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Mr Chris Pattas  
General Manager  
Australian Energy Regulator  
GPO Box 520  
Melbourne VIC 3000

Office of the  
Chief Executive Officer

Level 22, 570 George Street  
Sydney NSW 2000  
All mail to GPO Box 4009  
Sydney NSW 2001  
T +61 2 9269 2115  
[www.ausgrid.com.au](http://www.ausgrid.com.au)

Dear Mr Pattas

***Ausgrid's submission on the AER's preliminary framework and approach paper***

Ausgrid welcomes the opportunity to provide this submission in response to the Australian Energy Regulator's (AER) preliminary framework and approach (F&A) paper for the regulatory control period commencing 1 July 2019.

In terms of process, Ausgrid supports the approach taken by the AER in releasing its F&A paper. We particularly appreciate the AER taking the step to publish, and consult on, a detailed preliminary F&A paper prior to publishing its final F&A paper in July 2017. The opportunity to meet with AER staff on 10 April 2017 and discuss the 2019-24 distribution determination is also greatly appreciated.

We initially had significant concerns about the discussion in the preliminary F&A paper on the Power of Choice metering reforms. This discussion appeared to show that the AER had misinterpreted key details about how those reforms will be implemented. Our submission sets out our understanding of the Power of Choice metering reforms and draws attention to areas of the discussion in the preliminary F&A paper that do not appear to align with the new Rules. Based on our engagement with the AER on this issue, we are confident that the AER in fact shares our understanding of how the Power of Choice metering reforms will take effect. We nonetheless request that the AER clearly sets out its position in the final F&A paper in manner that reflects our shared understanding about how those metering reforms will be implemented.

To facilitate further engagement with the AER and other stakeholders, our submission addresses a variety of issues relating to the AER's preliminary positions on the classification of services, control mechanisms and incentive schemes. In doing so, we put forward the following positions in our submission:

- Classification of services – We broadly support the AER's classifications of services in its preliminary F&A paper. This is with the exception of the discussion in the preliminary F&A

paper on how the new Rules relating to metering services will be implemented. We also suggest definition changes to 'common distribution services' as well as some 'connection services' and 'ancillary network services' to provide greater clarity.

- Control mechanisms – We support the continuation of a revenue cap for standard control services and a price cap for alternative control services. In our submission, we suggest that the standard control services formula should include a specific adjustment for the demand management allowance the AER is currently designing. In addition, so as to align with the scope and application of the Rules, we request that the final F&A paper specifies that the formula for alternative control services will include a mechanism to recover approved pass through amounts.
- Incentives – We are generally supportive of the AER's preliminary position to apply the service standard performance incentive scheme (STPIS), the efficiency benefit sharing scheme (EBSS), and the capital expenditure sharing scheme (CESS) in the 2019-24 regulatory control period. Ausgrid also offers in principle support for the AER's preliminary position to apply the new demand management incentive scheme (DMIS) and demand management innovation allowance (DMIA) that are currently being designed.

Ausgrid's submission on the AER's preliminary F&A paper is divided into two appendices. We address each of the broad issues covered by the AER's preliminary F&A paper in Appendix A. These include classification of services, control mechanisms, incentives and other issues. Appendix B then puts forward our suggested definition changes to some services. To do this, we have used the classification of services table in the AER's preliminary F&A paper as our starting point, with our suggested edits highlighted.

We look forward to further discussions with the AER on its F&A paper and the 2019-24 distribution determination more generally. If you have any queries or wish to discuss this matter in further detail please contact Joe Pizzinga, Acting Executive General Manager – Strategy & Regulation, on (02) 9269 2121 or via email [jpizzinga@ausgrid.com.au](mailto:jpizzinga@ausgrid.com.au).

Yours sincerely



**RICHARD GROSS**

Chief Executive Officer

## Appendix A: Our submission

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### Stakeholder engagement

Ausgrid is committed to working collaboratively with stakeholders during the ongoing F&A process and the upcoming 2019-24 distribution determination more generally.

We staged two workshops in mid-2016 in the lead up to our submission to the AER requesting for the F&A paper made as part of our 2014-19 distribution determination to be replaced.

We also held a teleconference on 20 March 2017 with stakeholders to discuss the preliminary F&A paper released by the AER. Representatives participated from the Energy & Water Ombudsman NSW, Ethnic Communities Council NSW, Public Interest Advocacy Centre, Energy Users Association of Australia, and the Council on the Ageing NSW. The views raised by stakeholders in relation to service classification, control mechanisms and incentive schemes have been incorporated into this submission.

## a. Classification of services - General

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### Overview

We broadly support the AER's classifications of services in its preliminary F&A paper. This is with the exception of the discussion in the preliminary F&A paper on how the new Rules relating to metering services will be implemented. We also suggest definition changes to 'common distribution services' as well as some 'connection services' and 'ancillary network services'. Ausgrid nonetheless notes that further changes or refinements may be required as implementation of the AER's Ring Fencing Guideline progresses.

### ***Common distribution services***

We support the AER's proposal to change the name of the service grouping formerly known as 'network services' to 'common distribution services'. Ausgrid agrees that this change in terminology will avoid the potential for confusion with defined terms in Chapter 10 of the National Electricity Rules (NER/Rules). Ausgrid also agrees with the scope of services and activities that the AER intends to capture by this service grouping.

However, given the key role that this service grouping plays in relation to the entire distribution determination, we consider it important to ensure the description is comprehensive, accurate and as unambiguous as possible in its interpretation. For this reason, we have suggested some amendments

to the description. For ease of reference, the table below compares the AER’s description in its preliminary F&A paper with the amended description we propose.

**Table 1 Definition of common distribution services**

AER’s preliminary F&A paper	Ausgrid’s proposed definition
<p>The suite of services and activities involved in operating and distributing electricity to customers safely and reliably in accordance with the National Electricity Law, National Electricity Rules and NSW jurisdictional requirements as a participant in the NEM and holder of a NSW distribution operator’s licence. For example, this includes planning, designing, constructing, augmenting, maintaining, repairing, managing and operating the network and network demand for distributor purposes.</p> <p>Common distribution services involves, but is not limited to, the following activities:</p> <ul style="list-style-type: none"> <li>• regulatory and pricing planning</li> <li>• demand management planning</li> <li>• management of environmental issues</li> <li>• asset relocations (not at customer's request)</li> <li>• vegetation management</li> <li>• works to fix damage to the network (including emergency recoverable works) or supporting another distributor during an emergency event.</li> <li>• dial before you dig services</li> <li>• external stakeholder management</li> <li>• call centres, enquiries and billing</li> <li>• performance monitoring.</li> </ul>	<p>The suite of services involved in the use of the distribution network for the conveyance of electricity (including the service that ensures the integrity of the related distribution system) and includes but is not limited to the following activities:</p> <ul style="list-style-type: none"> <li>• the planning, design, repair, maintenance, construction and operation of the distribution network;</li> <li>• the relocation of assets that form part of the distribution network but not relocations requested by a third party (including a customer);</li> <li>• works to fix damage to the network (including emergency recoverable works) or to support another distributor during an emergency event; and</li> <li>• network demand management for distributor purposes,</li> <li>• training internal staff and contractors undertaking direct control services</li> <li>• activities related to ‘shared asset facilitation’ of Ausgrid property</li> <li>• emergency disconnect for safety reasons and work conducted to determine if a customer outage is related to a network issue</li> </ul> <p>Such services do not include a service that has been separately classified including any activity relating to that service.</p>

The common distribution service grouping is intended to capture those services provided by a distributor in relation to the use of its distribution network for the conveyance of electricity (commonly known as ‘distribution use of system services’). Our proposed description contains three main parts. These are:

1. An overarching description of the services which is based on the definition of ‘distribution use of system service’ in Chapter 10 of the NER. We consider this to be a legally sound footing on

which to base the definition of common distribution services which is consistent with Ausgrid's regulatory and economic regulatory obligations as a distributor. In particular, it seeks to integrate the AER's service classification and the Rules under which we are regulated.

