

# Classification of electricity distribution services in the ACT and NSW

Response to the Australian Energy Regulator's  
consultation paper on the Framework and Approach  
for the ACT and NSW electricity network  
determinations 2014-19

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**ActewAGL** 

*for you*

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## Introduction

ActewAGL Distribution (ActewAGL), a partnership between ACTEW Distribution Ltd and Jemena Networks (ACT) Pty Ltd, owns and operates the electricity distribution network in the Australian Capital Territory (ACT).

ActewAGL welcomes the opportunity to respond to the Australian Energy Regulator (AER) on matters relevant to the *Framework and Approach* (F&A) for the forthcoming electricity distribution determinations for the Australian Capital Territory (ACT) and New South Wales (NSW). This submission responds in particular to the AER's consultation paper on classification of electricity distribution services in the ACT and NSW released on 14 December 2011.<sup>1</sup>

The submission firstly provides general comments on the AER's assessment of the requirements for the F&A for the 2014–19 determinations, and then follows with discussion of the classification of specific services performed by ActewAGL, including addressing the questions raised by the AER in the consultation paper.

As noted by the AER in the consultation paper, the ACT and NSW are separate jurisdictions. Unless otherwise indicated, ActewAGL's comments on specific service classifications and related matters should be taken only to apply to consideration of the ACT determination.

ActewAGL understands that the AER's purpose in the initial consultation papers is to gather information and seek views ahead of the formal F&A process. ActewAGL's comments in this submission are also its current views subject to further development before and during the formal F&A process.

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<sup>1</sup>AER 2011

## General comments

The AER notes both that it has not previously had the opportunity through an F&A process to assess the classification of services in the ACT and NSW<sup>2</sup> and that when applying the NER to the classification of services that it will “be guided in part by its treatment of similar services across jurisdictions”.<sup>3</sup> While comparisons might prove useful, especially in reinforcing some lessons from classification, the AER rightly notes that “the desirability for consistency in the form of regulation is only one of the factors required to be considered by the AER.”<sup>4</sup>

ActewAGL points out that classifications inherited by the AER from jurisdictional regulators were developed as responses to particular business, consumer, policy and regulatory needs, often over time and with rationales that may well remain current. ActewAGL considers that, for geographically distinct networks, consistency is often only a factor in terms of ease of administration by the AER and not in terms of the factors contributing to the National Electricity Objective.<sup>5</sup>

Though addressing ACT services, the consultation paper exhibits a bias toward grouping, nomenclature and practices that have emerged in NSW. While these may or may not be suitable for circumstances in that jurisdiction (and ActewAGL does not have direct experience on which to base such a judgement), it needs to be understood that, where service groupings and regulatory conventions are in place in the ACT, they have been well considered and developed as responses to issues encountered in the ACT.

ActewAGL’s response therefore includes an overview of current service classifications in the ACT, before responding to the questions posed by the AER in the consultation paper.

In terms of the treatment of connection services, ActewAGL notes that the some of the options on which the AER is seeking comment would involve significant changes from the current arrangements (for example, splitting connection services into four distinct services). The implications of the connection service classifications adopted will depend on the AER’s final connection charge guidelines, which are being developed concurrently with this review.<sup>6</sup>

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<sup>2</sup> AER 2011, p 2

<sup>3</sup> AER 2011, p 8

<sup>4</sup> AER 2011, p 8

<sup>5</sup> The *National Electricity Objective*, as stated in the National Electricity Law, is “to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to price, quality, safety, reliability, and security of supply of electricity; and the reliability, safety and security of the national electricity system.”

<sup>6</sup> See AER 2011A

An additional matter, raised in the context of the AER's background to the F&A process, is the extent to which the positions set out in the F&A determination will be binding for the forthcoming distribution determination. The consultation paper cites the NER as setting down that "the control mechanism *and dual function assets determination* must be as set out in the framework and approach paper."<sup>7</sup>

The cited clause of the NER states:<sup>8</sup>

The control mechanisms must be as set out in the relevant framework and approach paper.

