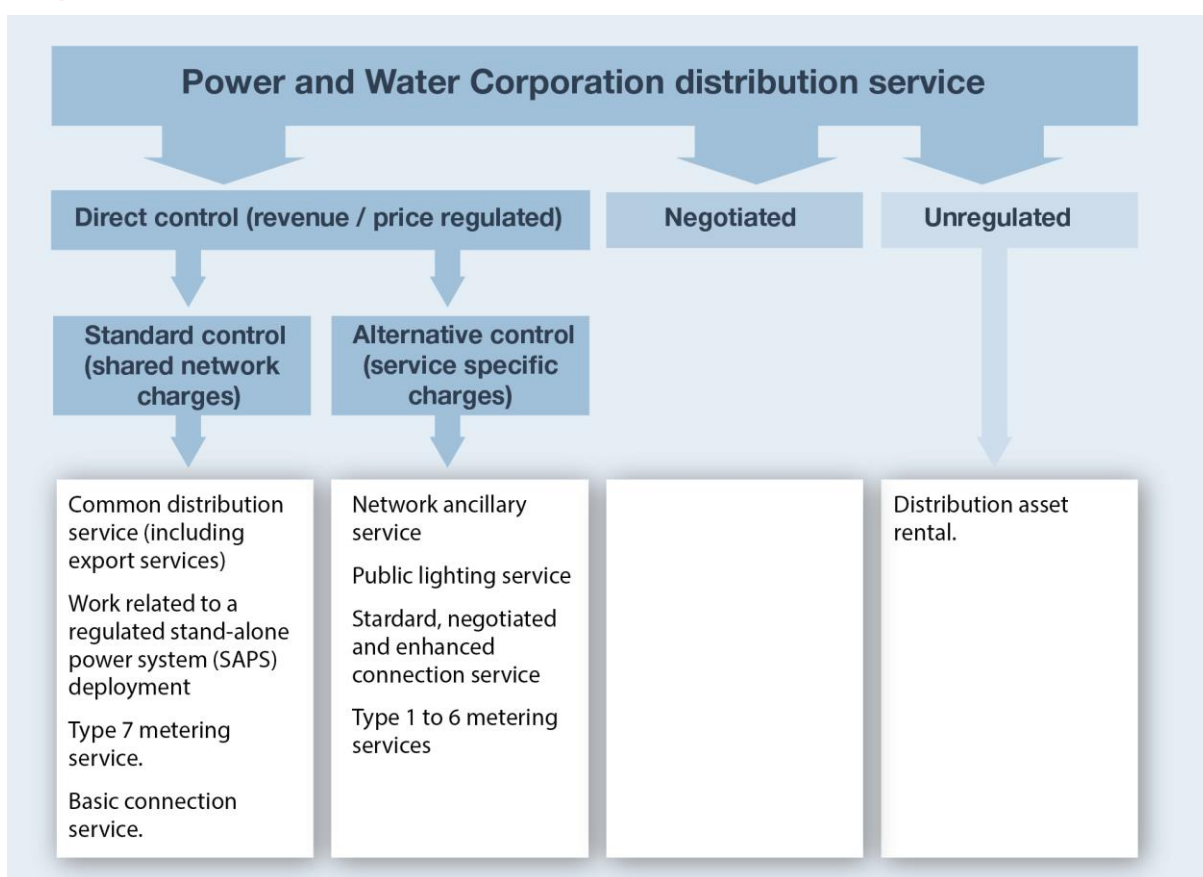
⁶ Power and Water Corporation, *email to AER re: Confirmation of acceptance of revised service classification (IR#025, due 31/7/23)*, 11 August 2023; Power and Water Corporation, *email to AER re: information request Power and Water Corporation IR#012 – [Connection Policy] – 20230428– [PUBLIC] - AER comment - Power and Water Connection Policy 2024-2029 - 25 May 2023 comments*, 8 June 2023.

guidelines,⁷ against the capital contributions made by customers towards the cost of shared network upstream augmentation, which should be classified as standard control services.

