

15 February 2012

Mr Warwick Anderson
General Manager – Network Regulation Branch
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Dear Mr Anderson

CLASSIFICATION OF ELECTRICITY DISTRIBUTION SERVICES IN THE ACT AND NSW

Endeavour Energy is pleased to provide its response to the AER Consultation Paper titled: *Matters relevant to the framework and approach ACT and NSW DNSPs 2014-2019 – Classification of electricity distribution services in the ACT and NSW.*

Attached are Endeavour Energy's preliminary positions on the classifications of the services identified in the AER's consultation paper. These positions are preliminary as I note that the AER is also consulting on the Connection Charging Guideline. It will be important for there to be consistency between the classification of services and the connection charging guideline.

As discussed in the accompanying attachment, there are also a number of services where further detailed analysis will be required before a decision can be reached as to the most appropriate classification for those services.

In forming a view as to the most appropriate classification for the various services identified in the consultation paper, particularly those that relate to connection and metering services, it will be important for the AER to recognise and consider the Accredited Service Provider Scheme and how it operates in NSW. NSW is the only jurisdiction with such a Scheme and hence trying to achieve consistency of service classification across jurisdictions may be difficult to achieve and may not be in the best interests of the customers in NSW.

If you would like to discuss any of these matters further, please contact our Manager Network Regulation, Mr. Michael Martinson, on (02) 9853 4375.

Yours sincerely,



Joe Pizzinga
Chief Financial Officer

Attachment 1
Endeavour Energy Preliminary Positions

Matters relevant to the framework and approach ACT and NSW DNSPs
2014 - 2019

Classification of electricity distribution services in the ACT and NSW

General Comments

Endeavour energy notes that the National Electricity Rules allow the AER to group distribution services together for the purposes of classification. Generally, the AER has grouped services as shown below and a service classification has been applied to each group.

- Network services;
- Connection services;
- Metering services;
- Public lighting services;
- Fee based services;
- Quoted services; and
- Unregulated services.

To the extent that the AER's proposed service groupings determine a uniform classification of services in those groupings and the form of control to be applied, it is important to ensure that:

- Services are appropriately grouped; and
- The groupings themselves are appropriate (for example "quoted" services and "fee based services" refer to the manner in which a service is charged rather than to the nature or characteristic of the service itself).

In considering whether to move towards a more national approach to service descriptions, it is important to ensure that the services provided across each jurisdiction are in fact sufficiently similar to warrant the same classification and form of regulation, particularly given different jurisdictional requirements and in particular the NSW Accredited Service Provider (ASP) Scheme.

Connection Services

In forming a view as to the most appropriate classification for the various services identified in the consultation paper, particularly those that relate to connection services, it will be important for the AER to recognise and consider the ASP Scheme and how it operates in NSW. NSW is the only jurisdiction with such a Scheme and hence trying to achieve consistency of service classification across jurisdictions may be difficult to achieve and may not be in the best interests of the customers in NSW.

The NSW Electricity Supply Act 1995 gives DNSPs the right to charge customers for certain connection works to allow them to make a connection to the distribution network. In situations where the customer is required to fund the connection works, the Act also gives the electricity customers the right to choose who carries out the work required to connect them to the distribution network. This work may require the provision of direct connection assets, extensions to the existing network or augmentation of the existing network. To ensure the distribution network and the customer's connection to the network remain reliable and safe, only ASPs may do this kind of work in NSW. Such

choice facilitates competition between providers of these services. The ASP scheme is administered by NSW Trade & Investment.

The purposes of the Contestable Work provisions of the Act and Regulation are:

- To promote competition and customer choice as much as is practicable to the works required provided to customers of safe, efficient and reliable connection services and other works (recoverable works);
- To permit access by competent persons on fair terms to the market for provision of contestable work;
- To protect distribution assets associated with or affected by the performance of contestable works, and
- To maintain the safety, reliability and efficiency of connection services.

An ASP performing contestable work will liaise with the local DNSP on the design, construction and/or installation standards required for the particular work.

The Regulation requires that the providers of these services be accredited through a recognised accreditation scheme. In every case, the Service Provider will need to be accredited to undertake the type of work proposed (e.g. overhead, underground or design services). The process of maintaining accreditation is the system of inspecting and auditing of works (in progress and/or on completion). This ensures works are designed, constructed or installed to provide safe and efficient operation.

Works must be satisfactorily completed to the local DNSP's required standards prior to the connection or reconnection to the distribution system.