2. A list of the key activities that are directly or indirectly involved in providing the services captured by this service grouping. Consistent with the AER's approach to streamline the description, we have carefully assessed all existing activities and services and further tightened the existing description such that only the core set of activities which fall into the service group are listed. The exceptions are those activities that the AER has agreed should fall into this category but which may not readily appear that this is the case. These relate to services and activities involved in the relocation of assets forming part of the distribution network but which are not relocations requested by a third party (including a customer); works to fix damages to the network (including emergency recoverable works) and 'network demand management for distributor purposes'. The phrase 'for distributor purposes' in the last dot-point is intended to avoid the capture of an unregulated battery storage or micro-grid business which provides services that do not have a specific distribution purpose.
3. A sentence expressly excluding any other service that is separately classified but which may still meet the description of common distribution services. By including this express and specific exclusion, our intention is to ensure that services that are unclassified (such as aspects of connections) and therefore unregulated are not inadvertently captured by the description given to common distribution services. We consider this important to facilitate compliance with the AER's new Ring Fencing Guideline.

Where we have omitted aspects of the AER's definition in its preliminary F&A paper, this is because the general description above captures those services and activities. Overall, we consider the substance of our amended description to be unchanged from that proposed by the AER but consider our amendments will ensure the description is as accurate and as unambiguous as possible so that it can be applied with certainty for the entire regulatory control period.

### ***Emergency recoverable works***

We support the AER's preliminary position on moving emergency recoverable works to the definition of 'common distribution services'. Ausgrid notes that such services are currently not classified and therefore they are deemed to be an unregulated distribution services. We agree that to avoid complexity involving the introduction of the new Ring Fencing Guidelines, emergency recoverable works should be subsumed into the common distribution services and classified as a standard control services. This will avoid the need for us to set up a separate, ring-fenced business to perform work involving emergency maintenance or repair to the shared network.

Although we support the AER's preliminary position, Ausgrid wishes to put forward a different view in relation to cost recovery, or more precisely the mechanism to ensure that Ausgrid does not recover the costs (or part thereof) twice.

The AER states in its preliminary F&A paper that electricity distributors will be expected to seek recovery of the cost of emergency repairs from third parties where possible.<sup>1</sup> It then states the following:

If a distributor is successful in recovering the cost of the emergency repairs from a third party, this payment or revenue, would be netted off the regulatory asset base and treated like a capital contribution. This prevents distributors from recovering the cost of emergency repairs twice—as a standard control charge across the broader customer base and from the

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<sup>1</sup> AER, *Preliminary framework and approach - NSW*, March 2017, p. 21.

responsible third party. Going forward, we propose to adopt this approach across all NEM jurisdictions.<sup>2</sup>

We agree with the principle that electricity distributors should not be able to recover the cost of emergency repairs twice. However, Ausgrid wishes to clarify that the costs incurred for the work involved in undertaking emergency maintenance or repairs to the shared network involves the outlay of operating, as opposed to capital, expenditure. In addition, we are not certain that treating the revenue recovered from the liable party as capital contribution would achieve the objective of avoiding over-recovery of costs. This is because a capital contribution is an input into the tax asset base. It is not an input into regulatory asset base, for which DNSPs receive a return on and of capital.

In order for Ausgrid to be given a reasonable opportunity to recover our efficient costs of repairing damages, while putting in place protections against over-recovery, Ausgrid proposes that we include the full cost of emergency recoverable works in our total opex forecast in our upcoming regulatory proposal. Importantly, we would incorporate in this forecast an offset for the revenue we expect to recover from third parties found liable for causing damage to the shared network. In Ausgrid's view, this approach is:

- Consistent with the accounting treatment of these costs as operating expenditure.
- Consistent with the approach adopted in previous distribution determination under which emergency recoverable works were classified as standard control services.
- Consistent with the ex-ante regulatory framework and, as the AER noted, consistent with the incentives of this framework under which Ausgrid is incentivised under the efficiency benefit sharing scheme (EBSS) to make opex savings of this nature.

### ***Ancillary services***

Ausgrid is generally supportive of the AER's approach to ancillary network services in the preliminary F&A paper. We have, however, put forward definition changes for the AER to consider. These changes are driven by our experience in the 2014-19 regulatory period that some definitions for ancillary network services could be amended to better reflect the scope and manner of activities which are undertaken by Ausgrid. Each of the definition changes we put forward, along with detailed reasons, is set out in Appendix B of our submission.

### ***Public lighting***

We support the AER's classification of public lighting services as an alternative control service as well as the definition given to public lighting in the AER's classification of services table.

### ***Unregulated distribution services***

Ausgrid supports the AER's inclusion of 'distribution asset rental' and 'contestable metering support roles' as unregulated distribution services. However, we propose an edit to the definition of 'contestable metering support roles' so as to clarify that the initial metering coordinating role specified under the Rules is not a contestable metering service. See the next section of our submission for further discussion on this point.

We have also put forward 'neutral integrity testing' as a potential unregulated distribution service. This service is open to contestability since it can be performed by electrical contractors. More information about our position on unregulated services—and the classification of services more generally—is set out in Appendix B.

### ***Ring fencing***

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<sup>2</sup> AER, *Preliminary framework and approach - NSW*, March 2017, p. 21.

The AER's new Ring Fencing Guideline came into force on 1 December 2016, but electricity distributors, including Ausgrid, have been granted a compliance window until 1 January 2018, by which time existing services must comply with the Guideline.

The Guideline is aimed at clearly delineating the scope of network functions performed by an electricity distributor from its competitive or contestable activities. To do this, it requires the separation of monopoly and contestable services where an electricity distributor also offers services in a competitive market.

In terms of the F&A process, the Guideline is likely to have a significant impact on the positions the AER puts forward on service classification. This is because the scope of our ring fencing obligations only extends to services which have been classified as a direct control service.

We seek to engage further with the AER about the interaction between our ring fencing obligations, our ring-fencing compliance plan and the AER's position on service classification. As our engagement with the AER on the implementation of the Ring Fencing Guideline progresses, we anticipate that there may be a need to make refinements to our proposed classification of services set out in Appendix B

## b. Classification of services - Metering

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### Overview

We initially had a number of concerns regarding the AER's discussion of metering services.

The discussion in the preliminary F&A paper appears to show that the AER has misinterpreted key details about how the Power of Choice metering reforms will be implemented. This is particularly in relation to how electricity distributors will recover costs incurred in their role as *initial Metering Coordinator* (MC).

Based on our discussions with the AER on this issue, we are confident that the AER in fact shares our understanding of how the Power of Choice metering reforms will take effect. We nonetheless request that the AER clearly sets out its position in the final F&A paper in manner that reflects our shared understanding about how those metering reforms will be implemented.

In this section of our submission, we set out our understanding of the Power of Choice metering reforms and draw attention to areas of the discussion in the preliminary F&A paper that do not appear to align with the new Rules.

In its preliminary F&A paper, the AER is correct in stating that the new Rules are to be implemented in a way that will open up competition in metering services. However, this rule change was large and complex, and there are a number of important details in the preliminary F&A paper that could give the impression to stakeholders that the AER has misinterpreted how the Power of Choice metering reforms will be implemented. These details have important implications for the classification of type 5 and 6 metering services, and therefore must be addressed as part of the F&A process.

For example, while it is true that large customers will have the ability to choose their own MC, small customers will not have this choice.<sup>3</sup> Rather, it is a small customer's retailer that will be required to appoint the MC, who is then required to appoint a Metering Provider (MP) and Metering Data Provider (MDP).<sup>4</sup> Similarly, customers will not have a choice over the type of meter that is installed.<sup>5</sup> Finally, an important aspect of the rule change was to introduce a minimum service specification for meters which essentially means that all new or replacement meters at small customer installations that are installed after 1 December 2017 must be a type 4 or 4a meter. Since type 5 and 6 meters will gradually be phased out, and all these meters are currently owned by DNSPs, it is unlikely a market for associated metering services will develop. Rather, competition is likely to focus on the provision of type 4 metering services, while DNSPs will be required to continue to provide type 5 and 6 metering services.

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<sup>3</sup> While small customers will not be able to choose their MC when the new arrangements commence, the AEMC recommended in its final determination that the ability of small customers to appoint their own MC is reviewed three years after the commencement of the new Chapter 7 of the NER under the final rule.

<sup>4</sup> Whether or not small customers are able to choose their own metering coordinator will be reviewed three years after the new metering contestability rules take effect.

<sup>5</sup> Customers that refuse a type 4 meter may choose to have a type 4a meter installed, which meets the minimum service specification but is not communications enabled. While household customers generally cannot choose their meter, they will choose products and services that may require a new meter to be installed. Household customers will also be able to opt out of having a type 4 meter installed in certain (limited) circumstances where they have an existing, rule compliant type 5 or 6 meter.



