



FINAL DECISION
Essential Energy distribution
determination
2015–16 to 2018–19

Attachment 13 – Classification
of services

April 2015

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Note

This attachment forms part of the AER's final decision on Essential Energy's revenue proposal 2015–19. It should be read with all other parts of the final decision.

The final decision includes the following documents:

Overview

Attachment 1 - Annual revenue requirement

Attachment 2 - Regulatory asset base

Attachment 3 - Rate of return

Attachment 4 - Value of imputation credits

Attachment 5 - Regulatory depreciation

Attachment 6 - Capital expenditure

Attachment 7 - Operating expenditure

Attachment 8 - Corporate income tax

Attachment 9 - Efficiency benefit sharing scheme

Attachment 10 - Capital expenditure sharing scheme

Attachment 11 - Service target performance incentive scheme

Attachment 12 - Demand management incentive scheme

Attachment 13 - Classification of services

Attachment 14 - Control mechanism

Attachment 15 - Pass through events

Attachment 16 - Alternative control services

Attachment 17 - Negotiated services framework and criteria

Attachment 18 - Connection methodology

Attachment 19 - Analysis of financial viability

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Shortened forms

Shortened form	Extended form
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
augex	augmentation expenditure
capex	capital expenditure
CCP	Consumer Challenge Panel
CESS	capital expenditure sharing scheme
CPI	consumer price index
DRP	debt risk premium
DMIA	demand management innovation allowance
DMIS	demand management incentive scheme
distributor	distribution network service provider
DUoS	distribution use of system
EBSS	efficiency benefit sharing scheme
ERP	equity risk premium
Expenditure Assessment Guideline	Expenditure Forecast Assessment Guideline for Electricity Distribution
F&A	framework and approach
MRP	market risk premium
NEL	national electricity law
NEM	national electricity market
NEO	national electricity objective
NER	national electricity rules
NSP	network service provider
opex	operating expenditure
PPI	partial performance indicators
PTRM	post-tax revenue model
RAB	regulatory asset base
RBA	Reserve Bank of Australia
repex	replacement expenditure
RFM	roll forward model

Shortened form	Extended form
RIN	regulatory information notice
RPP	revenue and pricing principles
SAIDI	system average interruption duration index
SAIFI	system average interruption frequency index
SLCAPM	Sharpe-Lintner capital asset pricing model
STPIS	service target performance incentive scheme
WACC	weighted average cost of capital

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 each distributor's distribution services. Ausgrid, Endeavour Energy and Essential Energy's proposals on classification of distribution services are consistent. As a result, our reasoning in regard to classification is the same for each of the three NSW distributors. Therefore, we refer to the NSW distributors collectively in this attachment.

The classification of distribution services must be as set out in the relevant framework and approach (F&A) paper unless we consider that unforeseen circumstances justify departing from that proposed classification. We set out our proposed approach to the classification of distribution services for the NSW distributors in our Stage 1 F&A.¹ We proposed to group the NSW distribution services as follows:

- network services
- connection services
- metering services
- public lighting services
- ancillary network services.

In our draft decision we proposed to retain the service groups listed above.

13.1 Final decision

Our final decision is to retain our approach to classification as set out in our Stage 1 F&A, subject to the following. We will:

- classify separate type 5 or 6 metering services for:
 - meter reading and maintenance
 - meter provision before 1 July 2015
 - meter provision after 1 July 2015
- make other minor changes to the structure of our classifications table

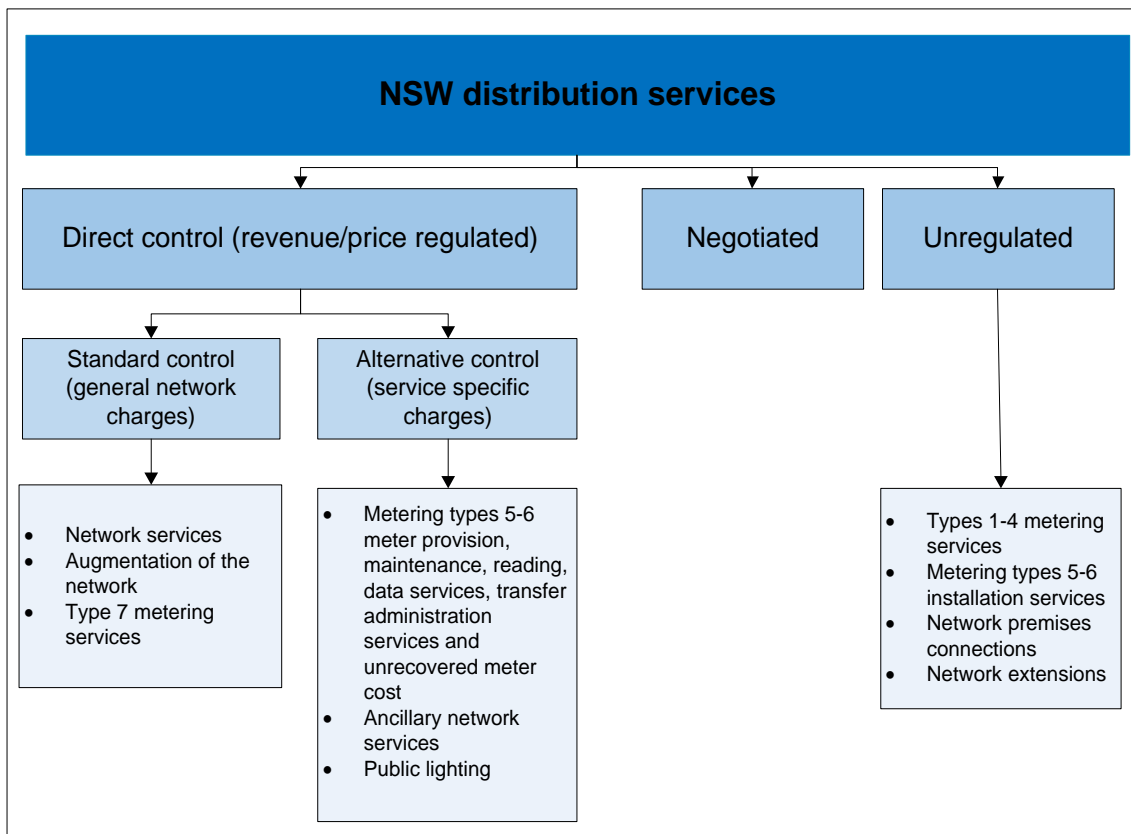
¹ AER, *Stage 1 Framework and approach, Ausgrid, Endeavour Energy, Essential Energy, 2014–19*, March 2013, p. 17.