- As a result, we recognise that the Negotiated Connection Services and Standard Connection Services service groups as defined in the F&A would not be consistent with the approach currently used in the Northern Territory.⁸ We consider the information provided by Power and Water Corporation regarding the unsuitability of the service groupings and classifications in the F&A constitutes a material change in circumstances, which justifies the change to the service classification table. In any event, we consider the change is justified and appropriate.

Appendix A sets out our detailed classification decision.

Figure 13.1. AER draft decision on 2024–29 service classification for Power and Water Corporation



Source: AER, *Final Framework and approach for Power and Water Corporation for the 2024–29 regulatory control period*, July 2022, p.6.

⁷ AER, *Connection charge guidelines for electricity customers Under chapter 5A of the National Electricity Rules Final version 3.0*, April 2023, pp. 1–3.

⁸ AER, *Framework and approach Power and Water Corporation (Northern Territory) Regulatory control period commencing*, July 2022, p. 29.

Our classification of services determines, at a very high level, how costs associated with the services will be recovered. How service charges are set is not determined as part of classification. We discuss that in detail in the control mechanism and alternative control services attachments.⁹

13.2 Power and Water Corporation’s proposal

Power and Water Corporation’s proposal includes an expanded range of services such as regulated stand-alone power systems, essential system services, and activities related to NT jurisdictional technical and safety obligations as part of Common Distribution Services. It also includes reclassification of Standard and Negotiated connection services as alternative control and new service groupings of Connection Management Services and Enhanced Connection Services.

Power and Water has subsequently adopted the following changes from the F&A, as per our draft decision, for service classification:

Service group	Further description	Proposed classification 2024-29
Standard connection services	Means a connection service (other than a basic connection service) for a particular class (or sub-class) of connection applicant and for which a model standing offer has been approved by the AER.	Alternative Control
Negotiated connection services	Means a connection service (other than a basic connection service) for which a DNSP provides a connection offer for a negotiated connection contract. This service has three cost components: (A) Premises connection asset (B) Extension asset; and (C) Shared network augmentation charge	(A) Alternative Control (B) Alternative Control (C) Standard Control

⁹ AER, *Attachment 14 - Control mechanism – Draft decision – Power and Water Corporation distribution determination 2024–29*, September 2023; AER, *Attachment 16 – Alternative Control Services – Draft decision – Power and Water Corporation distribution determination 2024–29*, September 2023

13.3 Assessment approach

Our assessment approach is guided by the Electricity distribution service classification guideline 2018 (Service classification guideline), which in turn follows the principles for service classification set out in the NT NER.¹⁰

A high-level summary of our three-step process for classification of services, includes:

1. We must first determine whether a service is a 'distribution service'. The NT NER defines a distribution service as a service provided by means of, or in connection with, a distribution system.¹¹ A 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'.¹²
2. We must consider whether economic regulation of the service is necessary. When we do not consider economic regulation is warranted, we will not classify the service.¹³ If economic regulation is necessary, we consider whether to classify the service as either a direct control, a negotiated distribution service, or leave it as an unregulated distribution service.
3. When we consider that a service should be classified as direct control, we further classify it as either a standard control or alternative control service.

The assessment approach for classifying a service is set out in detail at Section 2.1 of our Final F&A for Power and Water Corporation.¹⁴

13.3.1 Interrelationships

In assessing what services we classify, we are setting the basis for what charges can be made for those services. To allow charges to be recovered for standard control services, assets associated with delivering those services are added to the regulatory asset base (RAB). A RAB may also be constructed for the capital costs associated with an alternative control service. There will usually be operating costs associated with the provision of a service as well.

The assets that make up the RAB and operating costs that relate to any particular service, form the bulk of the costs of the distributor's proposal that need to be assessed for recovering revenues through charges for their services. Classification of services will therefore influence all revenue components of our decision.

We set the revenues the distributor may collect from customers to recover their asset financing (capital) and operating costs. That revenue is recovered through tariffs the distributor develops to charge to its customers. The regulatory regime establishes incentives such as the Efficiency Benefit Sharing Scheme and the Capital Expenditure Sharing Scheme to encourage the provision of services as efficiently as possible. It also establishes incentives for maintaining reliability (Service target performance incentive scheme) so that cost

¹⁰ See NT NER cl. 6.2.2.