For these reasons, elaborated on below, Ausgrid considers that type 5 and 6 metering services should continue to be classified as alternative control services. Specifically, we agree with the inclusion in the table in Appendix B of the “Types 5 and 6 meter reading, maintenance and data services” group, subject to a minor amendment to the definition to reflect that we are no longer required to replace meters.

This discussion focuses on why type 5 and 6 metering services should be classified as alternative control services. Comments on other metering services are provided in the preceding section of our submission headed “Classification of services — General”.

### **Ongoing need for type 5 and 6 metering services**

The AER notes that because distributors will no longer be permitted to install type 5 or 6 meters, “type 5 and 6 metering installation and meter provision services become redundant services and are no longer permitted under the NER”.<sup>6</sup>

This statement is not strictly correct. The new metering contestability rules still incorporate requirements for type 5 and 6 metering installations. While type 5 and 6 meters can no longer be installed after 1 December 2017 (by any entity, not just DNSPs), a number of metering services must still be performed for existing type 5 and 6 meters. This includes ongoing services such as meter reading (including routine reading, verification reading), data services (including estimation, validation, substitution, delivery and storage of metering data) and metering maintenance (including sample testing, meter testing and investigating malfunctions).

These legacy type 5 and 6 meters will continue to operate until either they need to be replaced (in which case they must be replaced with a type 4 meter), a retailer chooses to “deploy” a new type 4 meter, or a customer chooses a new product or service that requires a type 4 meter.

### **Obligation on DNSPs to provide type 5 and 6 metering services**

DNSPs are required under the NER to continue to provide type 5 and 6 metering services in their role as *initial MC*.<sup>7</sup> This is a transitional role to allow for the gradual introduction of metering contestability and the roll out of type 4 meters. On 1 December 2017, all LNSPs that were the responsible person for a type 5 or 6 metering installation must be appointed as the MC by the financially responsible Market Participant.<sup>8</sup> Importantly, the NER require that the terms and conditions on which a LNSP is appointed as MC under these transitional arrangements include terms as to price which are consistent with Chapter 6 and, where relevant, Chapter 11.<sup>9</sup> This implies that there is an expectation that services provided by LNSPs as the initial MC may continue to be regulated.

Moreover, LNSPs do not have a right to terminate their appointment as initial MC. Rather, they must continue in this role at a particular connection point until the earlier of: (1) the services cease to be classified by the AER as direct control services; and (2) a new MC is appointed by the retailer with respect to that connection point.<sup>10</sup> In addition, the NER contain a clarifying note regarding the continuation of the appointment of the initial MC as follows:

“The consequence of this provision is that the appointment or deemed appointment (as the case may be) will come to an end when a new or replacement metering installation is installed in accordance with clause 7.8.3 or 7.8.4 of new Chapter 7, provided that the AER does not classify services provided

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<sup>6</sup> AER, *Preliminary framework and approach, Ausgrid, Endeavour Energy and Essential Energy Regulatory control period commencing 1 July 2019*, March 2017, p22.

<sup>7</sup> Initial MC is a defined term in the NER, meaning a Local Network Service Provider which is appointed as Metering Coordinator under clause 11.86.7(a) or deemed to be appointed as Metering Coordinator under paragraph 11.86.7(c).

<sup>8</sup> NER, clause 11.86.7(a).

<sup>9</sup> NER, clause 11.86.7(d)(1).

<sup>10</sup> NER, clause 11.86.7(k).

by small customer metering installations [i.e. type 4 meter] or type 4A metering installations as direct control services.”

Again, this suggest that the AEMC’s intention was that services provided by LNSPs as the initial MC for type 5 and 6 meters would remain regulated.

As *initial MC* at a connection point, the LNSP is responsible for the:<sup>11</sup>

- 1) provision, installation and maintenance of a *metering installation* in accordance with Part D of Chapter 7 of the NER;
- 2) except as otherwise specified in clause 7.5.1(a), collection of *metering data* with respect to the *metering installation*, the processing of that data, retention of *metering data* in the *metering data services database* and the delivery of the *metering data* to the *metering database* and to other persons in accordance with Part E of Chapter 7 of the NER; and
- 3) managing access to and the security of the *metering installation*, services provided by the *metering installation*, *energy data* held in the *metering installation* and *metering data* from the *metering installation* in accordance with Part F of Chapter 7 of the NER.

Ausgrid must be able to recover the costs associated with providing these services.

### **A market for type 5 and 6 metering services is unlikely to develop**

The metering contestability arrangements are primarily aimed at introducing competition into the market for type 4 metering services for small customers. While possible, a competitive market for type 5 and 6 metering services is unlikely to develop. The AEMC acknowledged this in its Final Determination:<sup>12</sup>

“The final rule does not prevent a retailer (as the FRMP) appointing a party other than the DNSP to be the Metering Coordinator for existing type 5 and 6 metering installations. However, this is unlikely to generate a large market for the provision of services for type 5 and 6 metering installations because:

- All new and replacement metering installations for small customers must meet the minimum services specification. This means that existing type 5 and 6 metering installations will gradually be replaced as they become faulty, the small customer takes up a product or service that requires a new meter to be installed, or the retailer carries out a "new meter deployment" or "maintenance replacement"...
- While the retailer may replace the LNSP as Metering Coordinator where the LNSP is the initial Metering Coordinator, neither the retailer nor the incoming Metering Coordinator will acquire the existing meter at the premises as result of the retailer’s appointment of another Metering Coordinator. Accordingly, a new Metering Coordinator would only be able to take over the provision of type 5 or 6 metering services from a LNSP if it also reached a commercial agreement to acquire or lease the existing meter or appoint the LNSP as the Metering Provider (subject to any applicable AER ring-fencing requirements).”

For these reasons, it is unlikely that any entity other than a LNSP will be appointed as MC at a connection point with a type 5 or 6 meter, and therefore a market for type 5 and 6 metering services is unlikely to develop. Further, Ausgrid is in a unique situation where we have approximately 700,000 type 5 meters which are manually read, and there are no other metering data providers that have the capability or capacity to read this number of type 5 meters.

### **Classification of type 5 and 6 services**

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<sup>11</sup> NER, clause 7.3.1(a).

<sup>12</sup> AEMC, *Expanding competition in metering and related services, Rule Determination*, 26 November 2015, Sydney, p.125.

The AER notes initial views expressed by DNSPs that there should be transitional roles for the metering coordinator, provider and data provider services that should be regulated as alternative control services. However, the AER's initial position is to not classify these roles. The AER states:<sup>13</sup>

"...contestability in metering means there is significant potential to develop competition for the provision of these services. For example, to create a transitional metering coordinator service and classify it as an alternative control service may cause customers confusion about their ability to source a metering coordinator from the competitive market and set their own commercial arrangements."

As discussed above, the AEMC considered it unlikely that a market for type 5 and 6 metering services will develop. Further, only small customers have type 5 and 6 meters and these customers are not permitted to appoint their own MC; rather, their retailer as the financially responsible Market Participant must appoint the MC.<sup>14</sup> Consequently, there is no risk of confusion should these services remain regulated. In contrast, it would provide price and service certainty.

Further, the AER's preliminary position appears to be inconsistent with its previous views, expressed during the AEMC's consultation on their draft rule for contestable metering. At that time, the AER stated:<sup>15</sup>

"Requiring retailers to appoint the distributor as the initial Metering Coordinator where a customer has an existing regulated meter at the commencement of this rule... provides a smooth transition to competition by maintaining the terms and conditions including price of these services, as set in our regulatory determinations, until such a time as a customer receives a new meter provided on a competitive basis."

This suggests that the AER considered it appropriate to continue regulating type 5 and 6 metering services until the meter is replaced with a type 4 meter.

In addition, not classifying type 5 and 6 metering services could result in costly and unnecessary ring fencing requirements. The AER notes that under its preliminary position that metering services are not classified, these services will need to be ring fenced from the provision of direct control services. The AER acknowledges this may increase administrative costs for DNSPs, but consider "the benefits to customers in being about to secure services from a competitive market outweighs this cost".<sup>16</sup>

Unlike type 4 metering services, DNSPs have a regulatory obligation to continue to provide type 5 and 6 metering services in their role as initial MC. Importantly, the obligation lies with the DNSP as the LNSP, not with an affiliated entity. Further, requiring these services, which are unlikely to be competitively provided for reasons discussed above, to be ring fenced will simply increase costs to customers for what is essentially a transitional role.