- clarify that where load control services are provided by equipment external to the meter they are classified standard control; where load control services are provided by equipment internal to a meter they are classified alternative control .

Figure 13.1 summaries our final decision on service classification for the NSW distributors for the 2015–19 regulatory control period.

Appendix A sets out our detailed classification decisions. Changes in our classification approach since our F&A are presented in coloured text.

Figure 13.1 AER final decision on 2015–19 service classifications for the NSW distributors



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. That detail is discussed in the control mechanism attachments.²

² Refer to attachment 14 – Control mechanisms and attachment 16 – Alternative control services of our final decision.

13.2 Essential Energy's revised proposal

Each of the NSW distributors adopted our classification of services as set out in our draft decision in their revised regulatory proposals,³ including:

- recovery of residual type 5 or 6 metering capital costs as a standard control service
- classifying load control services provided by type 5 or 6 meters as alternative control, to match the classification of the meters themselves
- no negotiated distribution services
- minor clarifications and re-groupings.

In their regulatory proposals the NSW distributors proposed to charge an 'exit fee'. This fee would recover the residual capital costs of a distributor provided type 5 and 6 meter where a customer switches to a meter supplied by an alternative metering provider.⁴ This proposed additional service, not envisaged at the time the Stage 1 F&A was finalised, required us to revisit the classification of type 5 and 6 metering services. We discuss this issue below.

13.3 AER's assessment approach

The NER allows us to group distribution services when classifying them.⁵ This means we may classify a class of services rather than specific individual services. This provides distributors with flexibility to alter the exact specification (but not the nature) of a service during a regulatory control period. Where we make a single classification for a group of services, it applies to each service in the group.

In making our classification decisions, we may:

- classify a service so that the distributor may recover related costs from all customers (direct control – standard control service)
- classify a service so that the user benefiting from the service pays (direct control – alternative control service)
- allow customers and distributors to negotiate the provision and price of some services – we will arbitrate should negotiations stall (negotiated distribution service)
- not classify a service – we have no regulatory control over this service or the prices charged by the distributor (unregulated service).

In deciding whether to classify services as either direct control or negotiated services, or to not classify them, the NER requires us to have regard to the 'form of regulation

³ Ausgrid, *Regulatory proposal*, May 2014, p. 54; Endeavour Energy, *Regulatory proposal*, May 2014, p. 61; Essential Energy, *Regulatory proposal*, May 2014, p. 74.

⁴ Ausgrid, *Regulatory proposal*, May 2014, pp. 90–95; Endeavour Energy, *Regulatory proposal*, May 2014, pp. 140–143; Essential Energy, *Regulatory proposal*, May 2014, pp. 120–122.

⁵ NER, cl. 6.2.1 (b).

factors' set out in the NEL.⁶ The form of regulation factors include the presence and extent of barriers to entry by alternative providers and the extent to which any distributor market power is likely to be mitigated by any countervailing user or prospective user market power. The NER also requires us to consider the previous form of regulation applied to services, the desirability for consistency in the form or regulation for similar services and any other relevant factor.⁷

For services we intend to classify as direct control, the NER requires us to have regard to a further range of factors.⁸ These include: the potential to develop competition in provision of a service and how our classification may influence that potential; whether the costs of providing the service are attributable to a specific person; and, the possible effect of the classification on administrative costs.

The NER also specifies that for a service regulated previously, unless a different classification is clearly more appropriate, we must:⁹

- not depart from a previous classification (if the services have been previously classified), and
- if there has been no previous classification but the service has been regulated, such as under a separate regulatory regime– the classification should be consistent with the previously applicable regulatory approach.

In some cases, a service may previously have been regulated by another regulator, such as a state or territory economic regulator.

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 the operating costs that relate to any particular service, form a starting point for our assessment of the distributor's proposal for recovering revenues through charges for their services. Classification of services will therefore influence all revenue components of our decision.

There are assets and operating costs associated with the services provided by distributors. We set the revenues the distributor may collect from customers to recover their asset and operating costs. That revenue is recovered through tariffs the distributor

⁶ NER, cl. 6.2.1(c); NEL, s. 2F.

⁷ NER, cl. 6.2.1(c).

⁸ NER, cl. 6.2.2(c).

