

# Framework and approach; Preliminary position paper

NSW, ACT, TAS and NT businesses

Regulatory control period commencing 1 July 2024

April 2022

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## Request for submissions

We, the Australian Energy Regulator (AER) invite interested parties to make submissions on this framework and approach positions paper **by 5pm AEST, 20 May 2022**.

Submissions should be emailed to [AERresets2024-29@aer.gov.au](mailto:AERresets2024-29@aer.gov.au). We will also consider verbal submissions. Should you wish to make a verbal submission via an online meeting with AER staff it would be recorded and transcribed. Please email the above mailbox to arrange.

Alternatively, you may mail submissions to:

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Australian Energy Regulator  
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We prefer that all submissions be publicly available to facilitate an informed and transparent consultative process. We will treat submissions as public documents unless otherwise requested. All non-confidential submissions will be placed on the AER's website. For further information regarding the AER's use and disclosure of information provided to it, see the [ACCC/AER Information Policy](#).

We request parties making a public submission confirm their consent to publish and confirm no confidential information is included when providing their submission.

We request parties wishing to submit confidential information:

- clearly identify the information that is the subject of the confidentiality claim
- provide a non-confidential version of the submission in a form suitable for publication.

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# 1 Framework and approach

The next regulatory control period (2024–29) for Ausgrid, Endeavour Energy, Essential Energy, Evoenergy, Power and Water Corporation, and TasNetworks distribution and transmission businesses (the businesses) commences on 1 July 2024.

The Framework and Approach (F&A) is the first step in the two year regulatory process to determine efficient prices for electricity distribution and transmission services. The F&A determines, amongst other things, which services we will regulate and the broad nature of the regulatory arrangements.

The F&A process for the 2024–29 regulatory control period is being produced at a time of considerable transition in the energy market and there are implications for distribution networks and the services they provide. The rapid uptake of new technologies, recent and ongoing regulatory changes, increased distributed energy resources (DER) penetration and the consequent transition of networks to platforms for services, has introduced the possibility of a range of new services distribution networks want to provide. The ongoing transition will change the way that networks and consumers interact. In addition to that, the move for traditional network businesses towards the Distribution System Operator (DSO) model<sup>1</sup> will further impact these interactions, as well as with third-party providers who may provide some of the services of the future. This is something that networks, customers and regulators are assessing, but there is still uncertainty surrounding how the market will evolve. This F&A process therefore has implications for the energy market beyond the businesses we regulate for the 2024–29 regulatory control period.

## 1.1 Context for this paper

For distribution businesses, the F&A process is required to address the proposed approach and reasoning, to the following matters including:

- Service classification
- Form of control mechanism
- Control mechanism
- Application of incentive schemes
- Approach to depreciation – forecast or actual
- Application of expenditure forecasting guideline
- Dual function assets – transmission and distribution pricing.<sup>2</sup>

It is noted, the F&A process for electricity transmission has a more limited approach<sup>3</sup>, and where relevant, the differences have been identified for TasNetworks' transmission business.

<sup>1</sup> Under the DSO model, the DSO operates as an independent platform operator and is incentivised to support third party owned DER that allows more efficient network operations. While there are a number of DSO models being trialled internationally, the model is still in its formative stage in Australia. For more info see: AEMO, inquiry into modernising Australia's electricity grid, submission 47, p. 12.

<sup>2</sup> NER, cl. 6.8.1.

<sup>3</sup> NER, cl. 6A.10.1A.

In July 2017, we published the current F&A papers for the respective jurisdiction for the businesses for the current regulatory control period.<sup>4</sup> For the 2024–29 regulatory control period, we consider it prudent to review the F&A papers for NSW, ACT, NT and Tasmania following the businesses request for amendment.<sup>5</sup>

## 1.2 How can you get involved?

Traditionally, we publish a preliminary F&A paper, which sets out our preliminary positions and reasonings to apply for our final decision. However, this F&A process is unlike any process we have recently delivered, as it considers options that will impact the future provision of potential new services.

We have already seen extensive interest from stakeholders on issues impacting the F&A process, in for example, new platform services, Stand-alone Power Systems (SAPS) and the leasing of battery capacity.<sup>6</sup> We want to ensure that this preliminary position paper assists stakeholders, by discussing our current approaches to these new, emerging issues.

We are seeking feedback on all the proposed approaches discussed in this position paper, and any other issues relevant to the F&A. Where we have specific queries, for example in relation to export services, we've highlighted these via additional questions throughout the paper. In Appendix B: Preliminary distribution service classification tables, (Attachments A through D), we outline our draft service classification positions for each jurisdiction. In setting out these tables, in consultation with distributors, we first aligned services to the baseline list we provided in the *Electricity distribution service classification guideline 2018*<sup>7</sup> (Guideline), where it was appropriate to do so. Following that, we added the new services requested by distributors, highlighted in yellow for convenience. We welcome comments on any aspects of the proposed classifications, and note the tables are subject to change following further consultation.

We consider this flexible approach will allow us to adapt and engage with a broad range of stakeholders interested in the new and developing services. For example, we recognise that there will be broader set of networks interested in the outcomes of this current F&A process, for their own upcoming resets (other jurisdictions).

Following the release of this position paper, we will be holding a series of stakeholder engagement opportunities, which will include four jurisdictional-based forums, followed by a series of roundtables on any outstanding issues. We may also consult on selected issues with interested parties, where there is a significant move in position. Stakeholders can register their interest to attend via our website.

We invite written or verbal submissions on the questions asked throughout this paper, or on any issue relevant to the F&A process by 5pm (AEST), **20 May 2022**. Given the nature of the

<sup>4</sup> [AER, Final framework and approach for Ausgrid, Endeavour Energy and Essential Energy, July 2017](#); [AER, Final framework and approach for ActewAGL, July 2017](#); [AER, Final framework and approach for Power and Water Corporation, July 2017](#); [AER, Final framework and approach for TasNetworks distribution and transmission, July 2017](#).

<sup>5</sup> Ausgrid, [Request to replace the AER's Framework and Approach Paper](#), October 2021; Endeavour Energy, [Request to replace the AER's Framework and Approach Paper](#), October 2021; Essential Energy, [Request to replace the AER's Framework and Approach Paper](#), October 2021; Evoenergy; [Request to replace the AER's Framework and Approach Paper](#), October 2021; Power and Water Corporation, [Request to replace the AER's Framework and Approach Paper](#), October 2021; and TasNetworks, [Request to replace the AER's Framework and Approach Paper](#), October 2021.

<sup>6</sup> NSW/ACT/TAS/NT electricity distributors, *Consultation Paper, Paper one: Service classification*, September 2021.

<sup>7</sup> AER, [Electricity Distribution Service Classification Guideline: Appendix A: Baseline list of electricity distribution services](#), September 2018.

issues to be determined, we encourage early submissions to inform the next phase of consultation.

## 1.3 Next steps

The release of this preliminary position paper begins our formal consultation with stakeholders before issuing our final F&A by 31 July 2022. Table 1 outlines the key milestones planned for this consultation period.

**Table 1 Key dates for the F&A consultation process**

Milestone	Date
Publish preliminary positions paper, call for submissions	April 2022
<a href="#">Stakeholder forum ACT</a>	Tuesday, 26 April 2022, 2–3:30pm (AEST)
<a href="#">Stakeholder forum NT</a>	Wednesday, 27 April 2022, 10.30am–11:30am (AEST)
<a href="#">Stakeholder forum NSW businesses</a>	Thursday, 27 April 2022, 1:30–4pm (AEST)
<a href="#">Stakeholder forum TAS</a>	Thursday, 28 April 2022, 10am–11:30am (AEST)
Stakeholder submissions close	20 May 2022
Roundtables and workshops on any outstanding issues	From 23 May 2022
Final F&A for all jurisdictions (NSW, ACT, NT and Tas) published	by 31 July 2022

Given the developing nature of the issues being discussed throughout this F&A, we propose to be flexible in our approach, and will adapt and facilitate further discussions with stakeholders where required, to reach a full understanding of the issues. This may mean a series of roundtables or workshops, post submissions, to reach a position which is consistent with the National Electricity Rules (NER) and meets business' requirements. Our intention is to use the additional consultation to discuss our approach to issues which stakeholders have raised in submissions.

Of particular focus will be the responses we receive to the questions we have outlined in this document, and how we might take account of those responses in our decision-making process. We will endeavour to advise all interested stakeholders regarding the additional consultation via our website, and also via direct replies to emailed submissions.

We encourage consumers to be actively involved in the F&A process as the decisions made, particularly relating to classification of distribution services and pricing, apply for a five-year period before they are reviewed.<sup>8</sup> The decisions made on service classification impact the way networks recover the costs of supplying services and the prices that customers pay. Under the NER, “the classification of distribution services must be as set out in the relevant framework and approach paper unless the AER considers that a material change in circumstances justify departing from the classification as set out in that paper”.<sup>9</sup>

<sup>8</sup> NER cl. 6.2.3.

<sup>9</sup> NER cl.6.12.3(b).

## 2 Service classification issues

### 2.1 Introduction

In response to changes in the regulatory environment, including recent rule changes recognising two-way energy flows and regulated SAPs, in 2021 the businesses conducted a joint consultation process, to canvass a new range of services to be classified for the 2024–29 regulatory control period.<sup>10</sup> Other new services were being canvassed as a result of the rapid take-up of new technologies, such as electric vehicles and smart lighting, as well as the increasing penetration of distributed energy resources.<sup>11</sup> Not all of the businesses expect to be impacted at the same rate by the emergence of new technologies, with Figure 1 providing a summary of these differences.