In summary, Ausgrid considers that type 5 and 6 metering services should continue to be classified as alternative control services because:

- Ausgrid is obliged to provide these services as the LNSP at existing connection points with type 5 and 6 meters and so must be able to recover these costs;
- a market for these services is unlikely to develop; and

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<sup>13</sup> AER, *Preliminary framework and approach, Ausgrid, Endeavour Energy and Essential Energy Regulatory control period commencing 1 July 2019*, March 2017, p.24.

<sup>14</sup> NER, clause 7.6.2(a)(3).

<sup>15</sup> AER, *Rule changes – expanding competition in metering and related services, AER submission to Australian Energy Market Commission draft decision*, May 2015, p.4.

<sup>16</sup> AER, *Preliminary framework and approach, Ausgrid, Endeavour Energy and Essential Energy Regulatory control period commencing 1 July 2019*, March 2017, p.25.

- ring fencing these services, which will gradually be phased out, would simply increase costs for customers.

## c. Control mechanism

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### Overview

We support the continuation of a revenue cap for standard control services and a price cap for alternative control services. In our submission, we suggest that the standard control services formula should include a specific adjustment for the Demand Management Innovation Allowance the AER is currently designing. To align with the scope and application of the Rules, we request that the final F&A paper specifies that the formula for alternative control services will include a mechanism to recover approved pass through amounts.

### **Standard control services**

We support the AER's preliminary position to apply a revenue cap to Ausgrid's standard control services for the 2019-24 regulatory control period.

Ausgrid's standard control services are currently subject to a revenue cap, and our engagement with stakeholders has not revealed an immediate need to change this form of control. Some stakeholders have nonetheless noted that with increasing emphasis on cost reflectivity, it may be appropriate to consider the application of a price cap in future regulatory periods.

We agree with our stakeholders that the form of control should be reviewed in the medium to longer term. However, given our medium term outlook is for stable to modest growth in overall energy consumption, it is likely that pricing outcomes for customers will be similar under a price cap and revenue cap. In this context, we consider a revenue cap remains appropriate as we transition towards cost reflective network tariffs.

While Ausgrid supports the application of a revenue cap, we wish to comment on the control mechanism formula specified by the AER in its preliminary F&A paper. In our view:

- the formula should include a standalone factor to cater for the 'true up' of unspent or unapproved revenue from the demand management innovation allowance (DMIA).<sup>17</sup> If the AER considers a standalone factor is not needed, then we request that the AER confirms that this adjustment is subsumed by the 'I' factor in the control mechanism formulae.
- the AER's final F&A paper should specify the adjustments that are likely to be included in the  $B_t$  factor

We consider a standalone DMIA adjustment factor is necessary to facilitate the return to customers of any unspent or unapproved revenue received under the demand management allowance the AER is currently designing for the 2019-24 regulatory control period. In terms of the  $B_t$  factor, we note that the AER states that it is 'likely to incorporate but [will] not [be] limited to adjustments for under and over accounts. To be decided in the distribution determination'. We consider greater clarity regarding the actual contents of the  $B_t$  factor in the AER's final F&A paper, and in the AER's final distribution determination if needed,<sup>18</sup> would improve regulatory certainty and aid stakeholder engagement in relation to the control mechanism formula.

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<sup>17</sup> See Ausgrid's request for a replacement Framework and Approach paper, 25 October 2016, p5.

<sup>18</sup> This is because clause 6.12.3(c1) of the Rules states that the formulae that gives effect to the control mechanism specified in the distribution determination must be as set out in the relevant framework and approach paper unless unforeseen

## **Alternative control services**

Ausgrid supports the AER's preliminary position to apply caps on the prices of individual services in the 2019-24 regulatory control period to each of our alternative control services (type 5-6 metering, public lighting, and ancillary network services).

Our alternative control services are currently subject to caps on individual prices. We agree with the AER that the continuation of this control mechanism best meets the factors set out in clause 6.2.5(d) of the Rules. Stakeholders have also not raised any issues with the price cap approach to alternative control services.

In terms of the control mechanism formula, Ausgrid seeks greater clarity regarding the AER's intention to allow for the recovery of approved pass through amounts. We note that the formula specified in the preliminary F&A paper includes an  $A_t^i$  factor which the AER states is 'likely to include, but not limited to adjustments for any approved cost through amounts (positive or negative) with respect to regulatory year t'.<sup>19</sup> We consider this encouraging but request that the AER's final F&A paper, and in the AER's final distribution determination if needed, clearly states that pass through events will be included in the control mechanism for alternative control services. Ausgrid notes that this would be consistent with the Rules relating to pass through events—which apply to direct control services (i.e. standard and alternative control services).<sup>20</sup>

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circumstances justify departure.

<sup>19</sup> AER, *Preliminary framework and approach - NSW*, March 2017, p. 51.

<sup>20</sup> Refer to Chapter 10 of the NER – definitions of *negative change event*, *positive change event*, *regulatory change event*, *tax change event*, *service standard event* and *retailer insolvency event* all refer to *direct control services*.

## d. Incentive schemes

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### Overview

We are generally supportive of the AER's preliminary position to apply the service target performance incentive scheme (STPIS), the efficiency benefit sharing scheme (EBSS), and the capital expenditure sharing scheme (CESS) in the 2019-24 regulatory control period. Ausgrid also offers in principle support for the AER's preliminary position to apply the new demand management incentive scheme (DMIS) and demand management innovation allowance (DMIA) that are currently being designed.

### ***Service target performance incentive scheme***

We support the AER's preliminary position to continue to apply the national STPIS to Ausgrid in the 2019-24 regulatory control period. By providing incentives to maintain and improve existing levels of reliability and customer service performance, the STPIS plays an important role in promoting efficient price and non-price outcomes, in the long term interests of consumers.

In terms of how the STPIS will apply in the 2019-24 regulatory control period, Ausgrid seeks greater clarity regarding the proportion of revenue placed at risk. The preliminary F&A paper states that the AER intends to 'apply the scheme standard level of revenue at risk of NSW distributors at  $\pm 5$  per cent as we do not consider that a lower level would better meet the objectives of the NER'.<sup>21</sup> While this indicates that the AER's initial position is that  $\pm 5$  per cent of revenue will be placed at risk, the preliminary F&A paper also suggests that the percentage could be lower. This is by stating that the AER intends to 'set revenue at risk for each distributor **within the range**  $\pm 5$  per cent (emphasis added)'.<sup>22</sup>

Our preliminary position is that we would not be uncomfortable with the AER placing  $\pm 5$  per cent of revenue at risk under the STPIS. We note that a lower proportion of revenue ( $\pm 2.5$  per cent) was placed at risk in our 2015-19 regulatory control period. This, however, was a different phase in the implementation of the STPIS. In its 2015-19 determination the AER reasoned that a conservative level of revenue ( $\pm 2.5$  per cent) should be placed at risk 'given the implementation issues with transitioning to a new scheme'.<sup>23</sup> We consider these implementation issues have been resolved such that our preliminary position is that we would not be uncomfortable with the revenue at risk for the 2019-24 regulatory control period set at the standard level under the scheme; that is,  $\pm 5$  per cent. Noting the symmetrical nature of the incentives under the STPIS, our engagement with stakeholders has revealed support for placing  $\pm 5$  per cent of revenue at risk under the scheme. Nevertheless, as required, Ausgrid will specify how the STPIS should apply to us for the period commencing 1 July 2019 in the regulatory proposal to be submitted in January 2018.

We are generally supportive of the remaining positions the AER put forward in its preliminary F&A paper regarding the STPIS. Ausgrid agrees with the AER that performance targets should be based on average performance over the last five years, as opposed to the current approach that uses trend analysis. Subject to further consultation with stakeholders, we also support the AER's initial position to apply the Value of Customer Reliability (VCR) values set out in the Australian Energy Market Operator's (AEMO) 2014 report.

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<sup>21</sup> AER, *Preliminary framework and approach - NSW*, March 2017, p. 57.

<sup>22</sup> AER, *Preliminary framework and approach - NSW*, March 2017, p. 54.

<sup>23</sup> AER, *Draft decision: Ausgrid distribution determination 2015-16 to 2018-19, Attachment 11: Service target performance incentive scheme*, November 2014, p. 11-13.