ActewAGL does not agree with the AER that the clause cited has application to dual function assets. In short, since dual function assets are also not specified elsewhere among the exceptions in NER 6.12.3 to the AER's discretion with regard to acceptance or rejection of elements of the DNSP's regulatory proposal, ActewAGL considers that the default position applies to the dual function assets determination, such that:

... a framework and approach paper is not binding on the AER or a Distribution Network Service Provider.<sup>9</sup>

ActewAGL would welcome clarification of the AER's thinking on this matter.

## Classification of services

### Current service classifications in the ACT

In the current 2009–14 regulatory determination of the AER, ActewAGL has two forms of regulatory control:

- One that applies to distribution use of system (DUOS) and miscellaneous distribution services; and
- Another applying to metering services (for customers consuming less than 160 MWh/year).

Prices for ActewAGL's DUOS and miscellaneous distribution services are regulated together as standard control using CPI – X applied to maximum allowable average revenue.

ActewAGL prices for regulated metering services are controlled via a revenue cap, adjusted each year by CPI – X. Prices for metering services for customers consuming

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<sup>7</sup> AER 2011, p 2 (emphasis added)

<sup>8</sup> NER 6.12.3(c)

<sup>9</sup> NER 6.8.1(h)

over 160 MWh/year are not subject to regulation, given that these services are fully contestable.

Metering for customers consuming less than 160 MWh/year is contestable if meters are remotely read. Thus, where meter providers were to provide customers with *smart meters* (incorporating communications), revenue from such meters would not be regulated.

There are unregulated charges for non-distribution services such as the sale of padlocks for meter boxes and for unclassified minor services, for example, the hire of *tiger matting*.<sup>10</sup> Such services are provided on a cost recovery basis with no recovery of associated costs through regulatory operating or capital expenditure allowances.

### **Distribution and non-distribution services**

The consultation paper discusses the principles of the service classification decisions the AER must make in the context of the F&A process for the forthcoming determinations. It characterises these in terms of decisions the AER takes on, firstly, the classification of distribution services<sup>11</sup> as set out by the National Electricity Rules (NER), and then on the “grouping of distribution services”<sup>12</sup> in terms of their similar characteristics and their application to regulation within the NER classifications.

Before services are subject to regulation, they must fall within the NER definition of a *distribution service*, in brief, “a service provided by means of, or in connection with, a distribution system”.<sup>13</sup> Non-distribution services are not regulated.

This definition, taken in full, is the basis for the extent of the AER’s responsibility and ability to regulate prices under the NER. Therefore, where a DNSP performs services not in connection with distribution services, subject to an approved allocation of common and shared costs between the distribution and non-distribution services, they should not be further regulated.

### **Direct control, negotiated and unclassified services**

The consultation paper characterises the further classification of distribution services as a two-step process.<sup>14</sup> First, it must be determined whether they are direct control or negotiated distribution services, or whether the AER will choose not to classify them.

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<sup>10</sup> *Tiger mats* are a cable covering used to insulate and as a warning to visually indicate (using a yellow and black striped pattern) the position of overhead power lines or stay wires.

<sup>11</sup> AER 2011, pp 5-6

<sup>12</sup> AER 2011, p 6

<sup>13</sup> AER 2011, p 5

<sup>14</sup> AER 2011, pp 5-6

The National Electricity Law specifies a *direct control network service* to be a network service that:<sup>15</sup>

- (a) the Rules specify as a service the price for which, or the revenue to be earned from which, must be regulated under a distribution determination ...; or
- (b) if the Rules do not do so, the AER specifies in a distribution determination ..., as a service the price of which, or the revenue earned from which, must be regulated under the distribution determination ...

DUOS services qualify as a direct control service under (a) above, while other services may become direct control services under (b) at the discretion of the AER. In the case of ActewAGL, *Miscellaneous services* are currently classified as direct control services under part (b) of this Rule.

