

# Final decision: Electricity Distribution Service Classification Guideline

Service classification determines the type of economic regulation, if any, that we apply to services provided by distribution network service providers (DNSPs).

## Why a service classification guideline?

The Distribution Service Classification Guideline (the Guideline) aims to provide clarity, transparency and predictability for DNSPs, and also to facilitate competition in markets for energy related services. It does this by looking at how we classify distribution services across the NEM, rather than focussing on one particular jurisdiction or one DNSP, which has been the standard approach to classification up until now.

The Guideline applies the National Electricity Law (NEL), including the form of regulation factors and the National Electricity Objective (NEO), the National Electricity Rules (NER), and best practice regulation to develop baseline service groupings and classifications.

The Guideline is not binding on us or the distributors. However, in departing from the baseline, we must provide reasons for doing so.

Distributors may depart from the Guideline due to jurisdictional or operational requirements, by advising us at the time of the F&A as to the reasons that departure is considered necessary.

DNSPs provide a range of distribution services to the markets they serve. Many services across the NEM have common features, though they often have different names. For example, all DNSPs provide connection services however there is a large variation across the NEM in the names and descriptions for connections services offered. This has led to some confusion when comparing services across jurisdictions. The AEMC contestability rule change allows us to harmonise services across jurisdictions where appropriate. The Guideline uses a baseline list of services with common names and descriptions to facilitate harmonisation.

## Baseline services list

The baseline services list represents distribution services provided by a typical DNSP, though it doesn't represent any particular DNSP. It is designed to be a 'line of best fit'. The baseline list serves as a guide to DNSPs in the identification, description and grouping of the services they provide. DNSPs may refine services listed in the baseline to suit their particular requirements and circumstances.

The baseline services list provides a single and enduring assessment of the classification of services that most DNSPs provide to customers. Where DNSPs provide the same or similar services and adopt the names and descriptions in the baseline services list, it will allow the Framework and Approach (F&A) and the Determination to focus on changes that could affect the classification of a service offered by a particular DNSP rather than the underlying baseline services that have not changed.

The baseline can be readily adopted in future regulatory determinations. DNSPs may vary from the baseline, according to their particular circumstances, such as changes to jurisdictional settings, which may warrant a different classification. However, even in these cases the Guideline will inform our consideration of whether a departure is justified. Where a DNSP proposes a departure from the baseline, as part of the framework and approach stage, it may draw on the rationale set out in the Guideline to inform its application.

The baseline services list will assist to streamline the F&A process and make classifying services more efficient in the future.

## Framework for the classification of Connections

Of all the services distributors provide, connections and their classification demonstrate the most diversity. Contestability of connection services which varies across the jurisdictions range from competitive to monopoly and everything in between. In addition, approaches to connections by DNSPs tend to be idiosyncratic, both between and within jurisdictions. Indeed, it is evident that despite all approaches being compliant, no two DNSPs in the NEM approach connections exactly the same way.

In the Guideline, we set out a framework for the classification of connections which provides clarity and consistency now and is flexible enough to allow for technological and other customer driven advancements in the future.

The framework we set out in the Guideline aligns the naming conventions used in Chapter 5A of the NER with the premises, extension and augmentation connection components identified by DNSPs. The result is a connections classification matrix which can be tailored for each DNSP, taking into account its jurisdictional and operational circumstances. In the table below, we demonstrate this approach using a number of assumptions for the baseline. The table will vary by DNSP according to jurisdictional and operational requirements.

**Figure 1: Framework for connections**

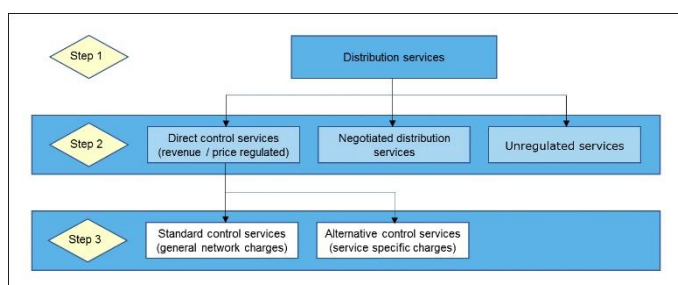
Baseline	Premises	Extension	Augmentation
Basic connection service	ACS	n.a.	n.a.
Standard connection service	ACS	SCS – apply cost revenue test to extension and augmentation costs to determine capital contribution, if any	
Negotiated connection (includes property developers, embedded generators and connection made under chapter 5)	ACS	SCS – apply cost revenue test to extension and augmentation costs to determine capital contribution, if any	

A table can be created for each customer type, if different service classifications are required for different customer groups. Otherwise, the table allows a distinction to be made between connection types. Alternatively, connection services can be distinguished based on aspects of a connection, such as premise connection, extension or augmentation.

### Our approach to classification

The approach the AER must follow when we classify services is set out in the NER. We must consider a number of factors at each step, as shown in figure 2 below.

**Figure 2: Distribution service classification process**



#### Step 1: Is it a distribution service?

First we must be satisfied a service is indeed a 'distribution service' (step 1 in figure 2). A distribution service is defined in the NER in the same way as the NEL defines an electricity network service; *as a service that is provided by means of, or in connection with, a distribution system.*

#### Step 2: Should it be a direct control or negotiated distribution service?

Second, we consider whether economic regulation of the service is necessary. We make this decision having regard to a range of factors set out in the Rules.

#### Step 3: Standard control or alternative control service?

Finally, having determined that a service should be classified as direct control, the next step is to further classify it as either a standard control service or alternative control service.

Standard control services are often bundled together and form the basic charges for use of the distribution system. Alternative control services are only used or requested by certain customers, such as a customer requested electricity pole relocation.

In classifying distribution services as either standard control or alternative control, we give primacy to any of the individual factors under clause 6.2.2 (c)(1-6) which apply to the given circumstance of the service. In the case of connection services, we have regard to 6.2.2(c)(6): *any other relevant factor.*

#### Other relevant factors

We have identified a number of 'other relevant factors' which take into account the regulatory context, including the National Electricity Objective, Chapter 5A of the NER–connection charge principles, and Chapter 6 of the NER–network pricing objective and pricing principles. The 'other relevant factors' to which we will have regard when classifying connections include:

- the desirability of customers being able to choose their service provider, where allowed by jurisdictional regulation, to promote the development of competition and contestable markets in order to ensure efficient costs and prices – both now and in the future.
- the desirability of driving effective competition where it is feasible and of providing effective regulation where competition is not feasible .
- the desirability of efficient connection to the network, to promote clarity and transparency for customers about when and how they are required to pay for their connection. To promote efficient user-pays charging, where a DNSP can attribute the full costs of a connection or its component to a particular customer, it should do so.
- the desirability of equitable customer outcomes, both now and over time
- the desirability of regulatory good practice (in terms of the classification being clear, predictable, transparent, workable, etc.).

These 'other relevant factors' are important for ensuring that the classification of connections is aligned with the purpose and intent of the objectives and principles outlined above. The other factors are used in establishing the baseline for connection services, and should be used by DNSPs when proposing departures from the baseline.

In classifying the baseline connection services, our approach is that customers should pay their dedicated connection costs, consistent with the 'other relevant factors' described above. On this basis, we have classified the premises component of connection services as Alternative Control. However, for the extension and augmentation components of connection, we have classified these as standard control, as these components of a connection will form part of the shared network once constructed.