



Draft guideline

Electricity distribution service classification

June 2018

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1 Introduction

Service classification determines the type of economic regulation, if any, that we apply to electricity distribution services provided by distribution network service providers (DNSPs). We set out our initial views about service classification in our 'framework and approach' (F&A) paper, which is published six months before a DNSP submits its regulatory proposal. Classification decisions are subsequently finalised or determined as part of the Distribution Determination we make for every DNSP, which is usually every 5 years.

The purpose of this Electricity Distribution Service Classification Guideline (Guideline) is to improve clarity, transparency and predictability in the distribution service classification process. It does this by applying the **National Electricity Law (NEL)** including the form of regulation factors¹ and the **National Electricity Objective² (NEO)** the **National Electricity Rules (NER)** and best practice regulation to develop baseline service groupings and classifications. The baseline can be readily adopted in future price determinations unless the particular circumstances of the DNSP, such as the jurisdictional settings that may be relevant, warrant a different classification. However, even in these cases the Guideline will inform our consideration of whether a departure is justified. Where a DNSP proposes a departure from the baseline, as part of the framework and approach stage, it may draw on the rationale set out in this Guideline to inform its application.

This Guideline provides a practical explanation of how the AER classifies distribution services. DNSPs provide services that are often very similar but are not identical, and rarely are they offered into markets with identical characteristics. For this reason, the Guideline is focussed on a typical range of services.

The Guideline provides insight to our approach but it does not obviate the need for service classifications to be reconsidered periodically in light of changes to the markets in which DNSPs operate. In the past decade, changes in technology and contestability of services offered by DNSPs and also following changes in jurisdictional frameworks, have been active drivers affecting those markets and markets will continue to evolve. The Guideline provides worked examples of our approach to service classification, which takes into account these changes and therefore the regulation of services provided by DNSPs.

The Guideline is structured as follows:

- Section 1 (this section) provides a brief overview.
- Section 2 introduces the baseline set of distribution services and how we arrange them into service groupings. It notes that the baseline is considered to be reflective of a typical DNSP although it may not be representative of any one particular DNSP in its entirety.
- Section 3 discusses our approach to the classification of distribution services with reference to the baseline, in doing so we note that we need to make some assumptions about the market in which the baseline services are offered in order to classify the

¹ The form of regulation factors are set out in section 2F of the NEL.

² The national electricity objective is set out in section 7 of the NEL.

service. Identifying these assumptions helps explain the factors that influence our decisions about service classification.

- Section 4 considers other classification issues including how new services are to be treated within a regulatory period and variations and departures from the baseline.

1.1 About this guideline

This Guideline is made under clause 6.2.3A of the **NER**.

The objective of this Guideline is to set out and provide examples of the AER's approach to service classification with respect to:

- (a) **Direct control services** or **negotiated distribution services** under clause 6.2.1(a) of the NER, and
- (b) **Standard control service** or **alternative control services** under clause 6.2.2(a) of the NER.

Classification forms part of a distribution determination and operates for the regulatory control period for which the distribution determination is made.³

The Guideline is not binding, but the AER must provide reasons if it decides to depart from the approach set out in this Guideline.⁴

Commencement

This Guideline commences on 1 October 2018.

Terms and definitions

In this Guideline, unless the contrary intention appears:

- A term in bold type that is expressly defined in the glossary of this Guideline has the meaning set out in the glossary.
- A term in bold type that is not expressly defined in the glossary of this Guideline has the same meaning it has in the NEL or the NER.
- The singular includes the plural, and vice versa.
- A reference to any legislation, legislative instrument or other instrument is a reference to that legislation or instrument as in force from time to time.
- Explanations in this Guideline about why certain information is required are provided for guidance only. They do not limit in any way the AER's objectives, functions or powers.
- For the purposes of the application of this Guideline in the Northern Territory, the reference to 'national electricity system' in section 7 of the NEL must be taken to mean a reference to a 'local electricity system' or to all 'local electricity systems', as the case requires.

³ NER clause 6.2.3

⁴ NER clause 6.2.8 (c)

Processes for revision

The **AER** may amend or replace this **Guideline** from time to time in accordance with clause 6.2.3A of the **NER** and the **distribution consultation procedures**.⁵

Version history and effective date

A version number and an effective date of issue will identify every version of this **Guideline**.