⁹ NER, cll. 6.2.1(d) and 6.2.2(d).

develops to charge to its customers. The regulatory regime establishes incentives such as the Efficiency Benefit Sharing Scheme (EBSS) and the Capital Expenditure Sharing Scheme (CESS) to encourage the provision of services as efficiently as possible. All of these factors interrelate with each other. We must be cognisant of these interrelationships when we make our determinations.

The largest impact of our classification decision for the 2015–19 regulatory control period is reclassifying metering services from standard control to alternative control. By doing this, the standard control RAB for each NSW distributor has decreased in size as the asset costs associated with metering services will no longer be recovered through the allowed revenue for standard control services. Rather, they will now be recovered through prices charged for specific metering services.

The incentive schemes do not apply to services classified as alternative control services. As such, classifying type 5 and 6 metering services alternative control also means the incentive schemes are no longer applied to expenditure associated with these services.

13.4 Reasons for final decision

This section sets out our reasons for our final decision on the distribution service classifications for the NSW distributors. Our decision is to depart from the classifications set out in our Stage 1 F&A for the following reasons:

- we classify separate type 5 or 6 metering services for meter reading and maintenance, and for meter provision
- other minor changes to the structure of our classifications table
- we clarify that network services include load control when provided by equipment external to a meter, classified standard control, but load control is part of metering services when provided by a type 5 or 6 meter, classified alternative control.

The NER provides that service classifications must be as set out in our Stage 1 F&A unless unforeseen circumstances justify a change in classification approach.¹⁰ In our Stage 1 F&A we proposed unbundling type 5 and 6 metering services from standard control services.¹¹ Once unbundled from standard control services we proposed to classify type 5 and 6 meter provision, maintenance, reading and data services as alternative control services. We also proposed to not classify type 5 and 6 meter installation, so that these services will not be regulated. This remains our classification approach.

¹⁰ NER, cl. 6.12.3(b).

¹¹ AER, *Stage 1 Framework and approach paper — Ausgrid, Endeavour Energy and Essential Energy*, March 2013, p. 47.

Our classifications are consistent with the Australian Energy Market Commission's (AEMC) Power of Choice review.¹² The AEMC's recommendations included:

- current metering arrangements need reform to promote investment in better metering technology and promote customer choice
- metering costs should be unbundled from shared network charges.

The AEMC also released a Power of Choice supplementary paper on metering services, exploring the arrangements necessary to implement its recommendations. The AEMC recommended the provision of metering services be open to competition.

The NSW distributors adopted our proposal to unbundle type 5 and 6 metering in their regulatory proposals and revised regulatory proposals.¹³ However, the distributors included in their regulatory proposals a new metering exit fee as an alternative control service. In their revised proposals the distributors adopted our draft decision, to minimise, though not entirely remove, exit fees.

13.4.1 Unforeseen circumstances—metering

At the time of releasing our F&A it was not possible to foresee how the AEMC's metering rule change work program would unfold. We consider our classification decisions should have regard to the AEMC's approach, wherever possible, but we have in effect been working ahead of the AEMC's metering rule changes. That is, we have been attempting to settle classifications while the manner in which metering services will be provided by the market is still being considered.

When we released the Stage 1 F&A in March 2013 the AEMC had not commenced its metering rule change process. We consider the AEMC's work program on the metering rule change represents an unforeseen circumstance justifying a change in classification approach from our Stage 1 F&A.

At the time of releasing our Stage 1 F&A it was also not possible to foresee the NSW distributors' approach with respect to exit fees. In our draft decision we noted this constituted an unforeseen circumstance that justified departing from the classifications in our Stage 1 F&A. We continue to hold this view.

For load control, a distributor in a different jurisdiction has sought to retain in its RAB a portion of its unbundled type 5 or 6 meters which it attributes to load control equipment. This was not our intention at the time the Stage 1 F&A was published. Our Stage 1 F&A classified load control services in a manner that is consistent with this final decision. Therefore, the only changes that are required are with respect to the description of load control services rather than classification. To the extent others may

¹² AEMC, *Final report — Power of choice review - giving consumers options in the way they use electricity*, November 2012.

¹³ Ausgrid, *Revised regulatory proposal*, January 2015, p. 54; Endeavour Energy, *Revised regulatory proposal*, January 2015, p. 62; Essential Energy, *Revised regulatory proposal*, January 2015, p. 74.

believe this is a change in classification, we are satisfied the change in circumstances was unforeseen, as noted above. We therefore consider we are justified in making changes necessary to clarify our intent in regard to load control.

13.4.2 Exit fees

When a distributor first installs a type 5 or 6 meter, it does not charge customers upfront for the whole cost of the meter. Rather, these costs are recovered over time. If a customer chooses to switch metering providers, the distributor provided meter is unlikely to have been paid for in full. This creates a residual capital cost.

The NSW distributors proposed an exit fee to recover any residual meter capital cost along with administrative costs.¹⁴ The distributors proposed that the exit fee would be charged on a once off basis to customers choosing to switch to an alternative metering supplier.

In our draft decision we accepted the need to classify an alternative control service for the distributors to recover residual metering costs, but we did not accept the NSW distributors' proposed exit fees.¹⁵ In particular, we rejected the proposed recovery of residual meter capital costs through exit fees. Such an approach would create a large exit fee and form a barrier to customers seeking to switch to another metering provider. The NEL and NER require us to have regard to the development of competition in deciding service classifications.