ActewAGL currently has no negotiated network services.

Currently, ActewAGL is the legislated sole supplier in the ACT only of manually read meters for customers consuming less than 160 MWh/year of electrical energy. Remotely read meters and meters for customers consuming over 160 MWh/year are fully contestable, and therefore unclassified services unregulated by the AER.

## Standard and alternative control services

The NER state that:<sup>16</sup>

- a *Standard control service* is “a *direct control service* that is subject to a control mechanism based on a [DNSP’s] *total revenue requirement*”
- an *Alternative control service* is “a *distribution service* that is a *direct control service* but not a *standard control service*.”

That is, an *alternative control service* is a direct control service that is not based on the DNSP’s total revenue requirement. Therefore, if a distribution service that is a direct control service is subject to a form of regulation based upon the DNSP’s total revenue requirement, then it is a standard control service. If it is a direct control service subject to another form of regulation other than the DNSP’s total revenue requirement, then it is an alternative control service.

In all cases, with the exception of DUOS services, it is the nature of the regulation, rather than the nature of the service *per se* that determines whether a service is classed as a standard control or alternative control service.

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<sup>15</sup> NEL, s 2B

<sup>16</sup> NER, Chapter 10–*Glossary*

It follows from the above that, if the cost of a service is such that it can and should be recovered from all users of the network, then it can be classed as a standard control service. Conversely, costs that are not applicable to all users of the network should not be standard control services.

In ActewAGL's case, 50 per cent of network load is measured using meters provided in the contestable market (overwhelmingly, those of large customers). It would therefore be unreasonable for metering costs to be recovered in standard control services. In the ACT, therefore, metering services are regulated as alternative control services.

It is also desirable that other specific services with associated costs directly attributed to the provision of the service should be excluded from standard control services. Such services include energising and de-energising premises, temporary connections, and removing, repositioning or upgrading services at the consumer's request.

ActewAGL takes a fee for service approach to many of these services. Where they are larger and more complicated, ActewAGL provides a quote for the service. Many such services are discretionary, for example, retailers often avoid paying de-energising and energising charges when customers move between premises, as it is usually cheaper to pay the daily network charge and leave the premises connected to the network.

The current classification of such miscellaneous services as standard control services<sup>17</sup> makes it difficult for charges to change reflect changing costs and to introduce new services and charges. The volumes of individual services can also vary greatly from year to year. However, the revenue from miscellaneous charges is minor, representing less than 1 per cent of network charges. It is likely that the costs of separately regulating miscellaneous services as alternative control services would excessively raise the regulatory overhead cost of providing these services.

### **M&M services and emergency recoverable works**

The classification of miscellaneous services in the ACT is canvassed in the preceding section of the submission.

Emergency recoverable works are not separately identified in the ACT. The reason they have not, as in NSW, been separately identified for specific treatment is that, since a significantly larger than usual proportion of ActewAGL's network assets is underground, overhead assets are situated away from roads in backyards and reserves and ActewAGL does not own streetlighting, the incidence of recoverable works is significantly lower. Such costs are therefore included in normal operating and maintenance or capital

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<sup>17</sup> Certain other ActewAGL miscellaneous services related to metering are classified as alternative control services and regulated under the revenue cap applicable to metering services.



expenditure based on previous volumes. Where persons causing damage can be identified, ActewAGL seeks recovery of costs.