¹¹ NT NER, chapter 10, glossary.

¹² NT NER, chapter 10, glossary.

¹³ NT NER, cl 6.2.1(a) note.

¹⁴ AER, [Final Framework and approach for Power and Water Corporation for the 2024–29 regulatory control period](#), July 2022.

reductions are not associated with lower reliability. All of these factors interrelate with each other. We must be cognisant of these interrelationships when we make our determinations.

13.4 Reasons for our draft decision

The NT NER requires our classification of distribution services to be as set out in our F&A unless a material change in circumstances justifies a change in our classification approach.¹⁵ As per section 13.1, we consider the ‘material change in circumstances’ threshold has been met for the changes in classification in this draft decision.

We agree with Power and Water Corporation’s proposal to apply the service classification indicated in the F&A, with some modifications. We consider it necessary to improve the clarity on how connection charges are applied for each type of connection services. Our reasons are explained below.

In the regulatory proposal, Power and Water Corporation proposed:

- to charge Shared Network Augmentation cost on Negotiated Connection Services.¹⁶
- to provide a rebate to the capital contribution in the form of expected incremental network revenue for Standard Control Service.¹⁷
- to classify Negotiated Connection Services as Alternative Control Services.¹⁸
- to classify Common Distribution Services as Standard Control Services.¹⁹

All connection services include the following three components:

- Premises connection – for the new network asset necessary to connect a consumer’s home, business, or other premises to the electricity distribution network, such as the overhead service mains to connect a house’s point of attachment to the nearby power pole. Premises connections are mostly situated within consumers’ properties and only serve the specific consumer.
- Extension asset – for situations where there is no suitable network asset near the new consumer, it is necessary to extend the network assets to the boundary of the new consumer’s premises. In essence, the extension asset provides a link between the existing network and the premises connection. The extension asset could be used later, where appropriate, to also connect other subsequent consumers.

If the extension asset is used to also supply other consumers within 7 years

¹⁵ NT NER, cl. 6.12.3(b).

¹⁶ Power and Water Corporation, *Regulatory Proposal, attachment 8.62 – Connection Policy, 31 Jan 2023*, p5.

¹⁷ *Ibid*, p9.

¹⁸ Power and Water Corporation, *Regulatory Proposal, attachment 7.01 – Service Classification, 31 Jan 2023*, p11.

¹⁹ Power and Water Corporation, *Regulatory Proposal, attachment 7.01 – Service Classification, 31 Jan 2023*, p11.

of the initial connection, the original consumer is entitled to a pioneer scheme compensation from subsequent consumers using the extension asset.²⁰

- Shared network augmentation charge – to account for the share of the upstream network cost due to the new connection. This is charged on a dollar per kVA demand basis. The charge represents the cost for upstream augmentation either immediately or in the future due to the additional demand of the new connection.

A classification of Negotiated Connection Services as Alternative Control Services means that all the three above charge components are also under the category of Alternative Control Services.

Since network augmentation is classified as a Standard Control Service, we consider the charge for shared network augmentation should also be classified as a Standard Control Service. Hence, we consider it necessary to classify each component of connection services separately to avoid confusion. That is to classify:

- Premises connection asset as an Alternative Control Service
- Extension asset as an Alternative Control Service
- Shared network augmentation charge as a Standard Control Service.

Power and Water Corporation's proposed connection policy does not include standard connection. We have therefore removed standard connection services from the service classification table.

²⁰ AER, *Connection charge guidelines for electricity customers*, April 2023.