We consider improvements can be made to the current STPIS. In the course of our engagement, stakeholders have indicated that the telephone response time metric is not a meaningful indicator of customer service. Based on this feedback, we are in the process of working with stakeholders in exploring better measures of customer service. An option which stakeholders have found appealing is the running of a pilot scheme in parallel with the STPIS, which requires us to report on a new performance metric. This pilot scheme would not have any revenue at risk placed under it. However, the data we report in relation to it could be used to introduce targets for a new customer and stakeholder engagement performance metric in later regulatory control periods. The scope to approve small-scale incentive schemes under clause 6.6.4 of the NER could enable such a scheme.

The other change we wish to propose to the operation of the STPIS relates to amending the definition for telephone answering. Currently, the existing major event day (MED) definition does not take into account the overflow of calls in the days immediately following a major event. Ausgrid considers that the operational effectiveness of the STPIS would be improved if the period excluded from call response time calculations was lengthened to reflect the stress that is placed on call centres in the days following a major event.

We note that the AER's preliminary F&A paper contains a typographical error. Instead of stating that the network will be segmented according to the four STPIS feeder categories, the preliminary F&A paper provides that the AER will 'segment the network according [to] the urban and short rural feeder categories'<sup>24</sup> only. We understand that this typographical error will be corrected by the AER<sup>25</sup> in its final F&A paper by stating that for the purpose of the STPIS our network will be segmented according to the CBD, urban, short rural and long rural feeder categories.

## **EBSS**

Ausgrid supports the AER's preliminary position to apply the EBSS in the 2019-24 regulatory control period. We, however, wish to engage further with the AER about the factors it will take into account when deciding if the EBSS will actually apply as part of our 2019-24 distribution determination. On this issue, we consider the AER's position can be summarised by the following:

The use of the revealed opex in determining the opex allowance for the following period is a key factor in whether the EBSS will achieve its stated objective. If it is uncertain whether we will rely on a distributor's revealed costs in period one to forecast opex in period two, there will not be a strong reason to apply the EBSS in period one.<sup>26</sup>

Our understanding of the AER's position is that if it considers using the revealed costs approach to forecast our opex in the 2024-29 regulatory control period to be 'uncertain', then the AER is unlikely to apply the EBSS. In effect, this means the EBSS component of our 2019-24 distribution determination would be based on the level of certainty the AER has in applying a particular forecasting method in a future regulatory control period. Our principal concerns with this approach in the AER's preliminary F&A paper are that:

- The AER will not have a basis on which to consider how it will assess our 2024-29 opex since we are not due to submit our proposal for that period until January 2023.
- By pre-empting how it will assess our opex requirement before we submit our 2024-29 proposal the AER risks by-passing the 'propose-respond' model in Chapter 6 of the NER.
- The method the AER adopts to assess our opex requirement cannot be fully known by the AER given the length of time until the 2024-29 regulatory control period commences.

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<sup>24</sup> AER, *Preliminary framework and approach - NSW*, March 2017, p. 54.

<sup>25</sup> Email from the AER, dated 16 March 2017.

<sup>26</sup> AER, *Preliminary framework and approach - NSW*, March 2017, p. 63.



We consider the aim of the EBSS to provide a continuous incentive for electricity distributors to pursue efficiency improvements in opex and to share efficiency gains with customers to be an important feature of the incentives based regime administered by the AER. Ausgrid also appreciates the AER outlining its initial position regarding the application of the EBSS the 2019-24 regulatory control period. Early engagement on matters such as this improves regulatory certainty and provides valuable opportunities for stakeholders to participate in the AER's regulatory processes. We are nonetheless concerned about the AER's initial position, and wish to engage further with the AER about the application of the EBSS in the 2019-24 regulatory control period, particularly the basis upon which the AER decides whether to apply the scheme.

## **CESS**

We support the AER's preliminary position to apply the CESS in the 2019-24 regulatory control period. In terms of the operation of the scheme, we seek greater clarity from the AER about its position in the preliminary F&A paper that 'CESS rewards should be potentially excluded where a capex underspend arises from the deferral of capex between regulatory control periods, and customers do not receive any benefit from this capex deferral'.<sup>27</sup>

In our view, the CESS should encourage deferral of capital where opportunities arise. This is because customers generally receive lower prices when this occurs. We also have concerns about the feasibility of adjusting CESS rewards for the deferral of projects between periods. This is given that the AER's regulatory determinations do not specify the projects for which electricity distributors receive funding. Indeed, the AER's preliminary F&A paper states that 'it is not appropriate to consider our determinations as approving specific projects or programs'.<sup>28</sup> This is because 'while [the AER] may consider certain projects and programs in forming a view on the total capex forecast, we do not determine which projects and programs the network service provider should or should not undertake'.<sup>29</sup>

We agree with the AER that its determinations should not approve a list of specific projects or programs. Our concern, however, is that the absence of such a list makes it unclear as to how the AER intends to exclude from a CESS reward any capex underspends arising from the deferral of projects between regulatory control periods. Given the importance of the scheme in providing a continuous incentive for electricity distributors to pursue efficiency improvements in capex and to share efficiency gains with customers, we wish to consult further with the AER about this issue. This may include the design of a mechanism that is able to determine the projects which have been deferred as a result of the AER approving a substitute capex allowance.

## ***Demand management***

We note that the AER's preliminary position is to apply the new DMIS and DMIA currently being developed by the AER. Ausgrid offers in principle support for this initial position. We, however, have strong preferences with respect to the design of the new DMIS and DMIA.

Of the options presented in the AER's *Consultation Paper*, Ausgrid's strong preference is for the implementation of a net-market benefit sharing scheme. We have previously designed and sought approval for a scheme of this type. In our experience, the measurement of net-market benefits can be accurately performed, and should not be considered a barrier to implementation. With respect to the Allowance Mechanism, we have proposed a hybrid arrangement that combines a low and a high cap funding model. We consider the combination of these options would best achieve the Allowance Mechanism objective by encouraging both small and large scale research and development.

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<sup>27</sup> AER, *Preliminary framework and approach - NSW*, March 2017, p. 66.

<sup>28</sup> AER, *Preliminary framework and approach - NSW*, March 2017, p. 66.

<sup>29</sup> AER, *Preliminary framework and approach - NSW*, March 2017, p. 66.

Ausgrid is apprehensive about some of the options in the AER's *Consultation Paper*. In terms of the Scheme, Ausgrid would not support the introduction of targets. Our view is that a scheme of this type would not be workable. This is because any targets would be based on a distributor's requirements at a particular point in time, which are subject to change as a result of modifications in customer demand or new information. In relation to the Allowance Mechanism, we are concerned about the complexity associated with options that include complicated bidding arrangements. Our preference is for a simple, easy to administer funding model.

We intend to be an active participant in the AER's consultation on the new DMIS and DMIA and look forward to working with the AER and other stakeholders in relation to this important reform.

## e. Other issues

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### Overview

We wish to address a number of other issues in the AER's preliminary F&A paper relating to the application of expenditure forecast guideline, depreciation, and dual function assets.

### ***Expenditure forecast guideline***

We note that the Rules require the AER to specify its intention on the application of the expenditure forecast assessment (EFA) guideline in our 2019-24 distribution determination,<sup>30</sup> and that the AER's preliminary position is that the EFA guideline will apply.

At this stage, we have not formed a view as to whether we support the application of the EFA guideline. The way in which the AER assessed opex for the 2015-19 distribution determination – specifically the use of benchmarking – is currently subject to judicial review. We reserve our position on whether we support the application of the EFA guideline until that review is finalised.

In addition to requiring the AER to specify its intention regarding the EFA guideline, the Rules place a related requirement on Ausgrid under clause 6.8.2(c2). It requires that the regulatory proposal we submit for the 2019-24 regulatory control period must be 'accompanied by information required by the [EFA guideline] as set out in the F&A paper'.<sup>31</sup>

Ausgrid seeks clarification regarding our obligations under clause 6.8.2(c2). For the 2014-19 regulatory control period, we note that the AER's F&A paper (stage 2) stated that while the EFA guideline was developed to apply broadly to all electricity transmission and distribution businesses, some customisation of those data requirements may be required. It then stated 'these data customisation issues would be addressed through the Regulatory Information Notice (RIN)'.<sup>32</sup>

We agree with this approach and understand that the AER's intention has always been that in satisfying the requirements of the Reset RIN, we would also discharge our obligations under clause 6.8.2(2c) of the Rules with respect to the provision of information required by the EFA Guideline. Ausgrid has had discussions with AER's Officers on this particular issue and have received confirmation to such effect. To avoid any doubt, we propose that the AER formalises this confirmation at Officers' level in the final F&A paper and also in the final Reset RIN.