⁵ NER clause 6.16

2 Identifying the baseline distribution services

This section identifies the AER's preferred approach to the naming, describing and grouping of services prior to consideration of service classification.

Before a service offered by a DNSP can be classified, it needs to be identified, in terms of the name and description of the service. As the services offered by DNSPs vary, no single list of baseline services will adequately reflect all the services provided by a single DNSP. Consequently, each DNSP needs to identify the services it offers to consumers in order to enable service classification.

This section of the Guideline is concerned with how the baseline services are identified and described. By adopting the same approach to identifying the baseline services in the Guideline, this will enable a more consistent approach to service classification. However, we will accept alternative approaches where there are good reasons to depart from the approach set out in this Guideline.

Services versus inputs

The NER only permits **distribution services** to be classified. Inputs to these services cannot be classified. Our approach to distinguishing between 'services' and 'inputs' is as follows:

- A service is the action of helping or doing work for someone. Typically, **distribution services** are provided by DNSPs to customers for payment.
- An input can be distinguished from a service in that it is not offered to customers on a stand-alone basis.
- A service may involve using one or more inputs in providing that service to a customer.
- While a DNSP may incur costs in utilising an input, costs can only be recovered by offering services. Distribution services have prices, paid by distribution customers. Inputs usually do not. In some cases the prices of inputs may be identified as a means of calculating a final price for a service—these types of services are sometimes referred to as 'quoted services'.
- A bundled service is often made up of several individual inputs that *could* be regarded as services. However, if a customer cannot purchase the individual services separately, then they are regarded as a single bundled service.
- If an activity was supplied as an input to a service, but then is unbundled from a service and subsequently offered to customers as a stand-alone activity, in return for payment, then the activity is a service.

2.1 Services and groupings

For simplicity and where appropriate, we can classify services in groupings rather than individually, as permitted by the NER.⁶ For example, 'Metering Services' is a service grouping, while 'Type 5 and 6 metering services' is a service. Referring to a grouping allows us to collect groups of services with common attributes and are often (but not always) classified similarly. This Guideline works through and classifies the services that make up the baseline of distribution services— see Appendix A for the baseline list of distribution services.

Our approach to forming service groupings is embedded in the baseline services groupings, as well as individual services that make up the baseline. This approach will assist in creating greater consistency between DNSPs:

- A DNSP should maintain and regularly update its list of services based on the approach set out in this Guideline.
- A service grouping should be described in such a way as to encapsulate the nature of individual services that it constitutes.
- Service groupings are not limited to the individual services attributed to a grouping. Rather, a grouping should be described to encompass common attributes. That is, the list of services that sit beneath a service grouping is not intended to be exhaustive.

In describing a service or service groupings, our approach is:

- The description should relate to the nature of the activities performed by the DNSP in providing the service to a customer.
- The description should not reflect the mechanism by which costs incurred by the DNSP may be recovered (for example 'quoted services').
- The description should not describe the purpose of providing the service.
- A DNSP should adopt the description set out in this Guideline unless the description is inaccurate with respect to the service it offers. A simple preference for alternative wording is not acceptable.

2.2 Baseline service groupings

The baseline service groups below reflect a typical DNSP. This list⁷ is based on our experience in classifying services for DNSPs across the jurisdictions.

The baseline service groupings are described below by their initial classification decision:

Direct control services

(a) Common distribution services

⁶ See Clause 6.2.1(b) and 6.2.2(b) of the NER

⁷ For the full list of activities and services see Appendix A

Effectively a single service, this grouping relates to the conveyance or flow of electricity through the network for consumers (and includes activities that relate to maintaining network integrity). The common distribution service is the bundle of distribution activities used by customers, relating to their use of the shared network.

(b) Network ancillary services

These services are best described as those offered to customers and/or third parties that are related to common distribution services. While they are related, these services do not form part of the bundled common distribution service because not all customers request or require these services.

(c) Metering services

This grouping of services relates to the measurement of electricity supplied to and from customers through the distribution system (excluding meters on the network's side).

(d) Connection services

This grouping includes activities relating to the electrical or physical connection of a customer to the distribution network.

(e) Public lighting services

This grouping relates to lighting services provided by means of or in connection with a DNSP's distribution system.