In our draft decision we noted the distributors' may be able to sufficiently justify exit fees to cover their administrative costs in their revised regulatory proposals. We considered it prudent to classify a meter transfer service with our draft decision, should the distributors substantiate administrative charges. Our final decision is to not classify an exit fee, or transfer, service. We consider the distributors have not provided evidence to sufficiently justify charging exit fees. Further details of our reasoning are set out in attachment 16.

13.4.3 Residual meter value

In our draft decision we proposed to classify a new standard control service for the distributors to recover their residual type 5 or 6 meter capital costs from all customers. In this way, the distributors would recover their residual sunk investment costs and customers would avoid large exit fees. The NSW distributors adopted this approach in their revised regulatory proposals. However, our classification approach on this issue was challenged by distributors in other jurisdictions.

¹⁴ Ausgrid, *Regulatory proposal*, May 2014, p. 90; Endeavour Energy, *Regulatory proposal*, May 2014, p. 143, Essential Energy, *Regulatory proposal*, May 2014, p. 123.

¹⁵ AER, Draft decision — *Essential Energy distribution determination — attachment 13 Classification of distribution services*, November 2014, p. 13.

ActewAGL (in the ACT), Energex and Ergon Energy (Queensland) submitted their opposition to classifying a new standard control service to recover residual meter values.¹⁶ These distributors considered metering assets could not move into the RAB within a regulatory period.

We accept that use of a standard control service to recover redundant meter value would be problematic. We have therefore changed our classification approach.

Our final decision is to retain the residual capital cost of meters as alternative control when customers switch to alternative providers. These residual costs will be recovered from customers who have a distributor provided type 5 or 6 meter as at 1 July 2015. After 1 July 2015, customers receiving a new type 5 or 6 meter from a distributor will pay the full capital cost of the meter.

The operating costs associated with meter maintenance and meter reading services will also remain alternative control, but be recovered only from customers continuing to receive these services from the distributor.

Spreading the residual asset costs across all pre-1 July 2015 customers will avoid large exit fees which might be a barrier to competition. However, we did not find it appropriate that customers switching to alternative providers be required to pay for ongoing operating costs for services they were no longer receiving from the distributor. Our classification approach to metering services is consistent with the approach set out in the alternative control services attachment to this final decision.

Our final decision on classification addresses the issues raised by ActewAGL, Energex and Ergon Energy, as discussed below:

- *Unforeseen circumstances have not arisen*

ActewAGL agrees that the AEMC's rule change proposal represents an unforeseen circumstance justifying classification changes.

Energex and Ergon Energy submitted that the AEMC's metering rule change process could not be considered an unforeseen circumstance because it was initiated before our Qld F&A was released. We take this opportunity to clarify that the ongoing process and its possible or likely outcomes were unforeseen at the time we released our Qld F&A.

- *Use of a new standard control service to recover residual meter value is inappropriate*

ActewAGL, Energex and Ergon Energy submitted that the residual metering asset costs from an alternative control service could not reasonably be included in the standard control RAB and recovered through standard control service charges.

¹⁶ ActewAGL, *Revised regulatory proposal*, January 2015, p. 635; Energex, *Response to AER issues paper*, January 2015, p. 25; Ergon Energy, *Submission on the Qld regulatory proposals issues paper*, January 2015, p. 6.

These distributors further submitted that our draft decision proposed to classify assets rather than services, which is not permitted by the NER.

We agree that only services may be classified, rather than assets. Our final decision is to classify services rather than characterise our classification decision in terms of assets.

By classifying an alternative control service associated with the recovery of residual meter values, the issues raised by ActewAGL, Energex and Ergon Energy are no longer relevant.

We have had regard to stakeholder views in considering our classification approach.¹⁷ We have received a large number of submissions in favour of minimising or avoiding exit fees. Stakeholders have noted the potential for large exit fees to hinder development of a competitive market for metering services. For example, Origin submitted "it is important that meter exit charges do not act as a barrier to the uptake of competitive metering".¹⁸ Vector submitted "the higher the exit fee, the greater the cost barrier that must be overcome by any potential entrant in making a competitive business case".¹⁹

These submissions were provided on the basis of our draft decision. However, we consider they are relevant to our final decision which also minimises exit fees.

We recognise that allowing all customers to be charged for the cost of legacy distributor provided meters, whether they switch metering provider or not, may weaken the incentive to switch compared to other cost recovery mechanisms. Some submissions on our consultation paper on metering cost recovery²⁰ made this point. However, we consider our final decision balances the creation of a competitive market for metering services with the need to minimise cross subsidies in favour of switching customers.

On the basis of the above, to allow distributors to recover their residual metering capital value and their administrative costs, our final decision is to classify three alternative control services:

1. Type 5 or 6 meter reading and maintenance.

This covers the operating costs incurred by a distributor in operating a meter. Customers may avoid this ACS charge by switching to an alternative metering provider.

2. Type 5 or 6 meter provision—pre 1 July 2015.

¹⁷ AER, *Consultation paper—Alternative approach to the recovery of residual metering capital costs through an alternative control services annual charge*, March 2015.

¹⁸ Origin, *Submission to NSW electricity distributors' regulatory proposals*, August 2014, p. 2.

¹⁹ Vector, *Submission on issues paper on NSW electricity distribution regulatory proposals*, August 2014, p. 4.

²⁰ AER, *Consultation paper—Alternative approach to the recovery of residual metering capital costs through an alternative control service annual charge*, March 2015.

This service allows distributors to recover the cost of meters installed before 1 July 2015. The fee for this service will reflect the pool of distributor provided type 5 or 6 meters, both active and redundant, until their value is depreciated away.

