# Issues paper

## AER standardised model for ancillary network services

August 2021

AUSTRALIAN ENERGY REGULATOR

Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

Tel: 1300 585 165
Email: AERPricing@aer.gov.au

# Contents

# Shortened forms

| Shortened form | Extended form |
|---|---|
| ACS | Alternative Control Service |
| AER | Australian Energy Regulator |
| ANS | Ancillary network services |
| distributor | Distribution network service provider |
| NEL | National Electricity Law |
| NEM | National Electricity Market |
| NEO | National Electricity Objective |
| NER | National Electricity Rules |
| RAB | Regulatory asset base |
| RIN | Regulatory Information Notice |
| SCS | Standard control services |

# 1. About this issues paper

The Australian Energy Regulator (AER) is developing a standardised Ancillary Network Services (ANS) model to use in future electricity distribution determinations. The standardised ANS model is intended to replace the distribution network service provider (distributor)-specific ANS models that they submit as part of their regulatory proposals.

ANS are non-routine services provided to individual customers as requested. While they are related, they do not form part of the common bundled distribution service because not all customers request or require these services. There is a wide range of ANS, but common examples customers can request include temporary disconnections and reconnections, meter tests and safety services such as tiger tails.

The development and implementation of a standardised ANS model follows our commitment in the *AER Strategic Plan 2020–2025* to design our systems to work in ways that deliver efficient regulation of monopoly infrastructure.[1]

As part of their regulatory proposals, the distributors typically submit bottom-up build cost models that develop prices for their ANS fee based services and set the labour rates for their quoted services. The distributors historically submitted their own specific ANS model(s). These models differ in layout, presentation and formula specification. Further, some distributors submit a single model containing all of their ANS price calculations, while others submit multiple models.

A standardised ANS model will streamline the resources and consultation required to set prices for ancillary network services as well as increase consistency across proposals. As we discuss in section 2, we expect a standardised ANS model would benefit all stakeholders and improve the distribution determination process. This in turn provides greater assurance that we are setting ANS prices at efficient levels.

This issues paper sets out some key areas of consideration in developing the standardised ANS model. We are seeking industry feedback on these, including the accompanying preliminary standardised ANS model. We will address other aspects outside the scope of this issues paper, such as changes to our Regulatory Information Notices (RINs), separately.

Our development of a standardised ANS model is part of a suite of processes we are undertaking to improve our distribution determination and annual pricing proposal processes.

A separate process is currently underway for the development of a standardised Standard Control Services capital expenditure model, which was published on 2 August 2021.

We intend to initiate similar consultation for a standardised metering model and a standardised annual pricing model, among other initiatives, in the coming months.

[1] AER, *AER strategic plan 2020–2025*, December 2020, p.9

# Invitation for submissions

Written submissions from interested stakeholders are invited by 24 September 2021. We will consider all submissions received by that date. Submissions should be in Microsoft Word or another machine-readable document format. Please address submissions to:

AERPricing@aer.gov.au

Warwick Anderson
General Manager – Network Pricing
Australian Energy Regulator

We prefer that all submissions are publicly available to facilitate an informed and transparent consultative process. Submissions will be treated as public documents unless otherwise requested. All non-confidential submissions will be placed on our website. Parties wishing to submit confidential information should:

- 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.

## Consultation process

After we have reviewed the submissions, we will host a workshop where we will discuss the key issues from the submissions. Following the workshop, we will have regard to all stakeholder comments (in written submissions and workshops) to develop a final model with an explanatory note which we intend to publish in late November.

### Table 1 Indicative consultation timeframes

| Key steps | Indicative dates |
|---|---|
| Publish issues paper | 27 August 2021 |
| Submissions due | 24 September 2021 |
| Stakeholder workshop | 13 October 2021 |
| Publish final model and explanatory note | late 2021 |

# 2. Background

The AER is the independent regulator for Australia's national energy market (NEM). We regulate energy networks in all jurisdictions except Western Australia. We set the amount of revenue that network businesses can recover from customers for using these networks.

The National Electricity Law and Rules (NEL and NER) provide the regulatory framework governing electricity distribution networks. Our work under this framework is guided by the National Electricity Objective (NEO).[2]

Ancillary network services (ANS) are non-routine services provided to individual customers as requested and charged either on a fee or quotation basis, depending on the nature of the service.