Shortened forms

Term	Definition
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
capex	capital expenditure
CESS	capital expenditure sharing scheme
CPI	consumer price index
CCP23	Consumer Challenge Panel, sub-panel 23
DMIAM	demand management innovation allowance mechanism
EBSS	efficiency benefit sharing scheme
ISP	AEMO's integrated system plan
MAR	maximum allowed revenue
NEL	national electricity law
NEM	national electricity market
NEO	national electricity objective
NER	national electricity rules
NSP	network service provider
opex	operating expenditure
PTRM	post-tax revenue model
RAB	regulatory asset base
RBA	Reserve Bank of Australia
RIN	regulatory information notice
RFM	roll forward model
STPIS	service target performance incentive scheme
TNSP	transmission network service provider
WACC	weighted average cost of capital

Appendix A: AER draft decision on service classification of Power and Water Corporation’s distribution services 2024–29²¹

Service group / Activities included	Further description	Current classification 2019–24	Proposed classification 2024–29
Common distribution services—use of the distribution network for the conveyance/flow of electricity (including services relating to network integrity)			
Common distribution services	The suite of activities that includes, but is not limited to, the following: <ul style="list-style-type: none"> • the planning, design, repair, maintenance, construction and operation of the distribution network • the relocation of assets that form part of the distribution network but not relocations requested by a third party (including a customer) • works to fix damage to the network²² (including recoverable works caused by a customer or third party) • support for another distributor during an emergency event • procurement and provision of network demand management for distribution purposes • training internal staff and contractors undertaking direct control services • activities related to ‘shared asset facilitation’ of distributor assets²³ 	Standard control	Standard control

²¹ The examples and activities listed in the ‘Further description’ column are not intended to be an exhaustive list and some distributors may not offer all activities listed. Rather the examples provide a sufficient indication of the types of activities captured by the service.

²² May include the provision of temporary stand-alone power systems to restore supply.

²³ Revenue for these services is charged to the relevant third party and is treated in accordance with the shared asset guideline. ‘Shared asset facilitation’ refers to administrative costs. It does not refer to the costs associated with providing the unregulated service itself.

Service group / Activities included	Further description	Current classification 2019–24	Proposed classification 2024–29
	<ul style="list-style-type: none"> • emergency disconnect for safety reasons and work conducted to restore a failed component of the distribution system to an operational state upon investigating a customer outage • bulk supply metering – activities relating to monitoring the flow of electricity through the distribution network. • rectification of simple customer fault relating to a life support customer or other critical health and safety issues the distributor is able to address • Site establishment services including: <ul style="list-style-type: none"> – liaising with NT Market Operator (NTESMO) or market participants for the purpose of establishing NMIs in market systems, for new premises or for any existing premises for which market rules or NTESMO require a new national metering identifier (NMI) and for validation of and updating network load data. This includes processing and assessing requests for a permanently unmetered supply device – site alteration, updating and maintaining NMI and associated data in market systems – NMI extinction, processing a request by the customer or their agent for permanent disconnection and the extinction of a NMI in market systems – confirming or correcting metering or network billing information in market business to business or network billing systems, due to insufficient or incorrect information received from retailers or metering providers • establishment and maintenance of NMIs in market and/or network metering systems, and other market and regulatory obligations • ongoing inspection of private electrical works (not part of the shared network) required under legislation for safety reasons • neutral integrity test - to identify the source of a fault following detection from a network issued device. Rectification work to render the network safe is limited to distribution network infrastructure. 		

Service group / Activities included	Further description	Current classification 2019–24	Proposed classification 2024–29
	<ul style="list-style-type: none"> customer requested network inspection undertaken to determine the cause of a customer outage where there may be a safety and or reliability impact on the network or related component and associated works to rectify a customer caused impact on the network. meet NT jurisdictional technical and safety obligations, including network neutral integrity test, emergency response and review of and maintaining of technical codes work related to a regulated stand-alone power system (SAPS) deployment, operation and maintenance, (including fault and emergency repairs)²⁴ and customer conversion activities management of metering and billing data as per NT jurisdictional obligations. Essential System Services required to be provided under NT Market arrangements. 		
Network ancillary services—customer and third party initiated services related to the common distribution service			
Design related services	Activities include: <ul style="list-style-type: none"> provision of design information, design rechecking services in relation to connection and relocation works specialist services where the design is non-standard, technically complex or environmentally sensitive and any enquiries related to distributor assets the provision of engineering consulting (related to the shared distribution network), including retaining external engineering consultants. 	Alternative control	Alternative control
Access permits, oversight and facilitation	Activities include: <ul style="list-style-type: none"> a distributor issuing access permits or clearances to work to a person authorised to work on or near distribution systems including high and low voltage 	Alternative control	Alternative control

²⁴ Includes simple customer fault rectification on generation service of regulated SAPS.