We note that there are a number of process ongoing such as the work by the Energy Security Board (ESB) which may change both the business’s and the AER’s positions over the consultation period. Any such changes will be documented in our final F&A.

**Figure 1 NSW/ACT/TAS/NT Expected role in providing emerging services in 2024-29 period**



Note 1: Power and Water (NT) is responsible for a number of standalone power systems that are not subject to regulation by the AER.

● Expected to play a more active role    ● Expected to play a facilitatory role only    ● Not expected to play a role

Source: NSW/ACT/TAS/NT electricity distributors, *Consultation Paper, Paper one: Service classification*, September 2021, p 4.

<sup>10</sup> NSW/ACT/TAS/NT electricity distributors, *Consultation Paper, Paper one: Service classification*, September 2021.

<sup>11</sup> NSW/ACT/TAS/NT electricity distributors, *Consultation Paper, Paper one: Service classification*, September 2021, p 4.



## Service classification

Service classification determines the nature of economic regulation, if any, applicable to distribution services. This is important because the prices that customers pay for services are reflected in the way services are classified, and classification determines the share of costs borne by customers.

For example, at a high level, a classification of standard control is suitable for services which are provided to all customers through the use of the shared network. The assets that provide these services are paid for by all customers through the regulated asset base (RAB). The revenue that is recovered from customers is through the use of network tariffs – in particular Distribution System of Use charges (DUoS).<sup>12</sup> Alternative control is suitable for services, though not fully contestable, for which there is a level of competition present in the market, or for which we consider the potential for competition to develop.<sup>13</sup> In addition, another defining characteristic of alternative control services (ACS) is where the costs of providing the service can be directly attributed to the person requesting the service provided.

Distribution services which are provided into a fully contestable market are not classified. As a result, distributors may not compete in these markets directly. A current example in many jurisdictions is the provision of type 1-4 metering services. Also, the Accredited Service Provider Scheme<sup>14</sup> in NSW provides a level of contestability that precludes NSW distributors from providing a range of contestable services.

Applying the classification process prescribed in the NER, we may classify services so that we:

- directly control prices of some distribution services<sup>15</sup>
- allow parties to negotiate services and prices and only arbitrate disputes if necessary, or
- do not regulate some distribution services at all.

Our classification decisions therefore determine which services we will regulate and how distributors will recover the cost of providing those regulated services.

We are guided by the Guideline, which was developed to provide a practical explanation of how we classify distribution services and to improve clarity, transparency and predictability of the process.<sup>16</sup>

The Guideline does not bind the AER; however, we are required to set out our reasons for any departure from the Guideline to provide transparency to stakeholders in circumstances where our approach differs from that in the classification guideline. Since the publication of the Guideline and the current F&A, developments from both regulatory changes and our own work, will require additional considerations for service classification and include:

<sup>12</sup> AER, [Electricity Distribution Service Classification Guideline](#), September 2018, p.12.

<sup>13</sup> AER, [Electricity Distribution Service Classification Guideline](#), September 2018, p.13.

<sup>14</sup> For further information on the ASP scheme see: <https://www.energy.nsw.gov.au/government-and-regulation/legislative-and-regulatory-requirements/asp-scheme-and-contestable-works>.

<sup>15</sup> Control mechanisms available for each service depend on their classification. Control mechanisms available for direct control services are listed by clause 6.2.5(b) of the NER. These include caps on revenue, average revenue, prices and weighted average prices. A fixed price schedule or a combination of the listed forms of control are also available. Negotiated services are regulated under part D of chapter 6 of the NER.

<sup>16</sup> AER, [Electricity Distribution Service Classification Guideline](#), September 2018, p. 4.

- the rule changes to the framework for SAPS, including to incorporate SAPS as a distribution service
- access, pricing and incentive arrangements for the DER rule change
- the Australian Electricity Market Commission (AEMC) flagging a review of the metering services framework<sup>17</sup>, and
- our 2021 review of the national Ring-fencing guideline.<sup>18</sup>

### **Our assessment approach**

The rule requirements for classification are set out in Appendix A: Rule requirements for classification. These requirements set out a three-step process we undertake in the classification of services, as depicted in Figure 2. In step 1, we assess whether a proposed service meets the definition of a distribution service provided in the NER. In step 2, we determine whether distribution services should be classified as a direct control, negotiated distribution services, or unregulated.

As part of the third step in that process, in conducting our assessment of distribution service classification, we commence on the basis that we:

- classify the service, rather than the asset<sup>19</sup> – we can only decide on service classification by reference to the service that is being provided. That is, distribution service classification involves the classification of services distributors directly supply to customers. It does not involve the classification of:
  - the assets used to provide such services
  - the inputs/delivery methods distributors use to provide such services to customers
  - services that consumers or other parties provide to distributors.
- classify distribution services in groups<sup>20</sup> – our general preference in service classification is to classify services in groupings rather than individually. This obviates the need to classify services one-by-one and instead defines a service cluster, that where a service is similar in nature it would require the same regulatory treatment. As a result, a new service with characteristics that are the same or essentially the same as other services within a group might simply be added to the existing grouping and hence be treated in the same way for ring-fencing purposes. 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.

Further, when considering whether a direct control service should be classified as a standard control service (SCS) or an ACS, under the NER<sup>21</sup> we must also have regard to:

- the potential for development of competition in the relevant market and how the classification might influence that potential

<sup>17</sup> AEMC, [Review of the regulatory framework for metering services](#), 18 November 2021.

<sup>18</sup> AER, [Ring-fencing Guideline Electricity Distribution, Version 3](#), November 2021.

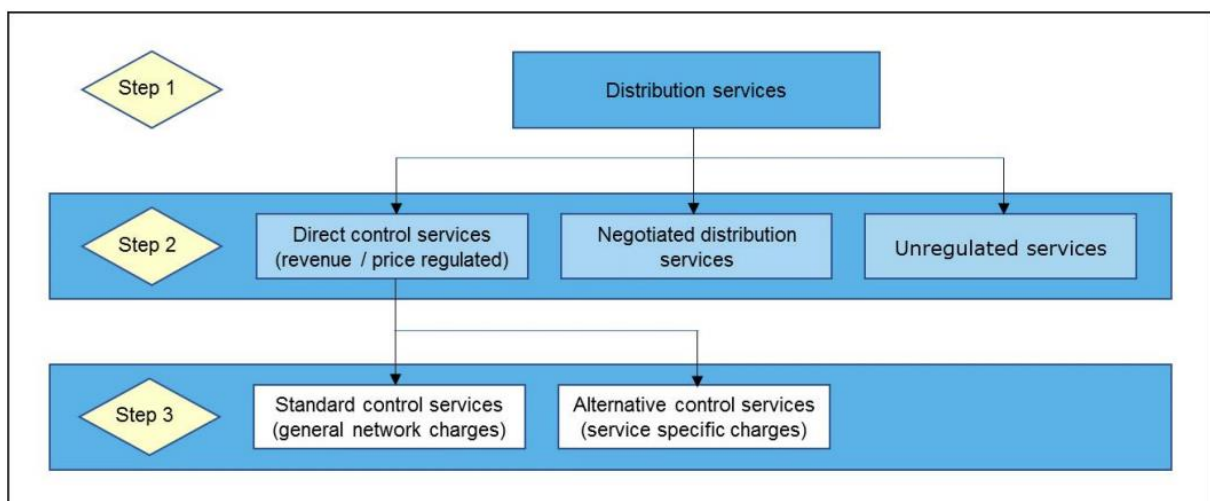
<sup>19</sup> AER, [Electricity Distribution Service Classification Guideline](#), September 2018, p. 7.; AER, [Final framework and approach for AusNet services, CitiPower, Jemena, Powercor and United Energy](#), January 2019, p. 20.

<sup>20</sup> NER, cl. 6.2.1(b).

<sup>21</sup> NER cl. 6.2.2.

- the possible effects of the classification on administrative costs of the AER, the Distribution Network Service Provider and users or potential users of the relevant service
- the regulatory approach (if any) applicable to the relevant service immediately before the commencement of the distribution determination for which the classification is made
- the desirability of a consistent regulatory approach to similar services (both within and beyond the relevant jurisdiction)
- the extent the costs of providing the relevant service are directly attributable to the person to whom the service is provided
- any other relevant factor.<sup>22</sup>

**Figure 2 Distribution service classification process**



## 2.2 Common distribution services

Common distribution services are concerned with providing a safe and reliable electricity supply to customers and are intrinsically tied to the network infrastructure and the systems that support the shared use of the distribution network by customers. Providing common distribution services involves a variety of different activities, such as the construction and maintenance of poles and wires used to transport energy across the shared network. The precise nature of activities provided to plan, design, construct and maintain the shared network may change over time. Regardless of what activities make up common distribution services, this service group reflects the provision of access to the shared network to all customers. The range of activities that make up the common distribution service are not contestable. As a consequence, the common distribution service is classified as a direct control, and further as a standard control service.