3. Type 5 or 6 meter provision—post 1 July 2015.

This service will allow distributors to recover the cost of a meter installed on or after 1 July 2015.

The above metering services are reflected in appendix A which details our classification of distribution services. Further discussion of the mechanism by which metering costs will be recovered is provided in the control mechanism attachments.²¹ Additionally, we have refined certain aspects of our service classification to address issues raised by the NSW distributors.

13.4.4 Network augmentations part of network services

In their regulatory proposals, the NSW distributors proposed we specify network augmentations as part of network services. They submitted that categorising network augmentation under the 'connections' service group but not network services is problematic. Augmentations of the network may be driven by new customers connecting to the network, but can also be driven by:

- the need to reinforce the network as a result of increasing demand on the network from existing users
- improving security of the network where the consequences of supply loss are high
- restoring capacity lost due to de-rating of existing assets
- addressing voltage or fault duty issues.

The NSW distributors sought confirmation that augmentations may also relate to the above listed issues and therefore form part of network services.

In our draft decision, we accepted the NSW distributors' proposals to include augmentations, as set out above, in network services. We retain this approach in our final decision. The change is detailed in appendix A.

13.4.5 Emergency recoverable works

The NSW distributors also sought clarification on the classification of emergency recoverable works. Particularly in instances where the distributor must repair damage to the network caused by a third party, whom the distributor could not identify or could not recover the costs of repairing the damage from.

²¹ Refer to attachment 14 – Control mechanisms and attachment 16 – Alternative control services of our final decision.

In our draft decision we noted that, when the party responsible for the damage is not identifiable, related costs are not recoverable.²² This is consistent with our approach in the final F&A for Energex and Ergon Energy in Queensland.²³ Therefore, works to repair that damage would not be considered emergency recoverable works. Rather, they would be emergency works which are classified as standard control services. We continue to hold the views set out in our draft decision.

13.4.6 Load control

Consistent with our draft decision, we have refined the definitions of network services (standard control) and metering services (alternative control) to make clear our classification of load control services.

Load control permits a distributor to control an appliance connected at a customer's premises. Distributors use controlled load to reduce demand on the network at peak periods. By doing so, the distributors avoid the need for more expensive investment in network augmentation. In their regulatory proposals the NSW distributors did not discuss load control services. However, in the context of our Queensland distribution determination, Energex raised with us load control's classification.

In its regulatory proposal, Energex proposed all load control services be classified as standard control services, even where provided by an unbundled type 5 or 6 meter.²⁴ Energex split the value of its meters into metering and load control components and retained in its RAB the portion it attributed to load control equipment. We do not agree with this approach. From staff level meetings, we understand Energex considers that classifying all load control as standard control will provide it with greater control over the use of load control by customers.

In our draft decision we acknowledged distributors rely on load control to manage their networks, but we did not accept that to be effective distributors need load control services to be classified as standard control or that load control devices need to be a part of the RAB.²⁵ Rather, load control can be achieved through arrangements with customers, through tariffs or other agreements, giving them incentive or reason to allow a distributor to control the customer's load. Consequently, we did not agree load control devices embedded in a meter should be classified as standard control. This remains our view.

Load control devices situated within a customer's meter are inseparable from the meter and the services the meter provides. A customer can already make a controlled load

²² AER, *Draft decision — Essential Energy distribution determination — attachment 13 Classification of distribution services*, November 2014, p. 12.

²³ AER, *Final framework and approach for Energex and Ergon Energy — regulatory control period commencing 1 July 2015*, April 2014, p. 28.

²⁴ Energex, *2015–20 Regulatory proposal*, October 2014, p. 69.

²⁵ AER, *Draft decision — Essential Energy distribution determination — attachment 13 Classification of distribution services*, November 2014, p. 12.

redundant by switching to a different type of appliance (e.g. moving from off peak hot water to solar hot water). If a meter is replaced by a customer, the load control device will be removed also. So the notion that a standard control classification provides distributors with greater control over the customer's load is unfounded.

In our draft decision, we therefore revised the definition of metering services to make clear that load control services provided by a type 5 or 6 meter are classified as alternative control services. Our final decision is consistent with our draft decision.

In their revised regulatory proposals the NSW distributors adopted our load control classifications for load control services.²⁶ The NSW distributors also confirmed that the methodology used to develop their regulatory proposals is consistent with our classification approach, hence no adjustments to their regulatory proposals are required. We have incorporated those classifications in appendix A.

13.4.7 Minor classification revisions

In their regulatory proposals the NSW distributors proposed some minor revisions to the service descriptions set out in our classification table at appendix A. We adopted those revisions in our draft decision. The revisions do not impact our classification decisions. They are changes to form only rather than the substance of the services listed. The NSW distributors reflected the minor revisions in their revised regulatory proposals.

13.4.8 Emerging Public lighting

In response to the NSW distributors' regulatory proposals, Trans Tasman Energy Group (TTEG) submitted that we should classify emerging public lighting technology as a negotiated distribution service.

As set out in our Stage 1 F&A, emerging public lighting technology relates to luminaries the NSW distributors do not provide at the time of our distribution determination. Such emerging technology may become available during the 2015–19 regulatory control period. In our Stage 1 F&A, we proposed classifying public lighting, including emerging public lighting technology, as an alternative control service.