The following table provides ActewAGL's responses to the specific questions raised by the AER on M&M services and emergency recoverable works.<sup>18</sup>

**Table 1 Responses to AER questions on miscellaneous services and emergency recoverable works**

<i>AER question</i>	<i>ActewAGL response</i>
A. Are M&M services and emergency recoverable works appropriately:	
<ul style="list-style-type: none"> <li>▪ grouped for the purpose of classification; and</li> </ul>	As explained in the text preceding the table, ActewAGL does not have a separate charge schedule for Emergency recoverable works. The grouping together of miscellaneous services is appropriate.
<ul style="list-style-type: none"> <li>▪ classified as standard control services in the ACT and NSW?</li> </ul>	For reasons explained in the earlier section on <i>standard and alternative control services</i> , ActewAGL believes that miscellaneous services are appropriately classified as standard control services in the ACT.
B. Is the adoption of a national approach for treatment of these services desirable, with regard to the following questions:	
<ul style="list-style-type: none"> <li>▪ Are all M&amp;M services and emergency recoverable works 'distribution services'?</li> </ul>	Certain services offered by a DNSP may not come within the definition of distribution services. Where a DNSP performs services not in connection with a distribution services, subject to an approved allocation of common and shared costs between the distribution and non-distribution services, they should not be further regulated. Treatment may vary between DNSPs and there is no need for a national approach

<sup>18</sup>AER 2011, Question 1, p 11

<i>AER question</i>	<i>ActewAGL response</i>
<ul style="list-style-type: none"> <li>Considering the current grouping of services set out in Table 1, what is the most appropriate grouping for these services – as a whole or individually?</li> </ul>	While the services proposed in table 1 are generally sound, its usefulness is dependent on the AER's acceptance that there might not be an exact mapping with the classifications of services, and that this may differ between jurisdictions.
<ul style="list-style-type: none"> <li>Considering the definitions in Appendices B and C, should the AER, in the context of the comparisons set out in Appendix E, move towards a more national approach to these descriptions. If so, which are the more appropriate definitions?</li> </ul>	There is no need for the AER to move towards a more national approach to these descriptions given that they emerge from a variety of circumstances specific to the jurisdiction and that there is little to be gained from a national approach.
<ul style="list-style-type: none"> <li>Should a national approach and common classification across jurisdictions for similar services be adopted?</li> </ul>	See answer above.
<ul style="list-style-type: none"> <li>Should emergency recoverable works be unclassified?</li> </ul>	The current situation in the ACT remains reasonable for reasons stated in the text immediately preceding this table.
C. Is the control mechanism applied to M&M services and emergency recoverable works appropriate and does it result in cost reflective prices?	In the ACT, the relatively insignificant revenue raised from miscellaneous services relative to network services in direct control services results in little disincentive to cost reflective prices. ActewAGL has an incentive to charge cost reflective prices to discourage unnecessary use of these services.

### **Metering services and customer specific services**

The following table provides ActewAGL's responses to the specific questions raised by the AER on metering (types 1-4) and customer specific services.<sup>19</sup>

<sup>19</sup>AER 2011, Question 2, pp 15-16

**Table 2 Responses to AER questions on metering (types 1-4) and customer specific services**

<i>AER question</i>	<i>ActewAGL response</i>
A. Should types 1-4 metering services and customer specific services be regulated by the AER?	Type 1-4 metering services in the ACT are currently unregulated and should remain so since this is a contestable service.  Some customer specific services are not distribution services and should not be regulated.
B. If so, are the current definitions for types 1-4 metering services and customer specific services appropriate, and, if not, what should the definitions be?	Definitions are appropriate.
C. Is the control mechanism adopted appropriate and, If not, what should the control mechanism be?	Control mechanism is appropriate.

The following table provides ActewAGL's responses to the specific questions raised by the AER on metering services (types 5-7).<sup>20</sup>

**Table 3 Responses to AER questions on metering services (types 5-7)**

<i>AER question</i>	<i>ActewAGL response</i>
A. Are metering services (types 5–7), as adopted in the current determinations, appropriate?	Yes.
B. Is the issue of metering services (types 5–7) being charged with DUOS charges still current?	It is not current. Charges for types 5-7 metering services are regulated as alternative control services in the ACT.
C. Should metering services (types 5–7) be separated from DUOS charges?	See previous answer.