### 2.2.1 Regulated stand-alone power systems (SAPS)

The *National Electricity Amendment (Regulated stand-alone power systems) Rule* (Rule 2022) determined that regulated SAPS are to be treated the same as other distribution services for the purposes of classification. Further, the rule change stipulates that the

<sup>22</sup> NER cl. 6.2.2.

distribution services provided by regulated SAPS are to be classified as a standard control service.<sup>23</sup>

In response, distributors have requested the inclusion of a new activity, to be classified as part of the common distribution service, called “work related to a distributor-led SAPS deployment, operation and maintenance and customer conversion activities”.<sup>24</sup>

Our proposed approach is to classify regulated SAPs as a direct control, and further as a standard control service, consistent with the rule change outlined above. We agree with the NSW distributors that the service should be listed as an activity under the common distribution service grouping, and classified as part of that grouping, rather than as an individual service. This is consistent with our classification approach, as outlined above and in the Guideline.<sup>25</sup>

In consultation with the businesses, we propose to change the description of the regulated SAPS service to: “work related to a regulated SAPS deployment, operation (fault and emergency) and maintenance and customer conversion activities”.

The change from “distributor-led SAPS” to “regulated SAPS” is to align the description to the NER. The addition of “fault and emergency” is to allow distributors to respond to outages related to both the generation and distribution elements of SAPS, the same as they would to faults and emergencies that may arise within the distribution system-connected network.

#### **2.2.1.1 Provision of temporary SAPS after an emergency**

Ausgrid and Endeavour Energy have requested adding “*temporary standalone power systems after an emergency.*” to the “*works to fix damage to the network...*” activity, which is part of the common distribution service.<sup>26</sup>

As part of the common distribution service, distributors are responsible for the planning, repair maintenance and operation of the distribution network. Where a distributor chooses to utilise temporary SAPS to support network operations during or in response to emergencies, investment in such devices falls within the parameters of this activity, without the need for further recognition in the classified services list. Such investment, if material, would need to meet the capital expenditure (capex) criteria for prudence and efficiency.

Further, the use of temporary SAPS could be considered as an input to the activity of ‘works to fix network damage’, or part of the ‘repair, maintenance and operation’ of the network. This is because the use of temporary SAPS is not a service which is offered and charged to customers on a stand-alone basis.<sup>27</sup>

In our service classification guideline, we set out our intention that the list of activities/services that sit beneath a service grouping is not intended to be exhaustive.<sup>28</sup> This

<sup>23</sup> Rule 2022, cl. 6.2.1A(b),(c).

<sup>24</sup> Ausgrid, *Request to replace the AER’s Framework and Approach Paper*, October 2021, pp. 17-19; Endeavour Energy, *Request to replace the AER’s Framework and Approach Paper*, October 2021.

<sup>25</sup> AER, *Electricity Distribution Service Classification Guideline*, September 2018, p.8.

<sup>26</sup> Ausgrid, *Request to replace the AER’s Framework and Approach Paper*, October 2021, p. 30; Endeavour Energy, *Request to replace the AER’s Framework and Approach Paper*, October 2021, p.18.

<sup>27</sup> AER, *Electricity Distribution Service Classification Guideline*, September 2018, p. 7.

<sup>28</sup> AER, *Electricity Distribution Service Classification Guideline*, September 2018, p. 8.

provides distributors flexibility to alter the exact specification (but not the nature) of a service during a regulatory control period.

Our view is that where temporary SAPS are provided to support the network in response to an emergency event, that the use of SAPS is warranted. This would preclude the use of SAPS to connect a private customer, where ring-fencing obligations would apply.

Is the provision of temporary SAPS more appropriate as an input to the common distribution service, and therefore need not be classified as a separate activity?

## 2.2.2 Leasing of excess battery capacity

Ausgrid and Endeavour Energy raised an intention to install batteries to manage constraints as an alternative to network upgrades, with the possibility of leasing excess battery capacity as an unregulated distribution service.<sup>29</sup> It is proposed that grid-scale batteries can deliver significant benefits to the network, which would otherwise require significant network expenditure. In addition, the ability to allow for third party access to excess battery capacity will unlock the full value stack that batteries can provide.<sup>30</sup>

The businesses recognise that the leasing of excess battery capacity is a service that is provided into the contestable market.<sup>31</sup> As such, its provision by regulated networks is subject to obligations set out in our Ring-fencing Guideline.<sup>32</sup> Businesses have requested that the leasing of excess battery capacity be recognised as an unregulated distribution service, either by extending the definition of 'Distribution asset rental'<sup>33</sup> or as a stand-alone 'Platform asset usage', and not classified.<sup>34</sup>

Our proposed approach to this request reflects our role in service classification under the NER<sup>35</sup>, and the framework we set out in our service classification guideline, where we are not required to list services that are not classified.<sup>36</sup>

As a result, we consider that we have no role in the classification of unregulated services and consequently need not have a role in "recognising" a request for the leasing of excess battery capacity as an unregulated distribution service. The service classification guideline outlines that in certain circumstances we may identify a service as either an unregulated or 'non-distribution service' if it provides greater clarity to do so. The regulatory treatment of the service has already been addressed through the update to the Ring-fencing guideline.<sup>37</sup> We do not consider further identification of the service, as either an unregulated distribution or non-distribution service, is necessary.

<sup>29</sup> Ausgrid, *Request to replace the AER's Framework and Approach Paper*, October 2021, pp. 20,32; Endeavour Energy, *Request to replace the AER's Framework and Approach Paper*, October 2021, pp. 8-9, 28.

<sup>30</sup> Ausgrid, *Request to replace the AER's Framework and Approach Paper*, October 2021, pp. 20,32; Endeavour Energy, *Request to replace the AER's Framework and Approach Paper*, October 2021, pp. 8-9, 28.

<sup>31</sup> Ausgrid, *Request to replace the AER's Framework and Approach Paper*, October 2021, pp. 17-19; Endeavour Energy, *Request to replace the AER's Framework and Approach Paper*, October 2021, pp. 8-9.

<sup>32</sup> AER, *Electricity Distribution Ring-fencing Guideline, Version 3*, November 2021, p. 7.

<sup>33</sup> Endeavour Energy, *Request to replace the AER's Framework and Approach Paper*, October 2021, p. 9.

<sup>34</sup> Ausgrid, *Request to replace the AER's Framework and Approach Paper*, October 2021, p. 40.

<sup>35</sup> NER, cl. 6.2.1(a).

<sup>36</sup> AER, *Electricity Distribution Service Classification Guideline*, September 2018, p.10.

<sup>37</sup> AER, [Ring-fencing Guideline Electricity Distribution, Version 3](#), November 2021.

Do stakeholders consider that the classification of the leasing of excess battery capacity has already been dealt through the Ring-fencing Guideline? If not, please provide reasons.

### 2.2.2.1 Facilitation services for battery leasing

Ausgrid have also proposed that the facilitation work needed to lease out excess battery capacity be recognised as a distribution service and be classified as standard control as part of the common distribution service. This work would predominantly involve negotiating agreements with third party providers (i.e. retailers, aggregators).<sup>38</sup> Ausgrid notes that this activity relates to situations where part of the cost of the platform asset will be allocated to standard control services and the remainder to unregulated services, in accordance with its approved cost allocation method.<sup>39</sup>

Our preliminary view is that this activity needs no further recognition in the list of classified services because of the close relationship with an existing activity within the same service grouping. Our approach to service classification is to classify services in groupings, rather than individually, as permitted by the NER.<sup>40</sup> The practical application of this, is where services are similar in nature, they would require the same regulatory treatment. Similarly, a new service with characteristics that are the same or essentially the same as other services within a group, might simply be added to the group, rather than classified separately.<sup>41</sup>

Ausgrid's submission supports this view, noting that this service, if classified, is akin to the existing 'shared asset facilitation' activity, currently recognised as a standard control service.<sup>42</sup> We agree, the existing activity already recognises a similar "facilitation work" service to account for 'activities related to shared asset facilitation of distributor assets'. As a result, we consider that the existing facilitation activity already approved in the previous F&A<sup>43</sup> and the baseline services list we provided in the Guideline<sup>44</sup> remains appropriate to apply to platform assets to the extent that such assets are fully allocated to the RAB and subject to the Shared Asset Guideline.

Shared assets are those where the capital costs have been fully allocated to standard control services and are also used to derive unregulated revenue.<sup>45</sup> Under the Shared Asset Guideline, where distributors generate unregulated revenue through the use of shared assets (e.g. rental of distribution assets to third parties, such as pole and duct rental for telecommunications wires), a portion of the unregulated revenue earned is shared back with customers.<sup>46</sup> It follows then, that a portion of the operating costs (i.e. the facilitation work) in establishing that unregulated revenue stream, relating to the shared asset, is appropriately recovered from customers as a standard control service.

<sup>38</sup> Ausgrid, *Request to replace the AER's Framework and Approach Paper*, October 2021, p. 17.

<sup>39</sup> Ausgrid, *Request to replace the AER's Framework and Approach Paper*, October 2021, p. 18.

<sup>40</sup> See NER, cl. 6.2.1(b) and 6.2.2(b); AER, *Service classification guideline*, September 2018, p.8.

<sup>41</sup> AER, *Final Framework and approach, NSW Electricity distributors 2019-24*, pp.16-17.

<sup>42</sup> Ausgrid, *Request to replace the AER's Framework and Approach Paper*, October 2021, p. 16.

<sup>43</sup> AER, *Final framework and approach for Ausgrid, Endeavour Energy and Essential Energy*, July 2017, p. 92.

<sup>44</sup> AER, *Service classification guideline Appendix A*, September 2018, p. 1.

<sup>45</sup> AER, *Shared Asset Guideline*, November 2013, p. 4.

<sup>46</sup> AER, *Shared Asset Guideline*, November 2013, p. 4



However, the proposed facilitation work for leasing platform assets (if that activity is permitted under a ringfencing waiver) may not relate to a “shared asset”. This is because Ausgrid has proposed that the costs of the battery assets be allocated part to standard control services and the remainder to providing unregulated distribution services.<sup>47</sup> It is not clear that any unregulated revenue would be shared with customers to justify them also bearing a portion of the facilitation work costs of establishing that unregulated revenue stream.