Negotiated distribution services

Negotiated is not a service grouping. Rather, this is a classification for services that have prices set by the parties to the negotiation. Beyond the initial classification decision,⁸ the AER is involved only in approving the negotiating framework and in resolving disputes. There are relatively few negotiated services in the NEM. One example is public lighting in South Australia. As part of the next SA Power Networks' F&A paper, the AER is currently considering whether this service should remain a negotiated distribution service going forward.

Services that are not classified

We may decide not to classify a distribution service because revenue regulation is not required. For example, a service might be offered in well-established competitive markets. By default this service would become an 'unregulated distribution service'.

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. That is, it is a 'non-distribution service'.

Under the NER, we are not required to list services that are not classified. This is because classification is concerned with the decision to regulate rather than to not regulate.⁹

⁸ Under NER clause 6.2.1(a)

⁹ NER Clause 6.2.1(a)

Nevertheless, in some circumstances we may identify that a service is an 'unregulated distribution service' or a 'non-distribution service' if we consider this will provide greater clarity to stakeholders. We will do this on a case-by-case basis or if requested by stakeholders.

Summary

By encouraging DNSPs to name, describe and group services consistent with our baseline list of services, the AER seeks to promote consistency within and across jurisdictions as well as administrative simplicity and transparency. A DNSP should adopt these service groupings, as well as the service or activities that constitute the service group, along with the description, unless it considers a service is not relevant to, or is inappropriate for the actual services it provides. Service groupings and the description, along with the names and description of the activities and services that constitute each service grouping, are provided in the list of baseline distribution services in Appendix A.

Where a DNSP proposes variations of the grouping and/or service grouping descriptions, it should provide reasons and examples at the time the AER is developing its F&A or in its *classification proposal*¹⁰.

Any list of non-distribution services may not be comprehensive. Such listing aims only to provide clarity where the status of a particular service is unclear. In the absence of the AER granting a distribution ring-fencing waiver, a DNSP may not provide non-distribution services.¹¹

¹⁰ Referred to in Clause 6.8.2(c) of the NER

¹¹ Ring-fencing Guideline, Electricity Distribution, October 2017 section 3.1

3 Classifying services and service groupings

The approach the AER must follow when we classify services is set out in clauses 6.2.1 and 6.2.2 of the NER. We must consider a number of factors at each step.

First we must be satisfied a service is indeed a 'distribution service' (step 1 in figure 1). A *distribution service* is defined in the NER¹² in the same way as the NEL defines an *electricity network service*¹³; as a service that is provided by means of, or in connection with, a distribution system. A DNSP is generally not permitted to offer non-distribution services.¹⁴

Second, we consider whether economic regulation of the service is necessary (step 2). This decision is made having regard to a range of factors¹⁵ which include:

1. *the form of regulation factors*¹⁶; and
2. *the form of regulation (if any) previously applicable to the relevant service or services and, in particular, any previous classification under the present system of classification or under the previous regulatory system (as the case requires); and*
3. *the desirability of consistency in the form of regulation for similar services (both within and beyond the relevant jurisdiction); and*
4. *any other relevant factor.*

The form of regulation factors outline the circumstances where the market for a particular service may not operate efficiently. For example, if a service is restricted by legislation to a single provider (say a single licensed operator), which could lead to inefficient monopoly pricing.

Finally, if we consider a service should be subject to economic regulation, we further classify it as either a **standard control service** or **alternative control service** (step 3).¹⁷ **Standard control services** are often bundled together and form the basic charges for use of the distribution system. **Alternative control services** are only used or requested by certain customers, such as a customer requested electricity pole relocation.