Endeavour Energy notes also that the AER is currently consulting on a draft connection charging guideline which was issued in December 2011. It is Endeavour Energy's understanding that the guideline, once finalised, will determine when and how much a customer has to contribute to the costs of connecting to the distribution network. Any changes to the current arrangements in terms of in what circumstances and how much a customer must contribute to the connection works will impact on the ASP scheme and how it operates in NSW and also on the amount of capital that the DNSPs will be required to provide for connections.

In terms of the classification of services, and in particular connection services, it will be important to ensure that there is a consistent approach between the final connection charging guideline and the classification of services.

The AER have proposed separating the connection service into various component parts (direct connection assets, extensions, shared network augmentation and administration, design, certification and inspection) potentially with different classifications and forms of control for the various component parts. Endeavour Energy would accept in principle the concept of separating the connection service into component parts. However, some aspects of the definitions proposed by the AER in the consultation paper will need review as they do not align with an operational view of these assets and are not consistent with definitions used in the draft connection charge guideline issued by the AER. For example:

- there is likely to be an overlap in practice between "direct connection assets" and "extensions". The distinction between these two categories of assets in particular is unclear;

- the reference to “design” services needs to instead be to “provision of design information” services, as design services are the contestable services provided by ASPs in relation to connection works.

The development of workable and consistent definitions of the various types of connection assets is necessary for the purposes of assigning discrete service classifications and forms of control. This will assist in implementing any regulatory changes to the manner in which connection services are provided and funded.

Endeavour Energy’s preliminary position on the classification of connection services is that where there is a contestable market for design and construction services in relation to direct connection assets, extensions and augmentations;

- where the service is performed by an ASP, that component of the connection service should be an unclassified distribution service;
- where Endeavour Energy will not permit the service to be provided contestably (for example, shared network augmentation) because of the potential impact on safety, security or reliability of the network (or other relevant policy criteria applied by Endeavour Energy), the service potentially could be classified as a standard control service, depending on the extent to which the costs of providing that service are attributable to the customer seeking the connection.

Endeavour Energy’s final position on classification of components of the connection service will be subject to the outcomes of the AER’s draft connection charge guidelines, as under those draft guidelines, service classification appears to determine applicable cost recovery mechanisms for the various components of a connection service.

Administration, provision of design information, certification and inspection are currently classified as monopoly services and charged on the basis of regulated rates. These services potentially could be included as part of the “connection service” grouping proposed by the AER in its Framework and Approach consultation paper. However, Endeavour Energy’s preliminary position is that these services should be classified as standard control services as they are part of the monopoly provision of connections services.

Additional miscellaneous or monopoly service fees may be warranted and there is a need to review and possibly redefine existing fees to cover Chapter 5A/NECF requirements. The need for and definition of any new fees and the need to redefine any existing fees will not become clear until the requirements for implementing Chapter 5A/NECF are known.

Types 5-7 Metering Services

Endeavour Energy notes that the AER’s view of the metering service is that it includes:

- Meter testing;
- Meter reading;
- Meter checking;
- The process of metering data; and
- The provision of non-standard meters.

Endeavour Energy believes that a more detailed analysis of the definition of the metering service is required before a final decision can be made as to the most appropriate classification for the service. For example, Endeavour Energy currently provides the meters for types 5 – 7 connections at no

charge to the customer or the customer's ASP and the costs of these meters are recovered from DUoS charges. Further, meter testing can be carried out either at the request of a customer or retailer, for which a Miscellaneous Fee applies, or as part of the normal metering asset management practices of the DNSP.

It is also important to note that the DNSP(LNSP) is currently the monopoly provider of these services as the Responsible Person for types 5-7 metering installations under Chapter 7 of the NER. That is, under the current regulatory regime, no other registered participant can be the Responsible Person for these installations. How types 5-7 metering services are classified (as either standard or alternative control services) is unlikely to drive the development of a competitive market in any event as a fully developed market already exists to service types 1-4 metering, which is not fundamentally different in nature from 5-7 metering services.

Endeavour Energy believes that the development of contestability should not be a driver or principal driver for the classification of services in NSW. At a high level, the policy is to extend contestability where it would deliver the most efficient outcomes. There needs to be a full examination of whether provision of 5-7 metering services by a party other than the DNSP will deliver the most efficient outcomes as there would be a number of inefficiencies associated with types 5-7 metering services being provided by parties other than the DNSP. For example, loss of economies of scale in meter reading arrangements and meter supply arrangements.