Should costs for the facilitation work to provide the unregulated battery leasing service be recovered from customers as a standard control service, if the full cost of the assets used to deliver those services are not part of the RAB?

### 2.2.2.2 Reliability batteries – planned outage support for life support customer

TasNetworks has proposed the ability in the 2024–29 period to provide reliability batteries to premises where life support customers are residing. It notes that some distributors in other jurisdictions are already providing battery support during planned outages and believes this provision will strengthen the protection provided to customers who rely on life support equipment.<sup>48</sup> It is proposed that the activity be provided as part of the common distribution service, which is classified as standard control.

We consider the role of distributors in supporting life-support customers an important one, not only with respect to the distributor’s obligation under the National Energy Retail Rules (NERR), but also for service outcomes for life-support customers who rely on the electricity network. Where networks are planning outages, there are clear obligations on distributors to life support customers under the NERR.<sup>49</sup> However, these obligations do not currently extend to providing battery support to registered life support customers during planned outages. In most distributor documentation, life-support customers are encouraged to discuss action plans with medical professionals in order to assist in the planning for such contingencies.<sup>50</sup> To assist life support customers to plan for such events, distributors are required to provide “*at least four business days written notice of the interruption to supply at the premises*”.<sup>51</sup> Where distributors are providing portable batteries to support customers<sup>52</sup>, they do so over and above the obligations in the NERR.

As part of the common distribution service, the distributor is responsible for the planning, repair, maintenance and operation of the distribution network. Where a distributor chooses to provide back-up batteries to life support customers, investment in such devices could fall within the parameters of this activity, without requiring further classification. Such investment, if material, would need to meet the capex criteria for prudence and efficiency.

We do not consider that the provision of reliability batteries is a service that should be separately classified or recognised in the classified services list. Distributors have

<sup>47</sup> Ausgrid, *Request to replace the AER’s Framework and Approach Paper*, October 2021, p. 19.

<sup>48</sup> TasNetworks, *Request to replace the AER’s Framework and Approach Paper*, October 2021, p.8.

<sup>49</sup> NERR, cl. 124B(2).

<sup>50</sup> For example, see Essential Energy, <https://www.essentialenergy.com.au/at-home/life-support>; Power and Water Corporation, <https://www.powerwater.com.au/customers/outages/planned-works/life-support-customers>.

<sup>51</sup> NERR cl. 124B(2)(iv).

<sup>52</sup> For example, Jemena is currently providing a portable battery on a loan basis, free of charge, to life support customers, pending availability. See <https://jemena.com.au/outages-and-faults/electricity/planned>.

considerable discretion, within the existing service classification framework, to facilitate the loan of batteries to life support customers, should they choose to do so.

### 2.2.3 System support services

Ausgrid and Endeavour Energy have requested a new service grouping of ‘System support services’, to be classified alongside the common distribution service as a standard control service.<sup>53</sup> The proposed new service recognises the transitioning role of distribution networks as they become platforms for DER. This accords with networks moving to a DSO model over time. Under the DSO model, the DSO operates as an independent platform operator and is incentivised to support third party owned DER that allows more efficient network operations. There are a number of alternative DSO models being trialled, where the role of the distribution network varies. The model is still at a formative stage in Australia.<sup>54</sup>

The networks state that leveraging platform technologies will provide opportunities for networks to expand their DSO activities through smarter utilisation of existing assets to manage network capacity. Further, the use of platform enabling technologies can avoid traditional ‘poles and wires’ investment solutions and have the potential to lower costs and improve service outcomes for customers.<sup>55</sup> These outcomes include optimising “a customer’s ability to utilise DER and promote the stability of the electrical system by providing system strength services to AEMO”.<sup>56</sup>

Distributors have provided assurances that they would only provide system support services that are not, and are not likely to become, competitively available.<sup>57</sup>

In assessing this request, we recognise the transition of electricity networks to becoming platforms for DER services. Ensuring that the electricity market is ‘fit for purpose’ will require coordination across the different market bodies, and with networks. This work is currently being led by the ESB<sup>58</sup>, with the proposed system support services requested partially in response to the ESB’s post–2025 market design project recommendations for reform.<sup>59</sup>

We also recognise that the ESB post–2025 reform package, particularly the DER implementation plan, is still in its relative infancy, with further clarification to be provided through the market bodies and agencies review, and rule change processes.<sup>60</sup> Taking this into account, our early view of the request for the classification of ‘system support services’, and the example activities as described by the businesses are likely to fall into one of three categories, being:

1. Inputs to the “common distribution service”.
2. Already set out in the common distribution service and as a result do not require separate classification.

<sup>53</sup> Ausgrid, *Request to replace the AER’s Framework and Approach Paper*, October 2021, pp. 15-16, 32; Endeavour Energy, *Request to replace the AER’s Framework and Approach Paper*, October 2021, pp. 6, 19.

<sup>54</sup> For more info see: AEMO, inquiry into modernising Australia’s electricity grid, submission 47, p. 12.

<sup>55</sup> Endeavour Energy, *Request to replace the AER’s Framework and Approach Paper*, October 2021, p. 6; Ausgrid, *Request to replace the AER’s Framework and Approach Paper*, October 2021, p. 15.

<sup>56</sup> Endeavour Energy, *Request to replace the AER’s Framework and Approach Paper*, October 2021, p. 6.

<sup>57</sup> Endeavour Energy, *Request to replace the AER’s Framework and Approach Paper*, October 2021, p. 6.

<sup>58</sup> See: <https://esb-post2025-market-design.aemc.gov.au/who-is-the-energy-security-board>.

<sup>59</sup> Ausgrid, *Request to replace the AER’s Framework and Approach Paper*, October 2021, p. 15.

<sup>60</sup> See <https://esb-post2025-market-design.aemc.gov.au/integration-of-distributed-energy-resources-der-and-flexible-demand>.



3. A range of 'billable' services to be provided as either alternative control classified or unregulated.

Our proposed approach, and reasoning for each of these categories are addressed below.

## Inputs

The service classification framework is based on classifying distribution services that are provided to customers or third parties. We do not classify the assets that are used to provide distribution services.<sup>61</sup> For example, DSO functions such as dynamic operation of the network are unlikely to be provided to customers directly and are therefore inputs.

The distributor's request for the classification of 'System support services' recognises the above point, noting that platform enabling technology can be used as an "input or service for managing capacity through smarter utilisation of existing assets".<sup>62</sup>

As set out in our Guideline, under the NER we only classify distribution services, whereas inputs to those services cannot be classified.<sup>63</sup>

## Part of the common distribution service

Some of the example activities under the proposed 'System support services' grouping will form part of activities that comprise the common distribution service. For example, the references to load shedding, voltage control and local use of system arrangements are already captured in the common distribution service grouping. As previously indicated, our approach is to classify services in groupings, rather than individual services. Where a new activity or service with characteristics that are the same or essentially the same as other services within a group, might simply be added to the existing grouping and hence be treated in the same way, and do not require separate classification.

## Billable services

Consistent with our classification approach, we will consider separately classifying any new system support service, provided to customers or third parties, that does not have characteristics in common with other similarly classified services. Examples may include dynamic operation agreements and certain Frequency Control Ancillary Services and Reliability and Emergency Reserve Trader (RERT) services that only a distributor can provide. The classification for each type of service will be treated on a case-by-case basis, taking into account all the factors we must take into consideration under the NER.<sup>64</sup> Where such services are either not inputs, or already part of the common distribution service, they may either be classified as ACS, or alternatively considered an unregulated distribution service, or a non-distribution service.

Given the general principles for service classification, an ACS classification is for distribution services which are potentially contestable, or have the potential for a contestable market to develop and/or the extent of costs of providing the relevant service are directly attributable to the person to whom the service is provided.<sup>65</sup> Unregulated distribution services are

<sup>61</sup> NER 6.2.3A(3); AER, *Service Classification Guideline*, September 2018, p. 7.

<sup>62</sup> Ausgrid, *Request to replace the AER's Framework and Approach paper*, October 2021, p.15.

<sup>63</sup> AER, *Service classification guideline*, September 2018, p.7.

<sup>64</sup> NER cl. 6.2.1 & 6.2.2.

<sup>65</sup> NER cl. 6.2.2(c)((1),(5).

distribution services under the NER<sup>66</sup> which after taking into account the form of regulation factors, along with other factors we must take into account, leads us to conclude that regulation is not required.<sup>67</sup> We might also decide that a service is not a distribution service because it is not provided by means of or in connection with a distribution system.<sup>68</sup>

We are currently working with distributors to identify potential system support services that may fit under the above mentioned categories for classification consideration. We will seek stakeholder views on our intended approach through stakeholder forums discussed in section 1.2.

Our approach will be to classify any services identified according to the framework outlined above. Our proposed classification approach to such services will be discussed in the final F&A due to be published by 31 July 2022.