¹² NER, Chapter 10 Glossary, p.1247

¹³ NEL, Definitions, p.26

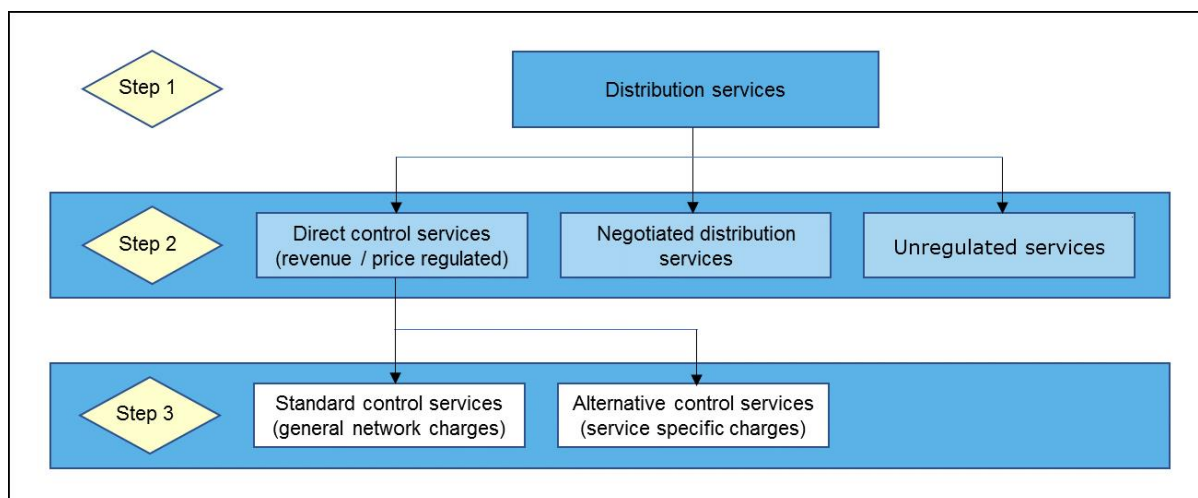
¹⁴ A DNSP may apply to the AER for a waiver under our Ring-fencing Guideline or alternatively it may offer the service through a separate legal entity.

¹⁵ See clause 6.2.1(c)(1-4) of the NER.

¹⁶ See Part1, section 2F of the NEL

¹⁷ NER Clause 6.2.2(a)

Figure 1 Distribution service classification process



Source: AER

In classifying a **direct control service** as a **standard control service** or an **alternative control service** at step three, we must have regard to¹⁸:

- *the potential for development of competition in the relevant market and how our classification might influence that potential; and*
- *the possible effects of the classification on administrative costs: and*
- *the regulatory approach (if any) applicable in the preceding regulatory control period; and*
- *the desirability of a consistent regulatory approach to similar services (both within and beyond the relevant jurisdiction): and*
- *the extent the costs of providing the relevant service are directly attributable to the person to whom the service is provided; and*
- *any other relevant factor.*

3.1 Classifying the baseline services

Having identified the baseline services groupings in Section 2, in this section we demonstrate our approach to service classification by applying the rules to the baseline services. To provide further assistance to stakeholders, Appendix B, provides worked examples setting out in detail how we apply the factors¹⁹ we must take into consideration when we classify distribution services.

¹⁸ See clause 6.2.2(c)(1-6) of the NER

¹⁹ See clauses 6.2.1 and 6.2.2 of the NER

Common distribution services—standard control

This is the bundled distribution service provided to customers that use the shared distribution system. The activities for the **common distribution service** in the baseline list of services include:

- the planning, design, repair, maintenance, construction and operation of the distribution network
- the relocation of assets that form part of the distribution network but not relocations requested by a third party (including a customer)
- works to fix damage to the network (including recoverable works caused by a customer or third party)
- support for another network during an emergency event
- network demand management for distribution purposes
- activities related to use of distribution assets as 'shared assets'²⁰
- emergency disconnect for safety reasons and work conducted to restore a failed component of the distribution system to an operational state upon investigating a customer outage
- rectification of simple customer fault relating to a life support customer or where there are public health and safety issues the distributor is able to address
- establishment and maintenance of National Metering Identifiers (NMIs) in market and/or network metering systems.

These distribution services are provided by the DNSP operating as a natural monopoly. Barriers to entry, such as the requirement for exclusive licences to operate in certain areas, prevent competition for common distribution services. As previously mentioned, we also take into account the previous classification of each service, and the desirability for consistency, as well as any other relevant factor. Consequently, these distribution services should be regulated as direct control services.

Taking into account all the factors in Clause 6.2.2 (c) of the NER, the appropriate classification is **standard control** because:

- All customers benefit from common distribution services.
- The classification is administratively efficient, and consistent with previous regulatory approaches for many DNSPs' services.
- The classification promotes a consistent regulatory approach to similar services within and across jurisdictions.

²⁰ NER, cl. 6.4.4.