Service group / Activities included	Further description	Current classification 2019–24	Proposed classification 2024–29
	<ul style="list-style-type: none"> • a distributor issuing confined space entry permits and associated safe entry equipment to a person authorised to enter a confined space • a distributor providing access to switch rooms, substations and the like to a non-Local Network Service Provider party who is accompanied and supervised by a distributor's staff member. May also include a distributor providing safe entry equipment (fall-arrest) to enter difficult access areas • specialist services (which may involve design related activities and oversight/inspections of works) where the design or construction is non-standard, technically complex or environmentally sensitive and any enquiries related to distributor assets • facilitation of generator connection and operation of the network • facilitation of activities within clearances of distributor's assets, including physical and electrical isolation of assets. 		
Sale of approved materials or equipment	Includes the administration and sale of approved materials/equipment to third parties for construction of connection assets that are gifted back to the DNSP to become part of the shared distribution network.	N/A	Alternative control
Notices of arrangement and completion notices	<p>Examples include:</p> <ul style="list-style-type: none"> • Work of an administrative nature where a local council requires evidence in writing from the distributor that all necessary arrangements have been made to supply electricity to a development. This may include receiving and checking subdivision plans, copying subdivision plans, checking and recording easement details, assessing supply availability, liaising with developers if errors or changes are required and preparing notifications of arrangement. • Provision of a completion notice (other than a notice of arrangement). This applies where the customer/developer requests distributor to provide documentation confirming progress of work. Usually associated with discharging 	Alternative control	Alternative control

Service group / Activities included	Further description	Current classification 2019–24	Proposed classification 2024–29
	contractual arrangements (e.g. progress payments) to meet contractual undertakings.		
Network related property services	<p>Activities include:</p> <ul style="list-style-type: none"> • Network related property services such as property tenure services related to obtaining deeds of agreement, deeds of indemnity, leases, easements or other property tenure in relation to property rights associated with connection or relocation. • Conveyancing inquiry services relating to the provision of property conveyancing information at the request of a customer. 	Alternative control	Alternative control
Network safety services	<p>Examples include:</p> <ul style="list-style-type: none"> • provision of traffic control services by the distributor or third party where required. • Provision, installation, fitting and removing of tiger tails and aerial markers • high load escorts. • third party request for de-energising wires for safe approach (e.g. for tree pruning). 	Alternative control	Alternative control
Network tariff change request	<p>Activities including a retailer's customer or retailer requesting an alteration to an existing network tariff, requiring the distributor to conduct tariff and load analysis to determine whether the customer meets the relevant tariff criteria.</p> <p>Where a distributor processes changes in its IT systems to reflect a tariff change request.</p>	Alternative control	Alternative control
Services provided in relation to a Retailer of Last Resort (ROLR) event	The distributors may be required to perform a number of services as a distributor when a ROLR event occurs, including under clause 9 of the NT Electricity Retail Supply Code.	Alternative control	Alternative control
Customer requested network outage or	Examples include:	Alternative control	Alternative control