In our draft decision we noted TTEG provided a similar submission to our NSW preliminary positions F&A. Our reasons for not accepting TTEG's earlier submission are set out in our Stage 1 F&A. In a more recent submission, TTEG has not provided any compelling new arguments for us to revisit our classification of emerging public lighting technology. Our draft decision detailed our reasoning, including that a large number of submissions provided a sense that the NSW distributors have not adequately consulted with their public lighting customers, predominantly local government councils.

²⁶ Ausgrid, *Revised regulatory proposal*, January 2015, p. 54; Endeavour Energy, *Revised regulatory proposal*, January 2015, p. 62; Essential Energy, *Revised regulatory proposal*, January 2015, p. 74.

Consistent with our draft decision, we consider customers do not have adequate countervailing market power for public lighting services to be negotiated services. Therefore, we do not support TTEG's submission that emerging public lighting services should be negotiated. Also as set out in our draft decision, we will not classify LED lights as an emerging public lighting technology. TTEG submitted this should be the case for a range of existing LED lights. This does not align with our definition of emerging public lighting technology.

A AER final decision table of classification of services

Table 1 Classification of distribution services—Networks NSW

Service group/Activities included in service group	Further description (if any)	AER's final decision on classification 2014–19	Current classification 2009–14
AER Service group— Network services			
Planning the network	<p>Network/asset planning (asset needs assessment, asset investment planning, asset management planning, asset delivery planning. Includes risk and feasibility assessment, estimating and cost planning)</p> <p>Regulatory planning</p> <p>Demand management planning</p> <p>Network business strategy development, strategic initiatives development and management (including business improvement/efficiency initiatives)</p> <p>Participation in industry planning</p> <p>Governance, policies, procedures, standards</p>	Standard control	Standard control

Service group/Activities included in service group	Further description (if any)	AER's final decision on classification 2014–19	Current classification 2009–14
Designing the network	Design standards and designing the network	Standard control	Standard control
Constructing the network ²⁷	<p>Network construction (other than construction of connection assets provided contestably)</p> <p>Project planning and works management (works program development, procurement, vendor management, contract management, work scheduling and dispatching)</p> <p>Management of environmental issues</p> <p>Asset deployment and commissioning</p> <p>Asset relocation (other than those undertaken at a customer's request)</p> <p>Training for internal staff (e.g. safety)</p> <p>Operational technology supporting the network</p> <p>Pole replacement</p> <p>Augmentations of the network may also be driven by:</p> <ul style="list-style-type: none"> the need to reinforce the network as a result of increasing demand on the network from existing users 	Standard control	Standard control

²⁷ It is assumed that an asset relocation at the customer's request will be unclassified and hence unregulated.

Service group/Activities included in service group	Further description (if any)	AER's final decision on classification 2014–19	Current classification 2009–14
	<ul style="list-style-type: none"> improving security of the network where the consequences of supply loss are high restoring capacity lost due to de-rating of existing assets addressing voltage or fault duty issues 		
Maintaining the network	<p>Asset maintenance and network/asset performance management including:</p> <ul style="list-style-type: none"> Performance and condition monitoring Asset optimisation Asset maintenance/replacement/refurbishment program management Asset performance reporting Network systems maintenance Asset retirement Vegetation management, inspection and testing Works to fix damage to the network (other than emergency recoverable works) 	Standard control	Standard control
Operating the network for distributor purposes	<p>Implementing Network Management Plan – Implementing the obligations under the Electricity Supply (Safety and Network Management) Regulation</p> <p>Network/asset operations: network control and operation, outage</p>	Standard control	Standard control

Service group/Activities included in service group	Further description (if any)	AER's final decision on classification 2014–19	Current classification 2009–14
	<p>management, load control provided by equipment external to a meter, emergency management field operations, commissioning of assets</p> <p>Customer interactions (including in relation to network product development, customer service management, complaints and enquiries, record management, debt collection and disconnections)</p> <p>Market operations: includes revenue management, network billing and disputes, processing and publication of notifications of new connections and alterations, market notifications of retailer changes</p> <p>EHS management (risk assessment, monitoring, program management, reporting and training)</p> <p>GIS (Dial Before You Dig services)</p> <p>Compliance monitoring and reporting</p> <p>External stakeholder interaction (industry, regulatory, government)</p> <p>Pricing and regulatory affairs</p> <p>Financial and commercial management and reporting</p>		
<p>Network operation and administrative support</p>	<p>Includes call centres, network claim processing, network billing (including consumption data storage and analysis)</p>	<p>Standard control</p>	<p>Standard control</p>
<p>Emergency response</p>	<p>Outage management, emergency management (for example, reinstatement of network after natural disaster)</p>	<p>Standard control</p>	<p>Standard control</p>
<p>AER Service group— Pre-connection services</p>			

Service group/Activities included in service group	Further description (if any)	AER's final decision on classification 2014–19	Current classification 2009–14
Preliminary enquiry service	For services provided to connection applicants making a preliminary enquiry requiring site-specific or written response	Alternative control	Standard control
Connection offer service (basic or standard)	For services provided by distributors in assessing the applicant's connection application and making a basic or standard connection offer	Alternative control	Standard control
Carrying out planning studies and analysis relating to distribution (including sub-transmission and dual function assets) connection applications	This service undertakes necessary planning studies and associated technical analysis to help determine suitable/feasible connection options for further consideration by proponents.	Alternative control	Standard control
Customer interface coordination for contestable works	This service is proposed where customer connections or asset relocations may require a high level of distributor involvement in order to coordinate a range of inputs from the distributor to help establish the connection.	Alternative control	Standard control
AER Service group—Connection services			
Premises connection assets	Includes any additions or upgrades to the connection assets located on the customer's premises which are contestable (Note: excludes all metering services).	A. Unclassified	A. Unregulated
	Premises connection assets can be further described as:		
	A. Design and construction of premises connection assets (where these services are provided contestably)	B. Standard control	B. Standard control
	B. Part design and construction of connection assets that are not		