Network ancillary services - alternative control

These services are often closely related to common distribution services because they relate to use of access to the shared network. The services are typically only required by some customers, and from time to time, and include:

- Access permits, oversight and facilitation—these activities allow third parties to access areas of a DNSP's network subject to DNSP approval.
- Sale of approved materials or equipment—these activities include the sale of approved materials/equipment to third parties for connection assets that are gifted back to become part of the shared distribution network.
- Notices of arrangement and completion notices—these activities allow property developers to show they have met their legal obligations with respect to network connection installations.
- Network related property services—DNSPs provide information that customers may require prior to applying to undertake further work affecting the network.
- Network safety services— these include activities like traffic control or fitting of safety devices (e.g. tiger tails) to ensure the public safety around the network can be maintained.
- Planned Interruption – Customer requested—occasionally a customer will seek a planned outage at a time that better suits their needs (for example, at night instead of during day).
- Attendance at customers' premises to perform a statutory right where access is prevented—includes follow up attendance at a customer's premises to perform a statutory right where access was prevented or declined by the customer on the initial visit. This includes the costs of arranging, and the provision of, a security escort or police escort (where the cost is passed through to the distributor).
- Inspection and auditing services—typically, the activities sitting under this service relate to testing or reviewing the compliance of third party work to ensure that DNSP safety requirements are met.
- Provision of training to third parties for network related access—self-explanatory, the training activities in this service relate to safety for third party access to the network.
- Authorisation and approval of third party service providers design, work and materials—sometimes third parties wish to use material they have sourced rather than those supplied by the DNSP. The activities involve approval/acceptance of these materials by the DNSP for network safety reasons.
- Security lights—similar to public lighting, these are lighting services provided to customers by means of the network as a location for the equipment. The security lights are attached to network infrastructure to provide light and thereby improve the security of private premises.

- Customer or third party initiated network asset relocations/re-arrangements—requests by customers and other third parties to relocate, alter or improve network assets to suit specific needs.
- Customer requested provision of electricity network data—preparation of data for customer use.
- Fault response—these are activities to identify the cause of a power outage that is not related to faults on the DNSP's side of the connection.
- Third party funded network alternations or other improvements—includes alterations or other improvements to the shared distribution network to enable third party infrastructure to be installed on the shared distribution network.

The appropriate classification is **alternative control**, with prices set for these services based on their cost of supply to customers. This is because:

- All of these services are closely related to the provision of common distribution services, but are only required by a subset of all customers.
- The classification is administratively efficient, and consistent with previous regulatory approaches for many DNSPs' services.
- The classification promotes a consistent regulatory approach to similar services within and across jurisdictions.
- The classification may foster the future development of competition for the services.

Metering services

This service grouping involves activities relating to the measurement of electricity supplied to and from customers through the distribution system. Residential and small business meters were exclusively provided by DNSPs. However, the introduction of metering contestability²¹ means that a DNSP's role is mostly limited to maintaining legacy meters until these are replaced by new meters by retailers or other metering providers, such as where a customer moves to new premises (new connections) or the old meter needs replacing.

For the baseline metering services group, it is assumed that metering contestability is in operation and that meters in need of repair or replacement will be serviced by a metering provider that is not a DNSP.²² Contestable type 1 to 4 meters are included in the baseline list of services as a worked example to demonstrate our approach to classifying contestable distribution services. We do note however, that these services are not provided by DNSPs, and in ordinary circumstances will not feature in a DNSPs service list. A notable exception is Victorian DNSPs. In 2017 the Victorian Government deferred metering competition in Victoria through an Order-In-Council.²³ Also, where certain DNSPs continue to provide these

²¹ Metering contestability does not apply in all jurisdictions. As a result, we expect there will be departures from this guideline where type 5 and 6 metering continues to be provided by DNSPs, including advanced metering infrastructure in Victoria.

²² With the exception of Victoria, see footnote 21 (above)

²³ Victorian Government Order-In-Council, No. S 346, 12 October 2017.

services, on a temporary basis under a waiver from their ring-fencing obligations. Ordinarily, metering services therefore include:

- Type 5 and 6 meter depreciation, maintenance, reading and data services—these activities relate to legacy metering that was installed prior to the introduction of metering contestability.
- Auxiliary metering services—a range of activities including off-cycle meter reads, customer requested meter tests, works to reseal a meter, adjustments to a load control device, and emergency maintenance of failed metering equipment not owned by the distributor (contestable meters).
- Legacy meter recovery and disposal—following the replacement by a metering provider of a type 5 and 6, a DNSP may be requested to recover and dispose of a redundant meter from a customer's premises.