<sup>20</sup>AER 2011, Question 3, p 18

<i>AER question</i>	<i>ActewAGL response</i>
D. If metering services (types 5–7) are separated from DUOS charges, what type of service should they be classified as and what control mechanism should be applied?	These services are already alternative control services in the ACT. A light handed “fee for service” approach would be more appropriate than the existing revenue cap. There should also be provision to increase prices annually by CPI; modify the charges if justified on a cost of service basis; and introduce new services with new charges.

### Connection services

Basic connection services in the ACT are currently regulated within DUOS as standard control services.

The following table provides ActewAGL’s responses to the specific questions raised by the AER on connection services.<sup>21</sup>

**Table 4 Responses to AER questions on connection services**

<i>AER question</i>	<i>ActewAGL response</i>
A. Comment on splitting a new connection into at least four distribution services, and to apply an appropriate service classification and form of control to each component of the connection.	Splitting the current single connection service into separate services makes sense only where the AER intends to re-classify part of the current single standard control service as an alternative control service. That is, there would appear to be no reason for splitting connection services into four distinct services if these are to remain standard control services.
B. Comment on the definition of each of these connection services in NSW and the ACT.	In the ACT, a connection service is the provision of the link between the shared network and the customer’s meter.

<sup>21</sup>AER 2011, Question 2, pp 15-16

<i>AER question</i>	<i>ActewAGL response</i>
C. Comment on the service classification to apply to these connection services, with the following questions in mind:	
<ul style="list-style-type: none"> <li>▪ is the ASP scheme and level of competition in NSW sufficient that the AER does not need to regulate connection services?</li> </ul>	Not applicable
<ul style="list-style-type: none"> <li>▪ are there any deficiencies in the NSW ASP scheme which can be addressed by the AER through an alternative service classification or form of control?</li> </ul>	Not applicable
<ul style="list-style-type: none"> <li>▪ will the shared network augmentation requirement that new connections impose on the network be harder to attribute to an individual customer?</li> </ul>	ActewAGL considers that this might be the case.
<ul style="list-style-type: none"> <li>▪ currently in NSW connections requiring augmentation are unregulated and the new connecting customer may be required to pay the full cost of any augmentation to an ASP. Is this an appropriate manner to charge for augmentation?</li> </ul>	Not applicable

<i>AER question</i>	<i>ActewAGL response</i>
<ul style="list-style-type: none"> <li>▪ is moving towards an alternative control service classification, for most components of a connection, appropriate in the ACT?</li> </ul>	<p>ActewAGL accepts that, in principle, it may be appropriate to re-classify as alternative control those components of a connection service where the cost can be clearly attributed to particular users. This approach would be consistent with the guidance the AER provides in the draft connection charge guideline explanatory statement: "if the cost of a connection service can be readily attributed to a particular customer, and the service is not contestable (or there is not a competitive market), then an alternative control service classification may be appropriate. Augmentation of premises connection assets, extensions and incidental connection services, might generally fit into this category."<sup>22</sup></p>

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<sup>22</sup> AER 2011A, p 15

## Glossary

ACT	Australian Capital Territory
ActewAGL	ACTEW Distribution Ltd and Jemena Networks (ACT) Pty Ltd trading as ActewAGL Distribution
AER	Australian Energy Regulator
ASP	Accredited service provider
DNSP	Distribution Network Service Provider
DUOS	Distribution use of system
F&A	Framework and approach
ICRC	Independent Competition and Regulatory Commission
MWh	Megawatt-hours
NEL	National Electricity Law
NER	National Electricity Rules
NSW	New South Wales

## References

Australian Energy Regulator (AER) 2011, *Consultation Paper: Matters relevant to the framework and approach ACT and NSW DNSPs 2014–19, Classification of electricity distribution services in the ACT and NSW*, December

\_\_\_\_\_ 2011A, Explanatory Statement: Proposed Connection charge guidelines under Chapter 5A of National Electricity Rules for retail customers accessing the electricity distribution network, 22 December