

17 February 2012

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

Email: NSWACTelectricity@aer.gov.au

Dear Sir

**Matters relevant to the framework and approach ACT and NSW DNSPs
2014-2019 – December 2011**

Essential Energy appreciates the opportunity to respond to the Australian Energy Regulator's (AER's) consultation paper on the classification of electricity distribution services in the ACT and NSW ('the paper'). Essential Energy's responses to the questions contained in the paper are detailed below.

Question 1 A

The AER seeks comments on whether M&M services and emergency recoverable works are appropriately:

- grouped for the purpose of classification; and
- classified as standard control services in the ACT and NSW.

Essential Energy believes that miscellaneous and monopoly services ('M&M services') are appropriately grouped for the purpose of classification, and appropriately classified as standard control services.

However, in Essential Energy's opinion, the classification of emergency recoverable works needs to be reviewed. Essential Energy's initial view is that this service is either unclassified or a non-distribution service. In the past, Essential Energy has been limited in its ability to recover full costs from the person liable for damages to the distribution network. This imposes the difference between the actual cost to repair damages to the distribution network and the recovery of costs, on all customers of the distribution network service provider (DNSP), despite the fact that the liable person may not even be a customer of that particular DNSP.

Question 1 B

The AER seeks comments on whether the adoption of a national approach for treatment of these services is desirable, with regard to the following questions:

- Are all M&M services and emergency recoverable works 'distribution services'?
- Considering the current grouping of services set out in Table 1, what is the most appropriate grouping for these services – as a whole or individually?
- Considering the definitions in Appendices B and C, should the AER, in the context of the comparisons set out in Appendix E, move towards a more national approach to these descriptions. If so, which are the more appropriate definitions?
- Should a national approach and common classification across jurisdictions for similar services be adopted?
- Should emergency recoverable works be unclassified?

The groupings in Table 1 appear to be largely appropriate, however there may be some individual services within each group that require further review as the framework and approach process progresses. For example, it is not clear to Essential Energy at this stage, where the AER envisages it will group each of the current M&M services. As another example, Essential Energy requires further explanations and definitions on the distinction between quoted services and fee based services, before deciding if the final groupings are appropriate.

Essential Energy supports a nationally consistent set of services, names and definitions where achievable, particularly in light of the soon to be implemented, National Energy Customer Framework (NECF). This will reduce confusion for both customers and retailers who operate across the National Electricity Market.

As noted above, Essential Energy's initial view is that emergency recoverable works is either an unclassified service or a non-distribution service.

Question 1 C

The AER seeks comments on whether the control mechanism applied to M&M services and emergency recoverable works is appropriate and results in cost reflective prices.

Assuming emergency recoverable works is reclassified as either an unclassified service or non-distribution service as noted above, the form of control will not be relevant and cost reflective prices will be achieved by charging actual costs to the liable party.

M&M services are currently subject to a schedule of maximum and mandatory fees under a weighted average price cap control mechanism. Essential Energy believes that the control mechanism for M&M services should be amended to better reflect annual movements in prices and align with the annual pricing proposal process for all other standard control services.

One option that could be considered by the AER is to set a schedule of fixed prices for each year of the regulatory control period, including a real cost escalator that reflects changes to real costs. In accordance with the annual pricing proposal, the schedule of prices would be escalated by the same CPI used in setting the distribution network tariffs. This process has been used successfully in other decisions made by the AER, and would eliminate the scope for step changes in fees for M&M services between regulatory control periods. Essential Energy also requests the AER consider allowing DNSPs to propose and introduce new M&M services during a regulatory control period, which could then be assessed and approved as part of the annual pricing proposal process.

Some fees for M&M services may not be at cost reflective levels, but in order to achieve full cost reflectivity, each DNSP may inevitably have different fees for the same service in the same state. Essential Energy does not believe this is a desirable solution as it may create confusion and inefficiencies for users of these services, including customers, Accredited Service Providers (ASPs) and retailers (who operate both within and across jurisdictions). However, Essential Energy maintains that there is scope to improve the levels of cost reflectivity, without sacrificing the uniformity of fees charged across NSW.