Service group/Activities included in service group	Further description (if any)	AER's final decision on classification 2014–19	Current classification 2009–14
	available contestably (generally as a result of safety, reliability or security reasons). Those parts of project works that are performed and funded by the distributor.		
Extensions	<p>An enhancement required to connect a power line or facility outside the present boundaries of the transmission or distribution network owned or operated by a Network Service Provider that is:</p> <p>A. undertaken by an ASP on behalf of a customer</p> <p>B. undertaken by a customer but partly funded by a NSP (NSP contribution would be classified as a standard control service while the customer funded component of the service would be unclassified.)</p> <p>C. undertaken by a network service provider</p>	<p>A. Unclassified</p> <p>B. Unclassified/ standard control based on contribution (see previous column)</p> <p>C. Standard control</p>	Unregulated
Augmentations	<p>A. Any shared network enlargement/enhancement undertaken by a distributor which is not an extension</p> <p>B. Any shared network enlargement/enhancement undertaken by a customer, but partly funded by a NSP (NSP contribution would be classified as a standard control service while the customer funded component of the service would be unclassified)</p> <p>C. Any shared network enlargement/enhancement undertaken by a customer</p>	<p>A. Standard control</p> <p>B. Unclassified/ standard control based on contribution (see previous column)</p> <p>C. Unclassified</p>	Unregulated
AER Service group—Post-connection services			

Service group/Activities included in service group	Further description (if any)	AER's final decision on classification 2014–19	Current classification 2009–14
Connection/relocation process facilitation	Providing connection applicants with ongoing information and advice in relation to the connection process and requirements associated with establishing a new or altered connection or a relation of existing network assets.	Alternative control	Standard control
Services to supply and connect temporary supply to one or more customers	Including equipment and related costs) in relation to planned access permits	Alternative control	Standard control
Reinspection of installation work in relation to customer assets	Reinspection by a distributor of private electrical wiring work undertaken by an electrical contractor, required where the first inspection revealed defective work.	Alternative control	Standard control
AER Service group— ASP connection services			
Authorisation of ASPs	Annual authorisation of individual employees and sub-contractors of ASPs and additional authorisations at request of ASP. Authorisation excludes training costs.	Alternative control	Standard control
ASP inspection services	Inspection and re-inspection of contestable connection and relocation works performed by Accredited Service Providers (ASPs)	Alternative control	Standard control
Investigation, review and implementation of remedial actions associated with ASPs' connection work	The investigation, review and implementation of remedial actions associated with contestable connection works leading to corrective and disciplinary action of an ASP due to unsafe practices, substandard workmanship or other serious circumstances that impact upon ongoing authorisation as an accredited service provider to NSW distributors.	Alternative control	Standard control

Service group/Activities included in service group	Further description (if any)	AER's final decision on classification 2014–19	Current classification 2009–14
Administration services relating to work performed by ASPs, including processing work	Work of an administration nature (not included work an administrative nature described in service - Notice of Arrangement or Authorisation of ASPs, including the processing of Level 1 and/or Level 3 work where the customer is lawfully required to pay for the Level 1 and/or Level 3 work.	Alternative control	Standard control
AER Service group— Metering services			
Types 5 and 6 metering installation	Includes on site connection of a new meter at a customer's premises, and on site connection of an upgraded meter at a customer's premises where the upgrade is initiated by the customer. Excludes installation of replacement types 5 and 6 meters initiated by the DNSP.	Unclassified	Standard control
Types 5 and 6 meter reading, maintenance and data services	Meter maintenance covers works to inspect, test, maintain, repair and replace meters. Meter reading refers to quarterly or other regular reading of a meter. Metering data services are those that involve the collection, processing, storage and delivery of metering data and the management of relevant NMI Standing Data in accordance with the Rules.	Alternative control	Standard control
Types 5 and 6 meter provision (before 1 July 2015)	By charging for this service, distributors may recover the capital cost of types 5 and 6 metering equipment (including meters with internally integrated load control devices) installed before 1 July 2015.	Alternative control	Standard control
Types 5 and 6 meter provision (after 1 July 2015)	By charging for this service, distributors may recover the capital cost of types 5 and 6 metering equipment (including meters with internally integrated load control devices) installed on or after 1 July 2015.	Alternative control	Standard control
Type 7 metering services	Administration and management of type 7 metering installations in accordance with the Rules and jurisdictional requirements. Includes the	Standard control	Standard control

Service group/Activities included in service group	Further description (if any)	AER's final decision on classification 2014–19	Current classification 2009–14
	processing and delivery of calculated metering data for unmetered loads, and the population and maintenance of load tables, inventory tables and on/off tables.		
Ancillary metering services	For example, special meter reading for types 5 and 6 meters; customer or retailer requested meter accuracy testing for type 5 or 6 meters; franchise CT meter install; request for customer energy consumption data, tariff or distribution information; replacement or removal of a type 5 or 6 meter instigated by a customer switching to a non-type 5 or 6 meter that is not covered by any other fee; emergency maintenance of failed metering equipment not owned by the network.	Alternative control	Standard control
Move in move out meter reads	B2B service orders from retailers to obtain a final read for customer move-outs or to obtain a start read where property has been vacant. This includes customer or retailer requests for a final or start read when a customer movement occurs.	Alternative control	Standard control
AER Service group— Ancillary network services			
Design related services	Provision of design information, design re-certification services in relation to connection and relocation works provided contestably	Alternative control	Standard control
Vacant property reconnect/disconnect	<p>At the request of the retailer, a site visit to a customer's premises to disconnect or reconnect the supply of electricity due to:</p> <ul style="list-style-type: none"> - a vacant premises; or - a site where the power is on. 	Alternative control	Standard control