### **Benchmarking**

While the AER's preliminary F&A paper did not specifically address the issue of benchmarking, it has been an important issue in past determinations and we understand will be one of the tools the AER relies on to assess Ausgrid's proposed forecast expenditure. We consider the AER's approach to benchmarking to be a material issue for the 2019-24 distribution determination.

At the time of writing this submission, the Full Federal Court has yet to rule on a judicial review application from the AER which may have flow on effects in relation to the way in which the AER

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<sup>30</sup> NER, clause 6.8.1(2)(viii).

<sup>31</sup> NER, clause 6.8.2(c2).

<sup>32</sup> AER, *Stage 2 F&A paper: Ausgrid, Endeavour Energy, Essential Energy, 2014-19 regulatory period*, January 2014, p. 36.

applies its current benchmarking techniques. In our view, early clarification of the AER's approach is in the interests of all parties, including networks, investors and stakeholders.

Ausgrid wishes to extend our support to working with the AER to refine or improve its benchmarking approach, as well as in relation to issues associated with the consistency of data and the implications of cost allocation methodologies on opex outcomes. We are keen to work with the AER in relation to the collection of data relevant to its assessment of our 2019-24 opex forecast and any changes to the benchmarking models the AER intends to employ for the forthcoming regulatory control period.

We note that Energy Networks Australia (ENA) is in the process of initiating a work program to improve the quality of RIN data. Ausgrid intends to be an active participant in this work program and looks forward to working with both the ENA and the AER to improve the quality of data used for benchmarking.

## ***Depreciation***

Ausgrid supports the AER's preliminary position to use the forecast depreciation approach to establish the regulatory asset base at the commencement of the 2024-29 regulatory control period. To date, the AER has used forecast depreciation in determining the opening RAB on the basis that it provides for a balanced incentive framework. This is a well-established position, and one that Ausgrid agrees with. For this reason Ausgrid does not recommend departing from this approach for the 2019-24 regulatory period.

## **Dual function assets**

We support the AER's preliminary position to continue the approach in the 2014-19 regulatory control period of applying transmission pricing to Ausgrid's dual function assets.

In October 2016, Ausgrid wrote to the AER about our dual function assets. As required under the Rules, we advised that the value of our dual function assets as at 1 July 2016 was \$2,020 million (\$nominal). Ausgrid further advised that the equivalent value of our distribution assets was \$12,656 million (\$nominal), resulting in a dual function asset value of 14 per cent of the total RAB.

At 14 percent of our total RAB, we agree with the AER's preliminary F&A paper finding that the value of our dual function assets is material. Ausgrid also agrees with the preliminary F&A paper finding that the application of distribution pricing to our dual function assets would materially impact our distribution customers and affect consumption, production and investments. From a cost reflectivity perspective, we support the AER's position to apply transmission pricing to our dual function assets too. By doing this, large customers may be assigned to an individually calculated site-specific tariff and receive price signals that are more reflective of the economic costs of transmission network service provision.

## Appendix B: Ausgrid’s response to preliminary service classification

Our submission suggests definition changes to some services in the AER’s preliminary F&A paper. To do this, we have used the classification of services table in the AER’s preliminary F&A paper as our starting point, with our suggested edits highlighted in “track changes”.

Service group/Activities included	Further description (if any)	Current Classification 2014–19	Proposed classification 2019–24	Ausgrid comments
<b>Common distribution services</b>				
Common distribution services (formerly 'network services')	<p><u>The suite of services involved in the use of the distribution network for the conveyance of electricity (including the service that ensures the integrity of the related distribution system) and includes but is not limited to the following activities:</u></p> <ul style="list-style-type: none"> <li><u>the planning, design, repair, maintenance, construction and operation of the distribution network;</u></li> <li><u>the relocation of assets that form part of the distribution network but not relocations requested by a third party (including a customer);</u></li> <li><u>works to fix damage to the network (including emergency recoverable works) or to support another distributor during an</u></li> </ul>	Standard control	Standard control	See Appendix A “Classification of services — General” of our submission.

emergency event; and

- network demand management for distributor purposes.
- training internal staff and contractors undertaking direct control services
- activities related to 'shared asset facilitation' of Ausgrid property
- emergency disconnect for safety reasons and work conducted to determine if a customer outage is related to a network issue

Such services do not include a service that has been separately classified including any activity relating to that service.

~~The suite of services and activities involved in operating and distributing electricity to customers safely and reliably in accordance with the National Electricity Law, National Electricity Rules and NSW jurisdictional requirements as a participant in the NEM and holder of a NSW distribution operator's licence. For example, this includes planning, designing, constructing, augmenting, maintaining, repairing, managing and operating the network and network demand for distributor purposes.~~

Common distribution services involves, but is not limited to, the following activities:

- regulatory and pricing planning
- demand management planning
- management of environmental issues
- asset relocations (not at customer's request)
- vegetation management
- works to fix damage to the network (including emergency recoverable works) or supporting another distributor during an emergency event.
- dial before you dig services
- external stakeholder management
- call centres, enquiries and billing
- performance monitoring.

## Ancillary services

Design related services	<p>Activities includes:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> processing preliminary enquiries requiring site specific or written responses</li> <li><input type="checkbox"/> provision of design information, design rechecking services in relation to connection and relocation works provided</li> </ul>	Alternative control	Alternative control (specific monopoly service)	<p>Some of the activities grouped under this fee are not aligned to the 'design related services'. To address this, we have created a "Connection application related services" grouping and moved some of these activities to it.</p> <p>We have also moved the 'specialist services' activity to 'Access permits, oversight and miscellaneous services'.</p>
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contestably-

- work of an administration nature relating to work performed by Level 1 and Level 3 ASPs, including processing work
- the provision of engineering consulting (related to shared network)
- specialist services where the design is non-standard, technically complex or environmentally sensitive and any enquiries related to distributor assets
- assessing connection applications or a request to undertake relocation of network assets as contestable works and preparing offers.

Connection application related services

Activities includes:

- assessing connection applications or a request to undertake relocation of network assets as contestable works and preparing offers
- processing preliminary enquiries requiring site specific or written responses
- undertaking planning studies and associated technical analysis to help determine suitable/feasible connection

Alternative control

Alternative control (specific monopoly service)

Proposed new service grouping.

Some of these activities were included in 'design related services' in the AER's preliminary F&A. We have split them out into a new, standalone service grouping. This will lead to greater alignment between the 'service group' and 'further description' columns.

We have also deleted the services groups 'site inspection' and 'registered participant support services' and made them activities under this proposed new service grouping.



options for further consideration by proponents

- site inspection in order to determine the nature of the connection service sought by the connection applicant
- registered participant support services

Contestable network commissioning and decommissioning	The commissioning and decommissioning of network equipment associated with ASP Level 1 contestable works. Includes equipment checks, tests and activities associated with setting or resetting network protection systems and the updating of engineering systems.	Alternative control	Alternative control (specific monopoly service)	
<u>Access permits, <del>and</del> oversight and miscellaneous services</u> <u>Multipurpose network services</u>	<p>Activities include:</p> <ul style="list-style-type: none"> <li>• a distributor issuing access permits or clearances to work to a person authorised to work on or near distribution systems including high and low voltage.</li> <li>• a distributor issuing confined space entry permits and associated safe entry equipment to a person authorised to enter a confined space.</li> <li>• a distributor providing access to switch rooms, substations and the like to a non-LNSP party who is accompanied and supervised by a distributor's staff member. May also include a distributor</li> </ul>	Alternative control	Alternative control (specific monopoly service)	Proposed adjustments include renaming this services grouping and moving some services from other groups into this one.

providing safe entry equipment (fall-arrest) to enter difficult access areas.