The AER determines fee-based service price caps for a regulatory control period as part of a distributor's determination, based on the cost inputs and the average time taken to perform each service. These services tend to be homogenous in nature and scope, and are often costed in advance of supply with reasonable certainty. Fee-based services often differ between distributors, however typical examples include:

- Basic connections
- Temporary disconnections and reconnections
- Auxiliary metering services (such as special meter reads and meter tests)

By comparison, prices for quoted services are based on quantities of labour and materials, with the quantities dependent on a particular task. Prices for quoted services are determined at the time of a customer's enquiry and reflect the individual requirements of the customer's service request. For this reason, it is not possible to list prices for quoted services in our decision. However, we set the labour rates distributors apply when providing quoted services as part of our distribution determinations. As with fee-based services, quoted services often differ between distributors with typical examples including:

- Asset relocations
- High load escorts
- Design and auditing services

The regulatory framework for assessing alternative control services is less prescriptive than for standard control services.[3]

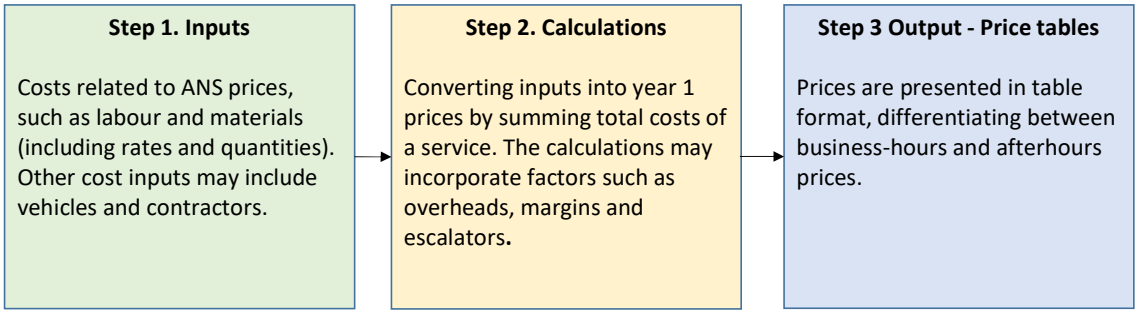
As part of their regulatory proposals, the distributors submit their own models which vary from business to business. Nevertheless, these different models largely use comparable approaches of a bottom-up build of similar typed costs such as labour, material and contractor costs. Figure 1 is a diagram of a typical ANS model.

---

2 NEL, s. 7.

3 NER, cl. 6.2.6(c).

## Figure 1 – Diagram of a typical ANS bottom up model




Although they use similar inputs, the models themselves can be complex and differ in layout, presentation and formula specification. Some distributors submit a single model containing all of their ANS price calculations, while others submit multiple models.

As a result, the AER and stakeholders can spend a significant amount of time in the initial phases of assessing regulatory proposals trying to understand how the ANS models work which reduces the time to undertake the assessment. In turn, this can result in additional burden for the distributors as the AER issues information requests to better understanding the models and proposal. The complexity of the various models also impedes stakeholders' understanding and engagement with ANS proposals.

We consider there is a need to develop a standardised ANS model to address these issues. We expect a standardised model would benefit all stakeholders and improve the distribution determination process:

- Distributors—A standardised ANS model significantly reduces the need for distributors to "second guess" the AER's information requirements for assessing ANS proposals. Distributors would be able to prepare their ANS proposals in a more targeted manner, saving time and resources.
    - A standardised ANS model signals to distributors the pertinent information the AER requires to assess ANS proposals.
- Retailers and customers—A standardised ANS model would provide stakeholders such as retailers and end customers (who request and ultimately pay for these services) greater scope to engage in our distribution determinations.
    - Different models with varying levels of complexity and information content are a significant barrier for retailers and customers to engage in a distribution determination.
    - We therefore aim to develop a standardised ANS model that contains only the most relevant information, in a simple and consistent format. We consider this would provide stakeholders a greater opportunity to understand and, therefore engage with, ANS proposals.
- The AER— A standardised ANS model would enable the AER to focus time and resources on assessing the substance of a distributor's ANS proposal, rather than the ANS model itself. This provides greater assurance to all stakeholders that we are setting ANS prices at efficient levels.

- As noted earlier, we aim to develop a standardised ANS model that contains only the pertinent information we require to assess ANS proposals.
- We can also therefore target information requests toward understanding the distributor's ANS proposal rather than the ANS model(s) themselves. This is a more efficient regulatory outcome.

More generally, a standardised ANS model provides greater scope for all stakeholders to identify any errors in an ANS proposal. Similarly, a standardised ANS model provides greater scope for all stakeholders to identify parts of the model we can improve or amend for future distribution determinations, as required.

# 3. A standardised ANS model

Our intention is to develop a standardised ANS model that will reduce the AER's and the distributors' resources required to review and manage these models by:

- streamlining the process of mapping proposed input costs into prices for each fee and quoted service for a given regulatory control period
- improving quality assurance processes.