Service group/Activities included in service group	Further description (if any)	AER's final decision on classification 2014–19	Current classification 2009–14
	This includes meter read as required by the B2B process.		
Reconnections/Disconnections	Disconnection or reconnection visits (site visits only); Disconnection or reconnection (disconnection completed); Disconnections or reconnections (disconnection completed - technical); Disconnections or reconnections (pole top or pillar box); Disconnection or reconnection (site visit only - pole top or pillar box); Disconnections or reconnections outside of business hours. This includes meter read as required by the B2B process	Alternative control	Standard control
Contestable substation commissioning	Includes Contestable substation commissioning (complex) and Contestable substation commissioning (basic). Involves the process of connecting the substation to the network. Complex involves kiosk and chamber substations that may involve protection settings. Basic is generally pole mounted substations.	Alternative control	Standard control
Access permits	The provision of an access permit by a distributor to a person authorised to work on or near distribution systems including high voltage.	Alternative control	Standard control
Clearance to work	The provision of a clearance to work by a distributor to a person authorised to work on or near the system generally at a low voltage.	Alternative control	Standard control
Access (standby person)	The provision of access to switch rooms, substations and the like to an ASP who is accompanied by a distributor's staff member, but does not include the circumstance where an ASP is provided with keys for the purpose of securing access and is not accompanied by a distributor's staff member,.	Alternative control	Standard control

Service group/Activities included in service group	Further description (if any)	AER's final decision on classification 2014–19	Current classification 2009–14
Notices of arrangement	Work of an administrative nature performed by a distributor 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 linen plans and 88 B instruments, copying linen plans, checking and recording easement details, preparing files for conveyancing officers, liaising with developers if errors or charges are required, checking and receiving duct declarations and any amended linen plans and 88B instruments approved by a conveyancing officer and preparing notifications of arrangement.	Alternative control	Standard control
Conveyancing information	Supply of conveyancing information – desk inquiry; Supply of conveyancing information – field visit	Alternative control	Standard control
Site establishment fee services	Site establishment services, including issuing of meters (where applicable) and liaising with the Australian Energy Market Operator (AEMO) or market participants for the purpose of establishing NMIs in market systems, for new premises or for any existing premises for which AEMO requires a new NMI and for validation of and updating network load data.	Alternative control	Standard control
Off-peak conversion	The alteration of the off-peak metering equipment at a customer's premises for the purpose of changing the hours of the metering equipment's operation.	Alternative control	Standard control
Rectification works	Includes rectification of illegal connections, provision of service crew/additional crew, fitting of tiger tails, high load escorts	Alternative control	Standard control

Service group/Activities included in service group	Further description (if any)	AER's final decision on classification 2014–19	Current classification 2009–14
Services involved in obtaining deeds of agreement in relation to property rights associated with contestable connection works	Services related to the acquisition of tenure over and access to distributor assets associated with contestable connection works.	Alternative control	Standard control
Network tariff change request	When a retailer's customer or retailer requests an alteration to an existing network tariff (for example, a change from an Inclining Block Tariff to a Time of Use tariff), the NSW distributors conduct tariff and load analysis to determine whether the customer meets the relevant tariff criteria. The NSW distributors also process changes in their IT systems to reflect the tariff change.	Alternative control	Standard control
Recovery of debt collection costs – dishonoured transactions	The incurrance of costs, including bank fees by a NSW distributor resulting from the dishonour of a customer or ASP's cheques tendered in payment of network related services.	Alternative control	Standard control
Services provided in relation to a Retailer of Last Resort (ROLR) event	<p>The NSW distributors may be required to perform a number of services as a distributor when a ROLR event occurs. These include:</p> <p>Preparing lists of affected sites, and reconciling data with AEMO listings; handling in-flight transfers; identifying open service orders raised by the failed retailer and determining actions to be taken in relation to those service orders; arranging estimate reads for the date of the ROLR event and providing data for final NUOS bills in relation to affected customers; preparing final invoices for NUOS and miscellaneous charges for affected customers; preparing final debt statements; extracting customer data, providing it to the ROLR and handling subsequent enquiries; handling adjustments that arise from the use of estimate reads; assisting</p>	Alternative control	Standard control

Service group/Activities included in service group	Further description (if any)	AER's final decision on classification 2014–19	Current classification 2009–14
	the retailer with the provision of network tariffs to be applied and the customer move in process; administration of any 'ROLR cost recovery scheme distributor payment determination'.		
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	Standard control
AER Service group— Public lighting services			
Provision, construction and maintenance of public lighting and emerging public lighting technology		Alternative control	Alternative control
Unclassified distribution services			
Emergency recoverable works	Work to repair damage to the distribution network cause by a third party	Unclassified For instances where costs are not recoverable from a third party, these are not emergency recoverable works	Standard control.

Service group/Activities included in service group	Further description (if any)	AER's final decision on classification 2014–19	Current classification 2009–14
		but rather form part of standard control services	