- specialist services where the design is non-standard, technically complex or environmentally sensitive and any enquiries related to distributor assets
- fFacilitation of generator connection and operation on the network
- facilitation of activities within clearances of Ausgrid's assets, including physical and electrical isolation of assets
- provision of approved materials/equipment to ASPs for connection asset
- training ASPs for authorisation to work on or near the Ausgrid network
- work undertaken to determine the cause of a customer fault

Notices of arrangement

Work of an administrative nature performed by a distributor where a local council requires evidence in writing from the distributor that all necessary arrangements have been made to supply electricity to a development. This may include receiving and checking subdivision plans and 88 B instruments, copying

Alternative control

Alternative control  
(specific monopoly service)

	subdivision plans, checking and recording easement details, assessing supply availability, liaising with developers if errors or changes are required and preparing notifications of arrangement.			
Property services	<p>Property tenure services related to obtaining deeds of agreement, deeds of indemnity, leases, easements or other property tenure in relation to property rights associated with connection or relocation.</p> <p>Conveyancing inquiry services relating to the provision of property conveyancing information at the request of a customer.</p>	Alternative control	Alternative control (specific monopoly service)	
Site establishment services	<p><u>Activities includes:</u></p> <ul style="list-style-type: none"> <li><u>sSite establishment services</u>, including liaising with the Australian Energy Market Operator (AEMO) or market participants for the purpose of establishing NMIs in market systems, for new premises or for any existing premises for which AEMO requires a new NMI and for validation of and updating network load data. This includes processing and assessing requests for a permanently un-metered supply device.</li> <li><u>sSite alteration, updating and maintaining national metering identifier (NMI) and associated data in market systems</u></li> </ul>	Alternative control	Alternative control (specific monopoly service)	<p>This fee is associated with establishing NMI information in market systems. Other proposed new services are related to adjusting this NMI information for various reason.</p> <ul style="list-style-type: none"> <li>• Site Alteration Service,</li> <li>• NMI Extinction Services</li> <li>• Correction of metering and market billing data</li> </ul> <p>This will remove the need for three other proposed stand-alone groups.</p>

- NMI extinction, processing a request by the customer or their agent for permanent disconnection and the extinction of a NMI in market systems
- cConfirming or correcting metering or network billing information in market B2B or network billing systems, due to insufficient or incorrect information received from retailers or metering providers

Networks safety services	Includes provision of traffic control services by the distributor where required, fitting of tiger tails, high load escort, night watch (private security and flood lighting services), de-energising wires for safe approach (e.g. for tree pruning).	N/A	Alternative control (potentially contestable)
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Customer vegetation defect works	Work involved in managing and resolving pre-summer bush fire inspection customer vegetation defects where the customer has failed to do so.	N/A	Alternative control (specific monopoly service)
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Network tariff change request	When a retailer's customer or retailer requests an alteration to an existing network tariff (for example, a change from a Block Tariff to a Time of Use tariff), the distributors conduct tariff and load analysis to determine whether the customer meets the relevant tariff criteria. The distributors also process changes in their IT systems to reflect the tariff change.	Alternative control	Alternative control (specific monopoly service)
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Recovery of debt collection costs - dishonoured transactions	The incurrance of costs, including bank fees by a distributor resulting from the dishonour of a customer or ASP's cheques tendered in payment of network related services.	Alternative control	Alternative control (specific monopoly service)	
Services provided in relation to a Retailer of Last Resort (ROLR) event	The distributors may be required to perform a number of services as a distributor when a ROLR event occurs. For example:  Preparing lists of affected sites and reconciling data with AEMO listings, arranging estimate reads for the date of the ROLR event, preparing final invoices and miscellaneous charges for affected customers, extracting customer data, providing it to the ROLR and handling subsequent enquiries.	Alternative control	Alternative control (specific monopoly service)	
Planned Interruption – Customer requested	Where the customer requests to move a planned interruption and agrees to fund the additional cost of performing this distribution service outside of normal business hours.	N/A	Alternative control (specific monopoly service)	
Attendance at customers' premises to perform a statutory right where access is prevented.	A follow up attendance at a customer's premises to perform a statutory right where access was prevented or declined by the customer on the initial visit. 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).	Alternative control	Alternative control (specific monopoly service)	
Inspection services - Private electrical installations and	Inspection of and reinspection by a distributor of:	Alternative control	Alternative control (specific monopoly service)	The word 'alternative' has been replaced with 'accredited' to reflect the

<del>accredited alternative</del> service providers (ASPs)	<ul style="list-style-type: none"> <li>private electrical wiring work undertaken by an electrical contractor</li> <li><del>ASP-contestable connection, relocation -and service relocation</del> works</li> </ul> <p><del>including</del> investigation, review and implementation of remedial actions that may lead to corrective and disciplinary action of an ASP due to unsafe practices or substandard workmanship.</p>		service)	<p>correct name for ASPs.</p> <p>Minor editorials made to improve clarity and ease of understanding</p> <p>We also wish to confirm that pricing items for this service could cover the inspection/investigation costs (for NECF purposes) for wrong labelling, cross-wiring issues and restoring network devices that have been inappropriately removed by electrical contractors.</p>
Authorisation of ASPs <del>and associated administrative services</del>	Includes annual authorisation of individual employees and sub-contractors of ASPs and additional authorisations at request of ASP and other administrative services performed by the distributor relating to work performed by an ASP	Alternative control	Alternative control (specific monopoly service)	The administration service activities grouped under this fee are not aligned to ASP authorisation. They are associated with administration by the DNSPs of their work associated with design and construction of contestable works. Propose moving the administration service to “design and construction related services grouping
<u>Recoverable works</u>	<u>One-off minor works requested by customers and which relate to activities that only Ausgrid can perform as the local network service provider in our region.</u>	<u>N/A</u>	<u>Alternative control (specific monopoly service)</u>	Unclassified to date but due to safety and network and security concerns, Ausgrid proposes an ACS classification.

## Metering services

Type 1-4 metering services	Type 1 to 4 meters and supporting services are competitively available. <sup>33</sup>	Unclassified	Unclassified
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<sup>33</sup> NER, cl. 7.2.3(a)(2) and 7.3.1.A(a).

Type 5 and 6 metering provision (~~before up to 1 July 2015~~ up to 30 November 2017)

Distributors may recover the capital cost of type 5 and 6 metering equipment installed ~~up to before 30 November~~ up to 30 July 2017.

Alternative control

Alternative control (specific monopoly service)

Amendment needed to ensure the recovery of capital cost incurred by Ausgrid up to 30 November 2017. Up until 30 November 2017, Ausgrid remains the 'responsible person' for Type 5 and 6 meters. In accordance with this role, we are required to replace faulty Type 5 and 6 meters when they fail. For us to recover our costs, the actual capex we spend on making such replacements will need to be rolled forward into our proposed metering RAB as of 1 July 2019. Only metering replacement capex incurred between 1 July 2015 to 30 November 2017 will be included in that roll forward into the existing meter asset value as at 30 June 2015 (opening meter RAB). For avoidance of doubt, meter costs paid by customers after 1 July 2015 are not included in this roll forward and hence will not form part of the capital charge.

Type 7 metering services

Administration and management of type 7 metering installations in accordance with the NER and jurisdictional requirements. Includes the processing and delivery of calculated metering data for unmetered loads, and the population and maintenance of load tables, inventory tables and on/off tables.

Standard control

Standard control

Meter reading and testing

Meter reading and testing services include:

- Special meter reading for type 5 and 6 meters and move in and move out metering reading (type

Alternative control

Alternative control (specific monopoly service)

We wish to confirm that a site visit pricing item will be permitted for this service (and others where relevant) where our access to the site to provide the service has been denied or restricted. Similar to the

- 5 and 6 meters)
- Type 5 meter final read on removed type 5 metering equipment
- Meter test (for type 5 and 6 meter)
- Types 5-7 non-standard meter data services
- Type 5 and 6 current transformer testing
- Off peak conversion

reconnection/disconnection service which lists site visit only as an example.

Types 5 and 6 meter reading, maintenance and data services

Meter maintenance covers works to inspect, test, maintain and, repair and replace meters. Meter reading refers to quarterly or other regular reading of a meter. Metering data services are those that involve the collection, processing, storage and delivery of metering data and the management of relevant NMI Standing Data in accordance with the Rules.

Alternative control

Alternative control (specific monopoly service)

DNSPs are no longer required to replace meters following the implementation of metering contestability. See section X of our submission for further detail on the need for this service to be classified as an alternative control service.

Emergency maintenance of failed metering equipment not owned by the network

The distributor is called out by the customer due to a power outage where an external metering provider's metering equipment has failed or an outage has been caused by the metering provider and the distributor has had to restore power to the customer's premises. This may result in an unmetered supply arrangement at this site. This fee will also be levied where a metering provider has requested the distributor

Alternative control

Alternative control (specific monopoly service)

To provide greater certainty, we have added an additional sentence to clarify that this charge will be levied where Ausgrid is called out but no fault is found.



to check a potentially faulty network connection and when tested by the distributor, no fault is found.