Question 2

Metering (types 1-4) and customer specific services

The AER seeks comments on whether:

- A. types 1-4 metering services and customer specific services should be regulated by the AER; and if so
- B. the current definitions for types 1-4 metering services and customer specific services are appropriate, and if not what the definitions should be
- C. the control mechanism adopted:
 - is appropriate; and if not
 - what the control mechanism should be.

Clause 6.2.1(d) of the National Electricity Rules (NER) states that unless a different classification is clearly more appropriate, there should be no departure from a previous classification.

In Essential Energy's opinion, types 1 to 4 metering services should not be regulated by the AER. In NSW, these services are provided competitively through the ASP scheme. This contestability framework is unique to NSW, and is designed to ensure greater customer choice and efficiency in the market for contestable services due to increased competition.

Customer specific services should remain unregulated. Essential Energy does not believe there is any reason these services should be regulated by the AER. They are largely non-distribution services undertaken at the request of an individual party, who may not even be a customer of the DNSP in question.

Question 2 (continued)**Connection Services**

The AER seeks comments on:

- A. splitting a new connection into at least four distribution services, and to apply an appropriate service classification and form of control to each component of the connection.
- B. the definition of each of these connection services in NSW and the ACT.
- C. the service classification to apply to these connection services, with the following questions in mind:
 - is the ASP scheme and level of competition in NSW sufficient that the AER does not need to regulate connection services?
 - are there any deficiencies in the NSW ASP scheme which can be addressed by the AER through an alternative service classification or form of control?
 - will the shared network augmentation requirement that new connections impose on the network be harder to attribute to an individual customer?
 - currently in NSW connections requiring augmentation are unregulated and the new connecting customer may be required to pay the full cost of any augmentation to an ASP. Is this an appropriate manner to charge for augmentation?
 - is moving towards an alternative control service classification, for most components of a connection, appropriate in the ACT?

Regardless of whether or not connection services are disaggregated, Essential Energy is of the view that connection services should not be regulated by the AER. In NSW, these services are provided competitively through the ASP scheme. The contestability framework has been operating effectively in NSW and is well understood by all participants. The level of competition in NSW is sufficient, to the point where ASPs perform the majority of connection services.

Charges for augmenting the network are currently catered for under the contestability framework in NSW and have worked effectively in practice. Essential Energy does not see any reason for changes to the basis of charging customers for augmentation.

Essential Energy notes the recent release by the AER of its draft connection charge guidelines under Chapter 5A of the NER. These guidelines have a close and important link to the paper. In both instances, the AER has acknowledged its intention to observe the existing contestability framework in NSW. Essential Energy reiterates the importance of the classification of connection services respecting the existing contestability framework in NSW, as to not do so, may arguably be inconsistent with Chapter 5A of the NER.

Question 3

The AER seeks comments on whether:

- A. metering services (types 5-7), as adopted in the current determinations, are appropriate.
- B. the issue of metering services (types 5-7) being charged with DUOS charges is still current
- C. metering services (types 5-7) should be separated from DUOS charges
- D. if metering services (types 5-7) are separated from DUOS charges, what type of service should they be classified as and what control mechanism should be applied?

Essential Energy believes that the types 5-7 metering services adopted in the current determination are appropriate.

Types 5-7 metering services should not be separated from DUOS charges. Under Chapter 7 of the NER, DNSP's are the monopoly provider of these services as the Responsible Person (RP) for types 5-7 metering installations. Under the provisions of the NER, it is not possible for any other registered participant to become the RP for types 5-7 metering services.

Types 5-7 metering services and the provision of meters for small customers are more efficiently provided as an integrated distribution function, recovered through distribution network prices, rather than being open to competition. The introduction of competition in types 5-7 metering services to all customers would create inefficiencies and require significant and costly process changes to be implemented, for limited benefit.

Essential Energy would be pleased to discuss this matter further with the AER. Should you require further information please feel free to contact Natalie Lindsay on 02 6589 8419 or Jason Cooke on 02 6338 3685.

Yours sincerely



Col Ussher

Executive General Manager Infrastructure Strategy