We will also continue to monitor any new services that emerge through the ESB's post-2025 reform package. Where distributors consider that there is a need to add new services to those classified in the final F&A as a result of market or rule changes, we can do so through the 'material change in circumstance' provisions provided for within the NER, at the draft or final regulatory determination, subject to the consultation process.<sup>69</sup>

#### **2.2.4 Customer export services**

The AEMC rule change 2021 (ERC0310)<sup>70</sup> (Rule 21) recognised the changing role of the electricity grid; from one of traditionally providing consumption services to one of facilitating the two-way flow of energy as a result of DER uptake.<sup>71</sup>

Distributors have provided export services for many years through the shared network without export services being explicitly recognised as a distribution service under the NER. This is because customer exports of surplus generation has utilised the distribution network's intrinsic ability to host a level of export capacity incidental to the consumption service. The rule change makes explicit that export services are part of the core distribution services expected to be provided by distributors going forward.<sup>72</sup> In particular, the existing definition of "network" has been amended to remove any "directional-specific" references to clarify that distribution services are not confined to the consumption of energy and the conveyance of electricity to customers. Accordingly, export services are to be integrated as part of a distributor's investment planning and regulatory proposals.<sup>73</sup>

Amongst other changes, Rule 2021 also introduces measures to:

<sup>66</sup> NER Chapter 10 Glossary, p.1247. A service that is provided by means of, or in connection with a distribution system.

<sup>67</sup> AER, *Electricity distribution service classification guideline*, September 2017, p. 9 and AER, Explanatory statement to the *Electricity distribution service classification guideline*, September 2017, p. 14.

<sup>68</sup> AER, *Electricity distribution service classification guideline*, September 2017, p. 9.

<sup>69</sup> NER cl, 6.12.3.

<sup>70</sup> AEMC, *National Electricity Amendment (Access, Pricing and Incentive arrangements for Distributed Energy Resources) Rule 2021, Rule Determination*, 12 August 2021.

<sup>71</sup> AEMC, *National Electricity Amendment (Access, Pricing and Incentive arrangements for Distributed Energy Resources) Rule 2021, Rule Determination*, 12 August 2021., p. iii.

<sup>72</sup> For example, the AEMC Final Determination notes that the recognition of export services as a distribution service means that the existing planning and investment requires, incentive schemes and controls that currently apply to consumption services will also apply to a DNSP's provision of export services (p ii).

<sup>73</sup> AEMC, *National Electricity Amendment (Access, Pricing and Incentive arrangements for Distributed Energy Resources) Rule 2021, Rule Determination*, 12 August 2021., p. iii.

- Remove the existing prohibition on businesses including export charges within DUoS.
- Introduce a transitional (10-year) requirement on the business' tariff structures to require each export tariff to prescribe a "basic export level", below which distributors cannot charge. In setting the basic export level, distributors are to have regard to the network's hosting capacity. The basic export level recognises that network assets constructed to supply load have an inherent capacity to support some reverse power flow without requiring additional investment.<sup>74</sup>

Ausgrid and Endeavour Energy note in their service classification request that the recent AEMC rule change requires networks to "introduce a customer export service, including 'a basic export' service and potentially an 'additional' export services' (subject to customer and stakeholder engagement)".<sup>75</sup>

Specifically, Ausgrid and Endeavour Energy have requested an additional activity be added to the common distribution service grouping (which is a SCS) namely: "Customer export services back to the distribution network, including "basic" and "additional" export services."<sup>76</sup>

### **Classification of export services as part of the common distribution service grouping**

Under the Service Classification Guideline, the common distribution service represents "a single service relating to the conveyance or flow of electricity through the network for consumers".<sup>77</sup> As noted above, as a result of Rule 2021, distribution networks are required to deliver both consumption and export services for customers.

One view, from our consultation with distributors is that export services already form part of the common distribution service, since it represents the bundle of distribution activities relating to use of the network for flows of energy (whether that be, to or from customers). This would be consistent with our approach to service classification, which is to classify services within groups and with activities that are similar in nature, requiring the same regulatory treatment.<sup>78</sup>

In this case, our approach to service classification in recognising Rule 2021 could take one of two forms, either:

1. Identify export services as an activity that is part of the common distribution service – by listing it as a separate activity.
2. Do nothing – noting that the delivery of the export service is already assumed within the 'planning, design, repair, maintenance, construction and operation of the distribution network'.

While option 1 would provide additional clarity for stakeholders, the choice between the options does not affect the way in which the service is delivered as part of the common distribution service to customers, or the prices customers pay. Either way, export services

<sup>74</sup> AEMC, *National Electricity Amendment (Access, Pricing and Incentive arrangements for Distributed Energy Resources) Rule 2021, Rule Determination*, 12 August 2021., pp. vi, 70

<sup>75</sup> Ausgrid, *Request to replace the AER's Framework and Approach paper*, October 2021, p.16; Endeavour Energy, *Request to replace the AER's Framework and Approach Paper*, October 2021, p. 7.

<sup>76</sup> Ausgrid, *Request to replace the AER's Framework and Approach paper*, October 2021, p.16.; Endeavour Energy, *Request to replace the AER's Framework and Approach Paper*, October 2021, p. 7.

<sup>77</sup> AER, [Electricity Distribution Service Classification Guideline](#), September 2018, p. 9.

<sup>78</sup> NER, cl. 6.2.1(b).

would form part of the existing DUoS SCS and the AER would continue to apply a revenue cap to these services.

Are export services simply part of a distributor's normal network planning and operation? Or is there a need for export services to be recognised as a stand-alone activity within the common distribution service? Please provide reasons.

### **Scope of basic and additional export services**

The request to classify export services included reference to, in a non-exhaustive list, 'basic and additional export services'. The distributors did not include a description of these categories of export services.<sup>79</sup> These are terms that are also not defined in the NER.

As referred to above, the definition of "basic export level" is contained in the transitional provisions in the NER, which informs the calculation of export tariffs.<sup>80</sup> What constitutes and "additional exports" however is not defined, leading to uncertainty as to the appropriate classification treatment. Depending on how distributors might set the parameters to define what constitutes a "basic export level" and the capacity for the local network to host export capacity above this level, we envision three non-mutually exclusive options for classification for export services above that certain level – however defined:

1. A SCS classification for a single export service that covers all export services. This assumes that, because all customers pay for standard control services, that all customers also benefit from any network augmentation to needed to provide export capacity that exceeds the "basic export level".
2. SCS classification that covers some 'standard export services' that may provide a service equivalent to the "basic export level", with an ACS classification for 'additional exports'. An ACS classification is suitable for services for which the costs of provision can be directly attributable to the person requesting them.<sup>81</sup>
3. A customer request for an export service beyond a threshold set by the distributor, classified as ACS – where the costs of provision for that extra service level are directly attributable to the person requesting the service.

Options 2 and 3 considers that customers may request export-related services that do not fit within the confines provided by the common distribution service. Where this is the case, networks need to – in anticipation of these types of requests – identify the precise scope of these activities, which will allow us to apply our classification approach under the NER to these services.

<sup>79</sup> Under the NER, in requesting the F&A papers be opened, network businesses are not required to provide reasons for any requests to service classification, or other parts of the F&A they may make.

<sup>80</sup> Under clause 11.141.13(a), a tariff structure statement of a Distribution Network Service Provider applicable during the tariff transition period for the Distribution Network Service Provider must also include, for each proposed export tariff, the basic export level or the manner in which the basic export level will be determined and the eligibility conditions applicable to each proposed export tariff.

<sup>81</sup> NER cl. 6.2.2.

The Farrierswier<sup>82</sup> report, provided to the AEMC in consideration of its draft Rule 2021 determination, presented a preliminary assessment of several export classification options which are worthy of consideration in this context. Notably, that report stated:

The nature of the export service(s) being provided will affect the costs of providing the services, the attractiveness of the service to customers and potentially any benefits the DNSP derives from customers taking up the service. Each of these considerations are relevant to the classification(s) of export services as well as the DNSPs tariff structures and expenditure proposals.<sup>83</sup>

We welcome stakeholder views on the options for classification outlined in the report.<sup>84</sup>

To inform our assessment, we are seeking the following information from stakeholders:

#### **Question for distributors**

- Given that the NER does not provide any definitions of “basic and additional export services”, what is the precise scope of these services?
- How will customers request these export services (will it form part of the existing connections process or is it negotiated outside of that process)?
- What is the nature of the investment required to deliver “additional” export services? How does it differ from the nature of investment required to deliver “basic” export services”?
- How do distributors intend to approach customer requests for export-related services that fall outside of the scope of the common distribution service?

#### **Other stakeholder questions**

- What do stakeholders consider to be the scope of the export services provided as part of the common distribution service?
- Should there be any limit on the export services to be delivered under the common distribution service?

### **2.2.5 Reliability and Emergency Reserve Trader services**

During our consultation with the businesses on the classification of services, Essential Energy raised the prospect of participating in RERT services, when called upon by the Australian Energy Market Operator (AEMO).

RERT services are a function conferred on AEMO to maintain power system reliability and system security using reserve contracts.<sup>85</sup> To ensure that the supply in a region meets the

<sup>82</sup> Farrierswier, *Insights report: Effectiveness of the TSS process and options for implementing export charges*, March 2021, pp 35-37. See footnote 31.

<sup>83</sup> Farrierswier, *Insights report: Effectiveness of the TSS process and options for implementing export charges*, March 2021, p. 34.

<sup>84</sup> Farrierswier, *Insights report: Effectiveness of the TSS process and options for implementing export charges*, March 2021, pp 35-37. See footnote 31.

<sup>85</sup> NER, cl. 3.20.2.

reliability standards, AEMO may enter into a contract with a party to provide both scheduled and unscheduled load reserves.<sup>86</sup>

We have previously raised concerns regarding the provision of RERT services by distributors, particularly regarding the potential for cross-subsidies where network assets are used to earn unregulated revenue, and how revenues may be shared with customers.<sup>87</sup> For that purpose we consider the classification of the provision of RERT services on a case-by-case basis, taking into account how the service is to be provided and the methodology for service delivery.