Service group / Activities included	Further description	Current classification 2019–24	Proposed classification 2024–29
rescheduling of a planned interruption	<ul style="list-style-type: none"> where the customer requests to reschedule a distributor planned interruption and agrees to fund the additional cost of performing this distribution service outside of normal business hours customer initiated network outage (e.g. to allow customer and/or contractor to perform maintenance on the customer's assets, work close or for safe approach). 		
Attendance at customers' premises to perform a statutory right where access is prevented.	A follow up attendance at a customer's premises to perform a statutory right where access was prevented or declined by the customer on the initial visit.	Alternative control	Alternative control
Inspection and auditing services	<p>Activities include:</p> <ul style="list-style-type: none"> inspection and reinspection by a distributor, of gifted assets or assets that have been or are proposed to be installed or relocated by a third party investigation, review and implementation of remedial actions that may lead to corrective and disciplinary action of a third party service provider due to unsafe practices or substandard workmanship auditing of a third party service provider's work practices in the field re-test at a customer's installation, where the installation fails the initial test and cannot be connected. 	N/A	Alternative control
Provision of training to third parties for network related access	Training services provided to third parties that result in a set of learning outcomes that are required to obtain a distribution network access authorisation specific to a distributor's network. Such learning outcomes may include those necessary to demonstrate competency in the distributor's electrical safety rules, to hold an access authority on the distributor's network and to carry out switching on the distributor's network. Examples of training might include high voltage training, protection training or working near power lines training.	Alternative control	Alternative control

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

Service group / Activities included	Further description	Current classification 2019–24	Proposed classification 2024–29
Type 1 to 6 metering services ²⁵	Provide type 1 to 6 metering services as set out in chapter 7A of the NER (NT), including but not limited to: <ul style="list-style-type: none"> • metering coordinator • metering provider, including: providing, installing, maintaining, inspecting, replacing, recovery and disposal, and testing meters. • meter reading including scheduled and special meter reads (e.g. move in and move out meter reading, final read on removed meter) • meter data services including collection, processing, management, delivery and storage of metering data. 	Alternative control	Alternative control
Type 7 metering services	Administration and management of type 7 metering installations in accordance with the chapter 7A of NER (NT) and jurisdictional requirements. Includes the processing and delivery of calculated metering data for unmetered loads, and the population and maintenance of load tables, inventory tables and on/off tables.	Standard control	Standard control
Connection services —services relating to the electrical or physical connection of a customer to the network			
Basic connection services	Means a connection service ²⁶ related to a connection (or a proposed connection) between a distribution system and a retail customer's premises (excluding a non-registered embedded generator's premises) in the following circumstances: (a) either:	Standard control	Standard control

²⁵ Type 5 meters are currently not approved for use in the Northern Territory. When referring to type 1 to 6 metering services, this includes services relating to pre-payment meters.

²⁶ When discussing connections, we must consider how connection policies and chapter 5A of the NER impact the regulation of connection services. For this reason, we will not be able to completely address the classification of connection services in the classification guideline.

Service group / Activities included	Further description	Current classification 2019–24	Proposed classification 2024–29
	<p>1) the retail customer is typical of a significant class of retail customers who have sought, or are likely to seek, the service; or</p> <p>2) the retail customer is, or proposes to become, a micro embedded generator; and</p> <p>(b) the provision of the service involves minimal or no augmentation of the distribution network; and</p> <p>(c) a model standing offer has been approved by the AER for providing that service as a basic connection service.</p>		
Negotiated connection services	<p>Means a connection service (other than a basic connection service) for which a DNSP provides a connection offer for a negotiated connection contract. This service has three cost components:</p> <p>(A) Premises connection asset</p> <p>(B) Extension asset; and</p> <p>(C) Shared network augmentation charge</p>	N/A	(A) Alternative Control (B) Alternative Control (C) Standard Control
Enhanced connection services ²⁷	<p>Other or enhanced connection services provided at the request of a customer or third party that include those that are:</p> <ul style="list-style-type: none"> • provided with higher quality of reliability standards, or lower quality of reliability standards (where permissible) than required by the NER or any other applicable regulatory instruments • in excess of levels of service or plant ratings required to be provided by the distributor. 	N/A	Alternative Control
Connection management services	<p>Works initiated by a customer or retailer which are specific to the connection point. This includes, but is not limited to:</p> <ul style="list-style-type: none"> • connection application related services • connection point management services. 	Alternative control	Alternative control

²⁷ Includes enhancements for both consumption and export services.

Service group / Activities included	Further description	Current classification 2019–24	Proposed classification 2024–29
Unregulated distribution services			
Distribution asset rental	Rental of distribution assets to third parties (e.g. office space rental, pole and duct rental for hanging telecommunication wires etc.).	N/A	Not classified