A standardised ANS model will also increase regulatory certainty through a consistent treatment of ANS data across determinations. Having a standard model will also assist stakeholders' understanding and engagement with ANS proposals.

For these benefits to be fully realised, the standardised ANS model needs to be 'fit-for-purpose'. In this regard, we view industry feedback as a critical part of the process to developing a standardised ANS model.

As a first step, we have developed a preliminary standardised ANS model to reflect the common core functions of the distributor-specific ANS models. In developing the preliminary standardised ANS model, we considered existing distributor-specific ANS models, recent electricity distribution determinations and future electricity distribution determinations.

The preliminary model is for consultation purposes only. We appreciate that it does not reflect all the unique circumstances for each business. This consultation process is intended to help us work through key areas of consideration we have identified. Stakeholders are also welcome to raise other areas of consideration not identified in this issues paper.

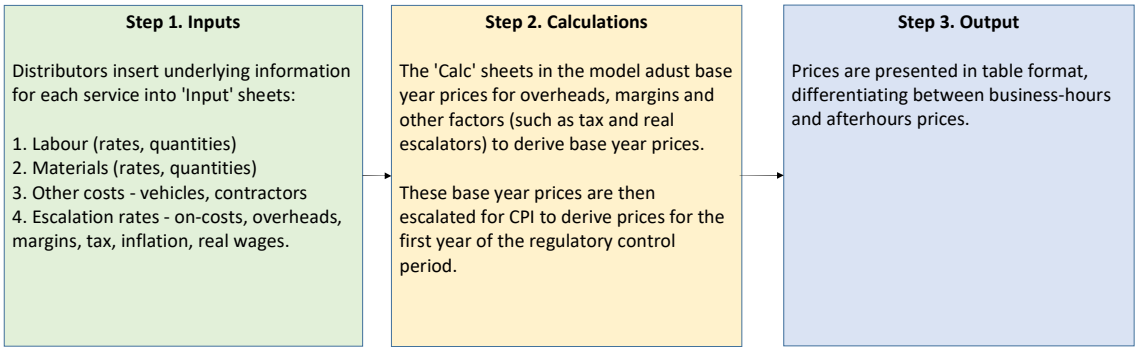
The standardised ANS model is not meant to replace or reconcile with a businesses' internal forecasting or accounting methods. Any discrepancies need to be considered for the purpose of price setting as to whether or not it passes a reasonable materiality threshold.

Having regard to stakeholder comments, we intend to have a workshop to collectively work through the specific issues raised. Following the consultation process, the preliminary standardised ANS model will be updated and published with an explanatory note.

**A preliminary standardised ANS model**

Figure 2 shows the preliminary standardised ANS model's layout and how it incorporates the core functions of a typical ANS model.

## Figure 2 – AER preliminary standardised ANS model




While figure 2 shows the preliminary standardised ANS model's layout and how it incorporates the core functions of a typical ANS model, there are a few aspects of the model which should be noted in more detail.

1. Inflation
    a. In the model we use the same CPI timing as the price controls set out in the respective Framework and Approach paper. We encourage distributors to use this methodology when inputting CPI.
    b. The preliminary standardised ANS model allows users to select a base year for un-escalated direct cost inputs to be escalated to a selected year.
2. Real price escalation
    a. Consistent with our recent decisions, the preliminary standardised ANS model allows for labour cost escalations and does not include contract services or materials escalation.
3. Other escalation rates (on-costs, overheads, margins, tax)
    a. Distributors are to include the other escalation factors they use to derive their fee-based prices into the 'Input' sheets. We will assess these rates during the distribution determination.
4. Outputs
    a. The preliminary standardised ANS model produces a table summarising the distributor's proposed prices for fee-based services and the proposed labour rates for quoted services.

**Invitation for submissions**

We are seeking feedback from stakeholders on the preliminary standardised ANS model. In particular, we are interested in hearing your views about the functions of the model, including:

- whether you think the model needs more or less functions
- whether the functions in the model are fit for purpose, transparent and can be adopted by industry.

We also welcome feedback on any other issues relating to the preliminary standardised ANS model.

In submissions, we encourage stakeholders to provide examples or explanations that support the issues raised. This will help us to make improvements so that the final version of the standardised ANS model is more usable for distributors, retailers and customers, and the AER.

We also appreciate that it may be more constructive to demonstrate your point by going through the preliminary standardised ANS model (or your own model) with us. In that circumstance, please contact AERPricing@aer.gov.au and we will arrange a time to discuss.