Essential Energy has suggested that were it to be successful in tendering for the provision of RERT services to control load units (e.g. hot water system or underfloor heating etc), in response to AEMO RERT event requests, the revenue generated by the service would be subject to the requirements of the Shared Asset Guideline.

Our proposed approach, should RERT services be considered a distribution service, is that the *oversight and administration* of RERT services provided by Essential Energy would be classified separately to the *provision* of RERT services to AEMO. The administration function would be captured under the “Common distribution service” grouping and is described as “shared asset facilitation”. This classification would cover the administration of the service, as the service is provided using Essential Energy’s existing frequency transmitter and relay assets.

Revenue generated by the service would be unregulated revenue and subject to the requirements of the Shared Asset Guideline. The NER requires that the use of Shared Assets does not prejudice the use of the assets for standard control purposes. If the service is to proceed, we would seek assurances from Essential Energy that in accordance with the NER and the shared asset guideline that no customers will be worse off during a RERT event.<sup>88</sup>

## 2.2.6 Provider of last resort for embedded networks

Ausgrid has requested that where it is required to provide last resort services in the instance an embedded network operator fails, that this service be classified, as part of the common distribution service and therefore, standard control.<sup>89</sup> Ausgrid notes that NSW network businesses have had to provide last resort services to customers previously, where their embedded network provider has failed.<sup>90</sup>

While we agree that network businesses may have stepped in to provide ‘last resort services’ on the failure of an embedded network operator in the past, distributors are not under any ongoing jurisdictional or other obligations to do so. There also may be contestable market providers who may be willing to fulfil the role of embedded network operator in the case of the failure of an incumbent. As a result, while distributors are not precluded from the operation of embedded networks upon the failure of the incumbent operator, we do not consider it necessary to recognise this as a separate service.

<sup>86</sup> NER, cl. 3.20.3.

<sup>87</sup> AER, *Distribution service classification guideline, Explanatory statement*, September 2018, p. 24.

<sup>88</sup> AER, *Shared Asset Guideline*, November 2013, p.4.; NER. Cl. 6.4.4(c)(1).

<sup>89</sup> Ausgrid, *Request to replace the AER’s Framework and Approach paper*, October 2021, p. 14.

<sup>90</sup> Ausgrid, *Request to replace the AER’s Framework and Approach paper*, October 2021, p. 30.



Is there a 'market' presence for alternative embedded network operators who could potentially fulfil this role?

## 2.2.7 Rectification of private asset under fault

TasNetworks has requested the addition of a simple fault restoration service called “rectification of private asset defects under fault”.<sup>91</sup> These faults are typically located behind the meter. The proposed service is similar in nature to the “rectification of simple customer fault” activity classified as part of the common distribution service for NSW distributors.<sup>92</sup>

The issue highlighted by TasNetworks’ is that currently, when responding to its customer faults, if the fault identified is a private asset fault, it is required to leave a customer disconnected.<sup>93</sup> These faults are often identified out-of-hours, making it difficult for customers to recruit the services of electrical contractors, who do not necessarily provide after-hour emergency services.<sup>94</sup>

TasNetworks believes there is utility in being able to provide minor private asset repairs under fault conditions as a SCS, as part of common distribution services. It proposes that this service would benefit almost one third of distribution network customers, who are located outside of Tasmania’s urban centres.<sup>95</sup>

The conditions, outlined below, for TasNetworks to perform this role are similar to those outlined in the F&A for NSW distributors<sup>96</sup>. That is the service will only be provided in circumstances where:

- the need for rectification work is discovered in the course of the provision of distribution services
- the work performed is the minimum required to restore supply
- it can be performed in less than thirty minutes and will not normally require a second visit.<sup>97</sup>

Based on TasNetworks’ analysis outlined above, our proposed approach is to classify the ‘rectification of private asset under fault service’ as a ‘rectification of simple customer fault’. For the same reasons we classified the activity as part of the common distribution service for NSW distributors.<sup>98</sup> Aligning the description of the activity to that provided in the NSW classified services list ensures consistency between jurisdictions— a key factor which we must consider under the rules.<sup>99</sup>

<sup>91</sup> TasNetworks, *Request to replace the AER’s Framework and Approach paper*, October 2021, p. 2.

<sup>92</sup> For example, see: AER, *Draft decision, Endeavour Energy distribution determination 2019-24, Attachment 12, Classification of services*, November 2018, p. 11.

<sup>93</sup> TasNetworks, *Request to replace the AER’s Framework and Approach paper*, October 2021, p. 3.

<sup>94</sup> TasNetworks, *Request to replace the AER’s Framework and Approach paper*, October 2021, p. 3.

<sup>95</sup> TasNetworks, *Request to replace the AER’s Framework and Approach paper*, October 2021, pp. 3-4.

<sup>96</sup> TasNetworks, *Request to replace the AER’s Framework and Approach paper*, October 2021, pp. 3-4.

<sup>97</sup> TasNetworks, *Request to replace the AER’s Framework and Approach paper*, October 2021, p. 4.

<sup>98</sup> See AER, *Draft decision for Essential Energy 2019-24, attachment 12, classification of services*, November 2018, p.10-12.

<sup>99</sup> NER cl. 6.2.2(c)(4).

Are there providers of contestable services who might be impacted by the proposed approach?

## 2.3 Network ancillary services

Ancillary services share the common characteristics of being services provided to individual customers on an 'as needs' basis (e.g., meter testing and reading at a customer's request, moving mains, temporary supply, alteration, and relocation of existing public lighting assets). Ancillary services involve work on, or in relation to, parts of a respective distribution network. Therefore, similar to common distribution services only the relevant distributor may perform these services in its distribution area. Network ancillary services are classified as alternative control services on the basis that the costs of providing the relevant service are directly attributable to the person to whom the service is provided.<sup>100</sup>

### 2.3.1 Rectification works – payment arrangements

As part of the rectification works to maintain network safety grouping, Ausgrid has proposed adding to the description, that the service includes: “managing payment arrangements for vulnerable customers unable to carryout rectification works themselves not limited to pre-summer bush fire inspections”.<sup>101</sup>

We consider that these additions to the service description are not necessary. A distributor is able to make payment arrangements with vulnerable or other customers at its own discretion. Further we consider that the service description is broad enough to cover other issues requiring rectification work to be performed.

It is our position that the 'rectification works to maintain network safety' grouping is not limited to work related to pre-summer bushfire inspections. The current service description provides the businesses flexibility to make payment arrangements, such as those to vulnerable customers, as required.

## 2.4 Metering services – types 5 and 6 legacy meters

Evoenergy is investigating a proposed change in service classification for recovery of operating costs associated with legacy Type 5 and 6 meters. This would move its 5 and 6 meter maintenance, reading and data services (legacy meters) from ACS to SCS in the ACT.<sup>102</sup> The transition of these legacy meters to metering coordinators or retailers (through contestability measures) is taking longer than anticipated and declining economies of scale mean that the remaining meters are very expensive on a per meter basis to maintain. The proposed change for including these costs through SCS means that they should be able to maintain the remnant of these legacy meters at a much lower cost to the individual.

In 2021, the AEMC published a directions paper indicating a review of the regulatory framework for metering services would commence and investigate what is preventing the efficient installation of smart meters.<sup>103</sup> We acknowledge this is relevant to a number of the

<sup>100</sup> NER 6.2.2(c)(5).

<sup>101</sup> Ausgrid, *Request to replace the AER's Framework and Approach paper, Appendix A*, October 2021, p. 33.

<sup>102</sup> Evoenergy, *Request to replace the AER's Framework and Approach paper*, October 2021, pp.3-4.

<sup>103</sup> AEMC, [Review of the regulatory framework for metering services](#), 16 September 2021.



businesses, however given this issue is still being considered by Evoenergy, and together with the concurrent review of metering services to commence in April 2022<sup>104</sup>, we will continue to monitor and acknowledge any material change in circumstance for our draft or final decision.

## 2.5 Connection services

Connection services refer to the services a distributor performs in order to:

- connect a person's home, business, or other premises to the electricity distribution network (premises connection)
- get more electricity from the distribution network than is possible at the moment (augmentation)
- extend the network to reach a person's premises (extension).

As we indicated in our service classification guideline, while we consider the provisions under Chapter 5A of the NER provides a consistent set of terminology for connections, we realise that there are differences in classification approach across distributors. These differences arise due to jurisdictional and operational requirements.<sup>105</sup>

For example, in NSW, the contestability framework contained in the *Electricity Supply Act 1995 (NSW)* permits customers to choose whether a distributor or an accredited service provider (ASP)<sup>106</sup> will perform certain connection works where the customer is required to fund the connection in full or in part.

### 2.5.1 Provider of last resort (private asset construction)

TasNetworks has requested that we classify a provider of last resort service as an ACS. This would enable TasNetworks to provide the construction and augmentation of connection-related private assets where a customer is unable to find a competitive third party to provide, what is otherwise a contestable service. In doing so, TasNetworks has sought to assure both the competitive market, and the AER that such services would only be provided under a strict set of *Provider of Last Resort* provisions.<sup>107</sup>

TasNetworks have cited a lack of market depth in some areas of Tasmania to support its request, which can result in a delay or non-provision of connections for customers who are 'unable to source contractors for the timely construction/augmentation of their assets.'<sup>108</sup> The set of controls TasNetworks has undertaken to implement, to ensure they are only ever acting in a last resort capacity, mimics those we approved for Essential Energy in its determination for the 2019–24 period. This covered controls such as, maintaining a register of opportunities on the distributor's website, and a process for alternative providers to respond.<sup>109</sup>

<sup>104</sup> On 18 November 2021, the AEMC announced a short pause to the review of metering services until April 2022 to facilitate a temporary shift of resources to other critical projects.