Meter recovery - type 5 and 6 current transformer metering	At the request of the customer or their agent to remove a type 5 or 6 current transformer meter where a permanent disconnection has been requested.	N/A	Alternative control (specific monopoly service)	
Distributor arranged outage for purposes of replacing metering	At the request of a retailer or metering coordinator provide notification to affected customers and facilitate the disconnection/reconnection of customer metering installations where a retailer planned interruption cannot be conducted.	N/A	Alternative control (specific monopoly service)	
<del>Site alteration service</del>	<del>Site alteration services updating and maintaining national metering identifier (NMI) and associated data in market systems</del>	<del>N/A</del>	<del>Alternative control (specific monopoly service)</del>	<p>We propose that this service group is subsumed by the 'site establishment services' grouping above.</p> <p>This service grouping (site alteration services) relates to work involved in establishing NMI information in market systems, which is already captured by 'site establishment services'.</p> <p>To avoid any doubt, we have included the definition given to 'site alteration services' as an activity under the 'site establishment services' grouping.</p>
<del>NMI extinction fee</del>	<del>At the request of the customer or their agent processing a request for permanent disconnection and the extinction of a NMI in market systems</del>	<del>N/A</del>	<del>Alternative control (specific monopoly service)</del>	<p>We propose that this service group is subsumed by the 'site establishment services' grouping above.</p> <p>This service grouping (NMI extinction fee) relates to work relating to establishing NMI information in market</p>

systems, which is already captured by 'site establishment services'.

To avoid any doubt, we have included the definition given to 'NMI extinction fee' as an activity under the 'site establishment services' grouping.

We propose that this service group is subsumed by the 'site establishment services' grouping above.

This service grouping (correction of metering and market billing data) relates to work involved in establishing NMI information in market systems, which is already captured by 'site establishment services'.

To avoid any doubt, we have included the definition given to 'correction of metering and market billing data' as an activity under the 'site establishment services' grouping.

As the competitive meter rollout occurs the existing type 5 or 6 meters may need to be disposed. Our position is that these meters can be disposed of by the party which removes them (i.e. Metering provider working for a Metering Co-ordinator). It would impose disposal costs on the DNSP (and its remaining metering customers) if the meter was unnecessarily returned to the DNSP to dispose and recover the costs of this through the type 5 and 6 metering charges.

We wish to understand the AER's views on this issue. If meters are returned to

~~Correction of metering and market billing data~~

~~Confirming or correcting metering or network billing information in market B2B or network billing systems, due to insufficient or incorrect information received from retailers or metering providers.~~

~~N/A~~

~~Alternative control (specific monopoly service)~~

Meter disposal

DNSPs to dispose of should a charge be levied by the DNSP? Would this be an ancillary network service or an unregulated charge?

## Connection services

Premises connection assets	<p>Includes any additions or upgrades to the connection assets located on the customer's premises which are contestable (Note: excludes all metering services).</p> <p>Premises connection assets can be further described as:</p> <p>A. Design and construction of premises connection assets (where these services are provided contestably)</p> <p>B. Part design and construction of connection assets that are not available contestably (generally as a result of safety, reliability or security reasons). Those parts of project works that are performed and funded by the distributor.</p>	A. Unclassified	A. Unclassified
		B. Standard control	B. Standard control

Extensions	<p>An enhancement required to connect a power line or facility outside the present boundaries of the transmission or distribution network owned or operated by a Network Service Provider that is:</p> <p>A. undertaken by an ASP on behalf of a customer</p> <p>B. undertaken by a customer but partly funded by a NSP (NSP</p>	A. Unclassified	A. Unclassified
		B. Unclassified/standard control based on contribution (see	B. Unclassified/standard control based on contribution (see

	contribution would be classified as a standard control service while the customer funded component of the service would be unclassified.)	previous column) C. Standard control	further description) C. Standard control	
	C. undertaken by a network service provider			
Augmentations	A. Any shared network enlargement/enhancement undertaken by a distributor which is not an extension  B. Any shared network enlargement/enhancement undertaken by a customer, but partly funded by a NSP (NSP contribution would be classified as a standard control service while the customer funded component of the service would be unclassified)  C. Any shared network enlargement/enhancement undertaken by a customer	A. Standard control  B. Unclassified/standard control based on contribution (see previous column)  C. Unclassified	A. Standard control  B. Unclassified/standard control based on contribution (see further description)  C. Unclassified	
<del>Registered participant support services</del>	<del>Services and information provided by the distributor and proposed market participants associated with connection arrangements and agreements made under Chapter 5 of the NER.</del>	<del>N/A</del>	<del>Alternative control (specific monopoly service)</del>	We have moved this definition to the ANS 'Connection application related services" grouping. We consider the relevant activities (support services) are more aligned to ANS. Our view is that connection services should be limited to activities that involve making a connection, extending or augmenting the network.
<del>Site inspection</del>	<del>Site inspection services in order to determine the nature of the connection service sought by the connection applicant.</del>	<del>N/A</del>	<del>Alternative control (specific monopoly service)</del>	We have moved this definition to the ANS 'Connection application related services" grouping. We consider the relevant activities (site inspection) are

more aligned to ANS. Our view is that connection services should be limited to activities that involve making a connection, extending or augmenting the network.

Facilitation of generator connection and operation on the network	Includes connection/disconnection of generator to distributor's assets and any ongoing requirements to facilitate its operation.	N/A	Alternative control (potentially contestable)	This service is related to the DNSP connecting a mobile generator on the network for the purposes of providing temporary supply.  Suggest that this service is more aligned to the "access permits, oversight and specialist services" grouping proposed above.
Reconnections/Disconnections	<p>Disconnection and/or reconnection services (some provided in accordance with the National Energy Retail Rules). For example:</p> <ul style="list-style-type: none"> <li>• Disconnection visit (site visit only)</li> <li>• <u>Disconnection visit (disconnection completed - technical)</u></li> <li>• <u>Disconnection visit (disconnection completed)</u></li> <li>• Pillar box/pole top disconnection – completed</li> <li>• Reconnection/disconnection outside of business hours</li> <li>• <u>Vacant property—(site visit only)</u></li> <li>• <u>Vacant property disconnection (disconnection complete)</u></li> <li>• Shared service fuse replacement</li> </ul>	Alternative control	Alternative control (specific monopoly service)	<p>Suggest that this service is moved into ancillary service. Refer to metering services for selection of an appropriate group.</p> <p>We wish to confirm that the examples listed are not exhaustive and additional pricing items could be included at the time of the determination. For instance, a security escort is occasionally required for this service and in such instances we would seek to recover this cost from the customer.</p> <p>Also, we wish to confirm that a DNSP is obliged to provide the service (in this case 'reconnection/disconnection') but not necessarily every pricing item listed by way of example in the service description. This is because some DNSPs may not have available resources to provide all pricing items associated with a particular service.</p>

- Rectification of illegal connections
- Temporary connections
- Remove or reposition connection
- Single phase to three phase

## Public lighting

Public lighting	Provision, construction and maintenance of public lighting and emerging public lighting technology	Alternative control	Alternative control
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## Unregulated distribution services

Distribution asset rental	Rental of distribution assets to third parties (e.g. office space rental, pole and duct rental etc.).	N/A	Unclassified
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Contestable metering support roles	Includes metering coordinator <u>(except where the DNSP is the initial metering coordinator)</u> , metering data provider and metering provider for meters installed or replaced after 1 December 2017.	N/A	Unclassified	To clarify that the initial metering coordinating role is not a contestable metering service.
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<u>Neutral Integrity Testing</u>	<u>Where customers request Endeavour Energy investigate the occurrence of mild electric shocks within a customer's premises to determine whether the fault exists within the customer's installation or on the network. A fee would be levied where the fault is within the customer's installation.</u>	<u>N/A</u>	<u>Unclassified or Alternative control</u>	<p>We understand that Endeavour Energy has raised Neutral Integrity Testing as a potential service.</p> <p>This service can be performed by electrical contractors. It could therefore be considered an unregulated distribution service however it may not be practical to offer this service if it is subject to ring-fencing.</p> <p>If the AER considers this service should</p>
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be subject to price regulation and it may be well suited to inclusion within the 'networks safety services' ancillary network service.

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