The services above are distribution services because they are provided in connection with a distribution system.²⁴ The services are classified as **alternative control services** because:

- They are provided to individual customers, rather than to all customers.
- The classification is administratively efficient, and consistent with previous regulatory approaches for many DNSPs' services.
- The classification promotes a consistent regulatory approach to similar services within and across jurisdictions.

The metering activities below are distinct in that while they are metering services, they are not performed for individual customers or do not impose costs on any one particular customer.

- Network metering—DNSPs are required to perform bulk supply point metering to measure the flow of energy through the distribution system to support the operation of the wholesale market.
- Type 7 metering services—type 7 meters are a special case in that there is no physical meter as such. The activity performed by a DNSP at a type 7 metering installation is a simple estimate of energy use at an installation based on the nature and expected use of a load. For example, public lighting does not require a meter, as the load is estimated by the type and number of hours a luminaire is in operation.

While these services are distribution services, bulk supply point metering is an activity that is required by all network customers while type 7 metering effectively imposes no costs attributable to particular customers. As a result, both services are classified as standard control.

Connection services²⁵—activities relating to the electrical or physical connection of a customer to the network

²⁴ Ergon Energy Corporation v Australian Energy Regulator, QUD 194/2010

²⁵ When discussing connections we must consider how Connection policies and chapter 5A of the NER impact the regulation of connection services. For this reason we can never fully deal with classification of connection services in the

In connecting a customer to a distribution network, costs may be imposed on the distribution system beyond the immediate connection point. For example, a new property development may require a network extension or a large customer connection may require a distributor to strengthen (augment) the network. Consequently, the scope of connection services vary.

Inevitably, customers pay for all connection costs. However, our experience in classifying connection services²⁶ demonstrates that whether these costs are attributed to a connecting customer, to a subset of customers located around a connection point or are recovered from all network customers depends on a number of factors. These factors include:

- the extent to which a connection is contestable and may therefore be performed by an entity other than a DNSP (noting that the contestability is a jurisdictional prerogative); and,
- the specific nature (size and location) of a connection for a particular customer or group of customers.

Jurisdictions where connections are not contestable typically require classifications that reflect greater regulatory intervention. For example, a jurisdiction with non-contestable connections is likely to require connection services to be classified as direct control.

For the baseline connection services, we have assumed there is no contestability in the provision of connection services. However, we have assumed that new real estate developments are provided contestably, as this is a commonplace across the NEM.

The baseline connection services grouping takes terms for connection services from Chapter 5A of the NER. This allows better integration of the classification of connection services with the connection policies of the DNSPs. Connection services within the baseline list includes:

- **Basic connections**²⁷—a simple connection of a customer to the network - alternative control
- Non-basic **standard connections**²⁸—a connection to the network that requires a DNSP to assess the specific costs and future revenue stream from the customer - standard control
- Non-basic **negotiated connections**²⁹—connections that meet the specific requirements of a customer and the distributor - alternative control.

The three services above are as defined in chapter 5A of the NER and are distribution services. However, the classification for each of the services is different. The basic and non-basic negotiated connections are based on a customer paying the full cost of the connection

classification guideline.

²⁶ See Clause 6.2.2(c) 6) of the NER

²⁷ This service is based on the description of a basic connection service provided in Chapter 5a (5A.A.1) of the NER

²⁸ This service is based on the description of a standard connection service provided in Chapter 5a (5A.A.1) of the NER

²⁹ This service is based on the description of a negotiated connection contract provided in Chapter 5a Part c (5A.C.1) of the NER

and are therefore classified as alternative control. The non-basic standard connection is classified as standard control, subject to a cost revenue test.³⁰

Other connection services fall under the following two services:

- Connection management services—activities associated with connections such as requests for premises de-energisation or re-energisation, temporary connections (such as a builders connection), customer overhead line replacements or re-location, customer requested upgrades to their connection (such as undergrounding), and calculation of site specific loss factors when required under the NER,
- Enhanced connection services—activities to provide customers with a higher standard of electricity supply that exceeds the minimum technically feasible standard. These include services where customers request higher levels of reliability or three phase electricity.

Both these services are classified as **alternative control** because:

- The services are provided to individual customers upon request, rather than to all customers.
- The classification is administratively efficient, and consistent with previous regulatory approaches for many DNSPs' services.
- The classification promotes a consistent regulatory approach to similar services within and across jurisdictions.