<sup>105</sup> AER, *Electricity Distribution Service Classification Guideline*, September 2018, pp. 17-21.

<sup>106</sup> The ASP scheme is administered by the NSW Department of Planning, Industry and Environment.

<sup>107</sup> TasNetworks, *Request to replace the AER's Framework and Approach paper*, October 2021, p. 6.

<sup>108</sup> TasNetworks, *Request to replace the AER's Framework and Approach paper*, October 2021, p. 5.

<sup>109</sup> AER, *Draft decision, Essential Energy distribution determination 2019-24, Attachment 12, Classification of services*, November 2018, p. 11-14.

Our proposed approach is to classify the provider of last resort service as an ACS is consistent with the approach we took in Essential Energy's application for a similar service. We are interested in feedback from the contestable market suppliers and their customers on this approach. The set of controls are important to ensure that distributors only provide services as a last resort and withdraw from the market for contestable services if and when viable competition emerges.

Are there any concerns with the approach outlined above, or with the set of controls TasNetworks has proposed to ensure it is acting in a 'last resort' capacity?

### **2.5.2 Reserve feeder construction and maintenance**

TasNetworks has requested adding the activity of reserve feeder construction and maintenance to the Enhanced connection service grouping.<sup>110</sup> Our understanding is that reserve feeders are generally requested by business customers.

Reserve feeder connections involve the construction of a second connection from the distribution network to a customer. TasNetworks advised that it currently provides reserve feeders for a number of customers that require dedicated reserve network capacity, the costs being recovered under the terms of a specific connection agreement.<sup>111</sup>

While the Guideline does not mention the service, it is consistent with service descriptions in the Victorian electricity distribution classified services list.<sup>112</sup> In these jurisdictions, Enhanced connection services are classified as direct control services and, further, as an ACS. TasNetworks is proposing the same approach be taken in its F&A and should it be approved, its pricing method will set out the applicable charging parameters.<sup>113</sup>

Consistent with our approach taken in the recent Victorian F&A, we propose to include reserve feeder construction and maintenance as part of the enhanced connection services grouping for TasNetworks, classified as a direct control service, and further as ACS.

<sup>110</sup> TasNetworks, *Request to replace the AER's Framework and Approach paper*, October 2021, pp. 7-8.

<sup>111</sup> TasNetworks, *Request to replace the AER's Framework and Approach paper*, October 2021, p. 7.

<sup>112</sup> AER, *Final framework and approach, AusNet Services, CitiPower, Jemena, Powercor and United Energy, Regulatory control period commenting 1 January 2021*, January 2019, pp. 40-41: The ACS classification for reserve feeders was considered appropriate for the following reasons which included, where there were barriers to market entry and where the service is provided to identifiable customer or subset of customers.

<sup>113</sup> TasNetworks, *Request to replace the AER's Framework and Approach paper*, October 2021, p. 8.

## 3 Other F&A topics

This section sets out our approach on the other topics we are required to cover in the final Framework and Approach.

### 3.1 Control mechanisms

A distribution determination must impose controls over the prices and/or revenues of direct control services.<sup>114</sup> Direct control services are classified as either standard control services or alternative control services. Different control mechanisms can apply to each of these classifications, or to different services within the same classification.

The form and formulae of the control mechanisms in our distribution determination must be as set out in the relevant F&A.<sup>115</sup> There are only limited circumstances in which the AER can depart from this.<sup>116</sup>

For the 2024–29 regulatory control period, we proposed to apply the same control mechanisms as they currently apply. That is,

- revenue cap mechanism for standard control services
- price cap mechanism for alternative control services.

We consider these controls have been working well over the current regulatory control periods and see no reason to depart from them.

#### 3.1.1 Revenue cap for standard control services

The revenue cap control mechanism formulae will mostly stay the same as it is currently applied. While the main formulae will be set in the F&A, the definitions of factors in the formulae will be set in the determination, where we will look to improve definitions and transparency of operation.

We note that some minor changes were required for the NSW/ACT distributors revenue cap formulae during the 2019–24 regulatory control period to appropriately transition from the application of STPIS 1.2 to STPIS 2.0. The formulae for the NSW/ACT distributors in the 2024–29 regulatory period will reflect the application of STPIS 2.0.

The formulae for TasNetworks and Power and Water Corporation will remain the same as is currently applied. For Tasmania, this includes a formula that reflects the application of STPIS 1.2, as STPIS 2.0 does not apply. For Northern Territory it does not include an STPIS factor as the STPIS does not apply.

#### 3.1.2 Price caps for alternative control services

The price cap control mechanism formulae will stay the same for metering, public lighting, and fee-based ancillary network services. For quoted ancillary network services, we set a formulae for calculating and presenting quoted services but acknowledge that the price varies for a number of components for each instance of that service.

<sup>114</sup> NER, cl. 6.2.5(a).

<sup>115</sup> NER, cll. 6.12.3(c) and 6.12.3(c1).

<sup>116</sup> NER, cll. 6.12.3(c)(1) and (2); 6.12.3(c1).

We observe the inclusion of a margin component in the formula for calculating and presenting quoted services differs across jurisdictions. This inconsistency has created stakeholder confusion. We propose to standardise the approach across jurisdictions by making provision for a margin component to the quoted services formula. We also propose to include a tax component in response to feedback from distributors. We seek stakeholder feedback on this proposal.

In addition, we are looking to introduce greater transparency of quoted services by requiring distributors to provide itemised quotes to the customer. At a minimum, the quotes must contain information on the cost components to demonstrate compliance with the control mechanism formula for quoted services. This is likely to include: labour, materials, contractor costs, margins, and tax. This was originally introduced for the NSW distributors in the 2019–24 in response to stakeholder feedback.

We subsequently applied this approach in our next round determinations for the Victorian distributors. We consider this approach is best practice and provides greater transparency of the pricing of quoted services for stakeholders. We are proposing to continue to apply this expectation for all NSW distributors and all distributors going forward.

We seek stakeholder feedback on the benefits of this approach and our proposal to apply it to all distributors.

## 3.2 Incentive schemes

This section sets out our preliminary position on the application of a range of incentive schemes to the NSW, ACT, NT, and Tasmanian distributors for the 2024–29 regulatory control period. At a high level, our preliminary position is to apply the following incentive schemes for NSW, ACT and Tasmanian distributors:

- service target performance incentive scheme (STPIS)
- efficiency benefit sharing scheme (EBSS)
- capital expenditure sharing scheme (CESS)
- demand management incentive scheme (DMIS)
- customer service incentive scheme (CSIS).

Currently, these businesses do not have a CSIS and have noted their intention to develop this for the 2024–29 period, to replace the telephone answering measure of the STPIS.<sup>117</sup>

We also intend to apply the EBSS, CESS and DMIS for Power and Water Corporation (NT), noting that the STPIS and CSIS will not apply.

<sup>117</sup> Ausgrid, *Request to replace the AER's Framework and Approach paper*, October 2021, p. 26; Endeavour Energy, *Request to replace the AER's Framework and Approach Paper*, October 2021, pp. 14-16.; Evoenergy, *Request to replace the AER's Framework and Approach paper*, October 2021, p. 4.

The distributors noted the ongoing AER incentive schemes review,<sup>118</sup> which may have an impact on the incentive schemes that will apply for the 2024–29 regulatory control period.<sup>119</sup> We intend to apply any outcomes as a result of our incentive schemes review.<sup>120</sup> As the current proposed release of the final decision on the review is shortly after the publication of the final F&A, any changes to the structure of incentive schemes, and how they are applied, may need to be reflected in the draft and final determination as a material change in circumstances.<sup>121</sup>

As the incentive schemes review is still ongoing, we have not included our position on the parameters of the incentive schemes that may apply, or our reasons for applying them in this paper. Taking into account stakeholder input, we will provide our reasoning and current approach in the final F&A, with full application of our final decision on the review of incentive schemes reflected in the draft and final determinations.

### 3.3 Depreciation

This section sets out our preliminary position on the approach to calculating depreciation when RAB is rolled forward to the commencement of the 2029–34 regulatory control period for the businesses.

As part of the roll forward methodology, when the RAB is updated from forecast capex to actual capex at the end of the regulatory control period, it is also adjusted for depreciation. The depreciation approach we use to roll forward the RAB can be based on either:

- actual capex incurred during the regulatory control period (actual depreciation). We roll forward the RAB based on actual capex less the depreciation on the actual capex, or
- the capex allowance forecast at the start of the regulatory control period (forecast depreciation). We roll forward the RAB based on actual capex less the depreciation on the forecast capex approved for the regulatory control period.

Our preliminary position, consistent with the capital expenditure incentive guideline<sup>122</sup>, is to use the forecast depreciation approach to establish the RAB at the commencement of the 2029–34 regulatory control period for the businesses.<sup>123</sup>

The opening RAB at the commencement of the 2024–29 regulatory control period will be established using forecast depreciation, as stated in our previous determinations that apply to the businesses for the current 2019–24 period. The use of forecast depreciation to establish the opening RAB for the commencement of the 2029–34 period, therefore,

<sup>118</sup> This review is due to be finalised by September 2022; <https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/review-of-incentive-schemes-for-regulated-networks/initiation>.