Endeavour Energy's preliminary position is that types 5 – 7 metering services should remain a standard control service as there are significant costs involved in unbundling pricing and classifying types 5-7 metering services as an alternative control service; for example it would be necessary to modify billing systems. Endeavour Energy believes that the costs of changing the classification would be disproportionate to the benefits. Further, the provision of transparent pricing signals around metering types 5-7 may lead to customer dissatisfaction and/or an adverse reaction. That is, depending on the form of control adopted, customers may see the full costs of the meter but not the broader benefits to the community and market. The benefits would supposedly accrue to the community and the market, but costs would accrue to the individual.

Miscellaneous and Monopoly Services

Before deciding on the most appropriate form of classification for miscellaneous and monopoly services it is important to recognise the different types of customers of the miscellaneous and monopoly services:

- Miscellaneous services are generally provided to customers or their retailers following a request from the customer or retailer;
- Monopoly services are generally provided to ASPs and as no other jurisdiction has an ASP scheme that matches the NSW scheme these services would be only required in NSW.

Endeavour Energy considers that the current description of miscellaneous and monopoly services in general is adequate with the following qualifications:

- the descriptions need to be revised to incorporate new components of the connection service arising from NECF; for example, negotiation, preliminary enquiry, site inspection and connection offer;
- some service definitions may need minor changes assuming the same fee structure is to be maintained;
- additional miscellaneous or monopoly service fees may be warranted; for example, to cover certain B2B service orders from retailers or to address the expected conversion

of gross to net meters for Solar Bonus Scheme customers at the conclusion of the Scheme in December 2016, in addition, Endeavour Energy suggests that the framework should provide the AER with the ability to approve new fees during the regulatory control period to address changes in circumstances not envisioned at the time of the Determination.

Endeavour Energy's view is that a detailed analysis of each of the component services currently classified as miscellaneous and monopoly services needs to be undertaken to determine whether any of the services currently classified in this way have the characteristics of DUoS services, and should be classified accordingly. However, our preliminary position is that all miscellaneous and monopoly services should be classified as standard control services. Moving to alternate control and developing cost reflective prices may expose customers and ASPs to price shocks and expose DNSPs to revenue shortfalls. The current regulated rates only allow the recovery of the marginal costs of providing the services, and the balance of the costs are paid by all customers through DUoS prices.

Escalation of miscellaneous charges and monopoly fees during the regulatory control period should ensure that the fees are adjusted on an annual basis rather than continuing the AER's current approach of escalating miscellaneous charges and monopoly fees once at the time of the Determination (based on an estimate of future CPI), which institutionalises price shocks at the start of each new regulatory control period and moves prices away from cost reflective levels in any given year.

Types 1 - 4 Metering Services

As stated in the consultation paper, metering services for type 1 - 4 meters are "unclassified" in all NEM jurisdictions as these are provided in a competitive market. Endeavour Energy's preliminary position is that these services should remain unclassified and not be subject to any form of regulation.

Emergency Recoverable Works

In order to arrive at a suitable classification of emergency recoverable works there is a need to first consider and be clear on the definition of the service that is being provided. It is Endeavour Energy's view that the service being provided is to replace network assets damaged by negligent third parties and that the costs should be recoverable from these third parties. The service is not about providing access to the network or to distribution services.

Based on this view, Endeavour Energy's preliminary position is that these are not "distribution services" and therefore, should not be subject to regulation. However, if it is determined that emergency recoverable works is a distribution service then Endeavour Energy's preliminary view is that the existing classification should remain and the service be classified as a standard control service.

Customer Specific Services

Endeavour Energy notes that the nature of these services is that they are services requested by individual customers and as pointed out in the AER's consultation paper they include:

- Asset relocation works;
- Conversion to aerial bundled cable;
- Temporary, stand-by, reserve or duplicate supplies; and
- Other non standard customer requested services (eg high load escorts, fitting of tiger tails)

Endeavour Energy's view is that a detailed analysis of each of the component parts of the services currently classified as customer specific services needs to be undertaken to determine the individual characteristics of the services included in this category. The detailed analysis would then allow a more informed decision to be made on the most appropriate classification.

Endeavour energy's preliminary position is that customer specific services are either a non distribution service as they should not be seen as part of the right of access to a network and should not be subject to regulation under an access regime or if they are a distribution service then they should be unclassified. In either case they should not be subject to any form of regulation.