Table 1 provides a summary of connection services in the baseline services list.

Table 1: Connection services

Service group	Description	Classification
Basic connection	Small customers (no extension and augmentation)	Alternative control
Non-Basic connection: Standard	Small customers (extension or augmentation required and subject to cost revenue test)	Standard control
Non-Basic connection: Negotiated	Connections which meet specific requirements including for large/major customers, real estate developers etc.	Alternative control
Connection management services	Related connection activities	Alternative control
Enhanced (non-standard)	Connections requested above the minimum required standard	Alternative control

³⁰ The cost revenue test determine the charge a customer pays for connection based on the difference between the increment revenue to be paid by the customer and cost of connection.

Public lighting services

These services relate to the provision of public lighting where this is provided in connection with a distribution system.³¹ The activities include installation and/or maintenance of public lighting equipment. Public lighting is a distribution service provided typically to local government councils or road operators and is usually classified as alternative control because:

- The services are provided to individual customers, such as councils and road operators, upon request, rather than to all customers.
- The classification is administratively efficient.
- Once applied, the classification promotes a consistent regulatory approach within and across jurisdictions.
- The classification may foster the future development of competition for the services.

³¹ Ergon Energy Corporation v Australian Energy Regulator, QUD 194/2010

4 Other classification issues

4.1 Services identified within a regulatory period

A new service identified by a DNSP within a regulatory control period may be considered to form part of a service grouping if the new service is clearly consistent with the service grouping description.

A new service identified within a regulatory control period that does not fit within an existing service grouping will be treated as an 'unregulated distribution service' until considered by the AER at the next regulatory determination.

4.2 Departures from the baseline

A DNSP may propose alternative or additional service groups, services and services classifications to those included in the baseline. When doing so, a DNSP must provide reasons for doing so, for example, due to a jurisdictional legislative obligation or other reason. A simple preference for alternative wording is not acceptable.

In proposing departures from the baseline service groupings and classifications, DNSPs are encouraged to explain how the considerations set out in the NER³² would lead to a different outcome from that assumed in developing the baseline positions in this Guideline, such that alternative or additional services, service groups or classifications are justified.

For example, a DNSP may identify that in the particular circumstances of that DNSP and developments in the markets in which it operates:

- application of the **form of regulation factors** would lead to a result that differs from the assumptions underpinning the baseline, as set out in Appendix B
- service groupings or descriptions differ in the relevant jurisdiction, and the benefits of consistency are not outweighed by the detriments of change
- the baseline differs from the form of regulation and classification previously applicable to the relevant services, and the DNSP demonstrates that the divergence is not warranted
- the potential for development of competition in the relevant market, or how the classification might influence that potential, differs from the baseline assumptions, or
- any other relevant factors to be considered.

³² Clause 6.2.1(c) and 6.2.2(d)

5 Glossary

Shortened form or term	Extended form or definition
AER	Australian Energy Regulator
Alternative control	Defined within the NER as a "distribution service that is a direct control service but not a standard control service"
Classification proposal	Document referred to in Clause 6.8.2(c) of the NER as an "element" that must be included in a DNSPs regulatory proposal
DNSP	Distribution Network Service Provider (refers to the Electricity Network)
Direct control service	Defined within the NER as "A distribution service that is a direct control network service within the meaning of section 2B of the Law"
Distribution service	An electricity distribution service provided by means of, or in connection with, a distribution system, as defined in the NER.
F&A	Framework and Approach
Negotiated distribution service	Defined within the NER as a "distribution service that is a negotiated network service within the meaning of section 2C of the Law"
NEL	National Electricity Law
NER	National Electricity Rules
network device	Apparatus or equipment that: <ul style="list-style-type: none"> (a) enables a <i>Local Network Service Provider</i> to monitor, operate or control the <i>network</i> for the purposes of providing <i>network services</i>, which may include switching devices, measurement equipment and control equipment; (b) is located at or adjacent to a <i>metering installation</i> at the <i>connection point</i> of a <i>retail customer</i>; and (c) does not have the capability to generate electricity.
Standard control service	Defined within the NER as "A direct control service that is subject to a control mechanism"

based on a Distribution Network Service Provider's total revenue requirement"

The Guideline

The Electricity Distribution Service Classification Guideline