<sup>119</sup> Ausgrid, *Request to replace the AER's Framework and Approach paper*, October 2021, pp. 25-26; TasNetworks, *Request to replace the AER's Framework and Approach paper*, October 2021, p. 2; Endeavour Energy, *Request to replace the AER's Framework and Approach Paper*, October 2021, pp. 14-16.

<sup>120</sup> <https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/review-of-incentive-schemes-for-regulated-networks/aer-position>.

<sup>121</sup> NER cl. 6.12.3(b).

<sup>122</sup> AER, *Capital expenditure incentive guideline*, November 2013, pp. 21-22.

<sup>123</sup> NER, cll. 6.8.1(b)(2)(ix) and 6A.10.1A(b)(6).

maintains the current approach. Some of the businesses specifically supported continuing with the use of forecast depreciation for establishing the opening RAB.<sup>124</sup>

### 3.4 Dual function assets

Dual function assets are high-voltage transmission assets forming part of a distribution network. Where a network service provider owns, controls, or operates dual-function assets, we are required to consider whether we should price these assets according to the transmission or distribution pricing principles.

#### Ausgrid and Evoenergy

Ausgrid and Evoenergy currently have dual function assets priced as transmission assets under the NER.<sup>125</sup> Both businesses have requested that the AER continue to apply transmission pricing to their dual function assets for the 2024–29 regulatory control period.<sup>126</sup> As of 31 July 2021, the value of the dual function assets for Ausgrid was \$1.9 b or 12% of the total RAB and for Evoenergy, was \$173.1 m or 18% of the total RAB.<sup>127</sup>

Our preliminary position set out in the F&A will be to apply transmission pricing to Ausgrid and Evoenergy's dual function assets. We have considered our assessment in relation to the NER<sup>128</sup>, and at 12% and 18% respectively, the dual function assets are clearly a material proportion of the respective RAB. Further, application of distribution pricing would materially impact customers and affect consumption, production, and investment. In terms of cost reflectivity, the businesses' dual function assets support Transgrid's transmission network, so transmission pricing facilitates appropriate cost recovery.

Our approach is therefore consistent with the current approach and the businesses' preferences.

#### Endeavour Energy

In the 2019–24 F&A, we determined to apply distribution pricing to Endeavour Energy's dual function assets.<sup>129</sup> In Endeavour Energy's request, they outlined that the factors for our decision for the current period continue to apply and requested to maintain distribution pricing for its dual function assets for the 2024–29 regulatory control period.<sup>130</sup>

Our preliminary position will be to apply distribution pricing for Endeavour Energy's dual function assets. We have considered our assessment, and at 5% (\$228 m) these dual function assets are significantly less material than Ausgrid and Evoenergy's. Endeavour Energy's dual function assets form transmission exit assets supporting only its own distribution network. This means that even under transmission pricing rules, full asset costs would be allocated to Endeavour Energy distribution customers. Therefore, changing the

<sup>124</sup> Endeavour Energy, *Request to replace the AER's Framework and Approach paper*, October 2021, p. 17; Evoenergy, *Request to replace the AER's Framework and Approach paper*, October 2021, p. 5; Power and Water Corporation, *Request to replace the AER's Framework and Approach paper*, October 2021, Attachment 1.

<sup>125</sup> NER, Chapter 6A, Part J.

<sup>126</sup> Ausgrid, *Request to replace the AER's Framework and Approach paper* October 2021, p. 27 Evoenergy, *Request to replace the AER's Framework and Approach paper*, October 2021, p. 3.

<sup>127</sup> Ausgrid, *Request to replace the AER's Framework and Approach paper* October 2021, p. 27 Evoenergy, *Request to replace the AER's Framework and Approach paper*, October 2021, p. 3.

<sup>128</sup> NER, cl. 6.25.

<sup>129</sup> AER, *Final framework and approach for Ausgrid, Endeavour Energy and Essential Energy*, July 2017, pp. 82-82.

<sup>130</sup> Endeavour Energy, *Request to replace the AER's Framework and Approach paper*, October 2021, p. 14.

pricing approach to transmission pricing would not have a material impact on distribution prices. Changing the approach would also incur administrative costs.

Our approach therefore is consistent with the current approach and Endeavour Energy's preferences.

### **Essential Energy, TasNetworks and Power and Water corporation**

We are not required to make a decision for Essential Energy or TasNetworks, as they do not own, operate or control dual function assets. A decision is also not required for Power and Water Corporation's, as all its high voltage transmission assets are deemed to be part of its distribution system under the Northern Territory NER.<sup>131</sup>

<sup>131</sup> *National Electricity (Northern Territory) (National Uniform Legislation) Act*. Section 9 and Schedule 2 – Declaration of local distribution systems. This includes Power and Water Corporation's Darwin to Katherine 132kV power line.



## Appendix A: Rule requirements for classification

We must have regard to four factors when classifying distribution services.<sup>132</sup>

- the form of regulation factors in section 2F of the NEL:
  - the presence and extent of any barriers to entry in a market for electricity network services
  - the presence and extent of any network externalities (that is, interdependencies) between an electricity network service provided by a network service provider and any other electricity network service provided by the network service provider
  - the presence and extent of any network externalities (that is, interdependencies) between an electricity network service provided by a network service provider and any other service provided by the network service provider in any other market
  - the extent to which any market power possessed by a network service provider is, or is likely to be, mitigated by any countervailing market power possessed by a network service user or prospective network service user
  - the presence and extent of any substitute, and the elasticity of demand, in a market for an electricity network service in which a network service provider provides that service
  - the presence and extent of any substitute for, and the elasticity of demand in a market for, electricity or gas (as the case may be)
  - the extent to which there is information available to a prospective network service user or network service user, and whether that information is adequate, to enable the prospective network service user or network service user to negotiate on an informed basis with a network service provider for the provision of an electricity network service to them by the network service provider.<sup>133</sup>
- the form of regulation (if any) previously applicable to the relevant service or services, and, in particular, any previous classification under the present system of classification or under the present regulatory system (as the case requires)<sup>134</sup>
- the desirability of consistency in the form of regulation for similar services (both within and beyond the relevant jurisdiction)<sup>135</sup>
- any other relevant factor.<sup>136</sup>

The NER specify additional requirements for services we have regulated before.<sup>137</sup> They are:

- There should be no departure from a previous classification (if the services have been previously classified); and
- If there has been no previous classification - the classification should be consistent with the previously applicable regulatory approach.

<sup>132</sup> NER, cl. 6.2.1(c).

<sup>133</sup> NEL, s. 2F.

<sup>134</sup> NER, cl. 6.2.1(c)(2).

<sup>135</sup> NER, cl. 6.2.1(c)(3).

<sup>136</sup> NER, cl. 6.2.1(c).

<sup>137</sup> NER, cl. 6.2.1(d).



We must have regard to six factors when classifying direct control services as either standard control or alternative control services.<sup>138</sup>

- the potential for development of competition in the relevant market and how the classification might influence that potential
- the possible effects of the classification on administrative costs of us, the distributor and users or potential users
- the regulatory approach (if any) applicable to the relevant service immediately before the commencement of the distribution determination for which the classification is made
- the desirability of a consistent regulatory approach to similar services (both within and beyond the relevant jurisdiction)
- the extent that costs of providing the relevant service are directly attributable to the customer to whom the service is provided, and
- any other relevant factor.<sup>139</sup>

In classifying direct control services that have previously been subject to regulation under the present or earlier legislation, we must also follow the requirements of clause 6.2.2(d) of the NER.

<sup>138</sup> NER, cl. 6.2.2(c).

<sup>139</sup> NER, cl. 6.2.2(c).

## Appendix B: Preliminary distribution service classification tables

We have undertaken considerable preliminary work with the businesses to incorporate the requested new and amended services into the relevant jurisdictional classification. This work has included meeting several times with the businesses individually and as a group, to fully understand the services and amendments being requested. It is noted that the mapping work will continue to evolve for the final F&A as we receive new and additional information from all stakeholders via submissions.

The draft mapping tables for each jurisdiction are provided at the following attachments available on the respective jurisdiction page or via the hyperlinks:

- [Attachment A – Preliminary classification of NSW distribution services \(Ausgrid, Endeavour Energy and Essential Energy\)](#)
- [Attachment B – Preliminary classification of ACT distribution services \(Evoenergy\)](#)
- [Attachment C – Preliminary classification of NT distribution services \(Power and Water Corporation\)](#)
- [Attachment D – Preliminary classification of Tasmanian distribution services \(TasNetworks\)](#).

## Shortened forms

Shortened form	Extended form
ACS	alternative control services
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
capex	capital expenditure
CESS	capital expenditure sharing scheme
DER	distributed energy resources
DMIA	demand management innovation allowance
DMIS	demand management incentive scheme
distributor	distribution network service provider
DUoS	distribution use of system
DSO	Distribution System Operator
EBSS	efficiency benefit sharing scheme
ESB	Energy Security Board
GSL	guaranteed service level
Guideline	Electricity Distribution Service Classification Guideline 2018
F&A	Framework and approach
kWh	kilowatt hours
NEM	National Electricity Market
NEO	National Electricity Objective
NER	National Electricity Rules
NERR	National Electricity Retail Rules
NUoS	network use of system
opex	operating expenditure
RAB	regulatory asset base
RERT	Reliability and Emergency Reserve Trader
ROLR	retailer of last resort
SCS	standard control services
SAPS	stand-alone power systems
STPIS	service target performance incentive scheme