



Response to AER Framework and Approach: Preliminary Position Paper

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PowerWater

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OVERVIEW

Power and Water Corporation (**Power and Water**) is pleased to provide feedback and comment in response to the [Australian Energy Regulator's \(AER\) Preliminary Position Paper on the Framework and Approach](#) for New South Wales (NSW), the Australian Capital Territory (ACT), Tasmania (TAS) and the Northern Territory (NT) network businesses for the 2024-29 regulatory control period.¹

The AER's Framework and Approach makes important decisions on a number of fundamental elements necessary for distribution network service providers (DNSPs) to prepare their regulatory proposal. We appreciate the collaborative and constructive approach the AER has taken with network businesses in informing its preliminary position on the Framework and Approach. We particularly appreciate the AER's efforts in seeking to understand where changes from its general approach are required (particularly in relation to classification of services and application of incentive schemes) to accommodate jurisdictional differences unique to the Northern Territory and Power and Water's operating circumstances.

We would like to commend the AER on taking the time and effort to visit Darwin to discuss and work through with Power and Water key elements of the Framework and Approach prior to release of its preliminary position paper. Adopting this approach has significantly reduced the need for Power and Water to provide substantive feedback. Rather, the feedback outlined in our submission is largely aimed at noting our support of the AER's preliminary position on key elements comprising our Framework and Approach and highlighting where further minor amendments, clarifications, and/or commentary may be required to resolve any outstanding issues not addressed through the AER's early engagement process.

A summary of key positions outlined in further detail in our submission is outlined below:

- **Classification of services** - Power and Water is broadly comfortable with and supports the AER's approach towards classifying our distribution services. There are a small number of specific issues which we are seeking to either clarify or amend to meet specific requirements in the Northern Territory. These primarily relate to the treatment of new and emerging services, clarifications regarding the nature or scope of activities comprising common distribution services and connection services.
- **Form of control and control mechanism**- Power and Water supports the AER's position of maintaining the revenue cap for standard control services and a price caps for alternative control services.
- **Incentive schemes** - Power and Water broadly agrees with the AER's proposed approach of applying the CESS, and DMIS but seeks confirmation that the AER also intends to apply the Demand Management Innovation Allocation (DMIA). We also wish to engage further with the AER regarding the application of the efficiency benefit sharing scheme (EBSS) and related to this we are engaging separately with the AER on its approach to forecasting expenditure and the assessment of our forecasts.
- **Depreciation** – Power and Water supports the AER's position of applying forecast depreciation to establish the regulatory asset base (RAB) for the 2029-2034 regulatory control period.

CLASSIFICATION OF SERVICES

Power and Water is broadly comfortable with and supports the AER's approach to classifying our distribution services. However, there are a small number of specific issues which we are seeking to either

¹ AER, 'Framework and Approach: Preliminary Positions Paper: NSW, ACT, TAS, and NT businesses – Regulatory control period commencing 1 July 2024,' April 2022.

clarify or amend to meet specific requirements in the Northern Territory. These are set out in further detail below.

We note that under the National Electricity Amendment (Access, pricing and incentive arrangements for distributed energy resources) Rule 2021 (the DER Rule change) the AER is required to review and if necessary or desirable, amend and publish its Distribution Services Classification Guideline (Classification Guideline) by 1 July 2022. In the event that any changes are made to the Classification Guideline, Power and Water will need to review its position and if necessary make additional submissions to address any issues arising from amending the Classification Guideline.

New and Emerging Services- High level principles and approach

The AER has acknowledged in its preliminary paper that there are a number of new or additional services which already exist or can be anticipated to emerge during the 2024-2029 regulatory control period. The AER also recognised that there is uncertainty regarding the nature and timing of some of these emerging services and that they may be affected by ongoing market reforms and policy development.

Power and Water considers that the dynamic and evolving nature of market and regulatory conditions necessitates the need for a flexible and principle based approach towards service classification to ensure classifications remain fit-for-purpose and retain their relevancy throughout the 2024-2029 regulatory control period. Importantly, there will be the need to balance adopting a high-level approach towards broad service groupings and providing sufficient clarity on the activities that are encapsulated by these service groupings.

Power and Water broadly support the AER'S proposed shift towards a more high level descriptive approach towards service groupings that includes a non-exhaustive list of activities which generally make up the service. It is our understanding that the AER intends to rely on the Classification of Services Guideline and commentary in its Final Decision on the Framework and Approach to provide network businesses and stakeholders greater clarity on the scope of services captured by the high-level service groupings.

Given this shift in approach, the AER may wish to clearly identify those areas where it is shifting to high level service description as opposed to changing the descriptive approach or changing the activities comprising the service grouping. This will be particularly important if the AER is proposes to recognise a new activity as being covered by an existing service grouping. In these circumstances, it may be preferable to expressly reference the newly recognised activity or include commentary in the Framework and Approach as to why it was not necessary to specify the emerging service under a particular service grouping.

Approach to Specific Emerging Services

There are three types of emerging services of particular concern to Power and Water. These are Regulated Stand-Alone Power Systems (SAPs), Customer Export Services and Essential System Services (ESS).

Regulated Stand-Alone Power Systems (SAPs)

The potential for the provision of SAPs in the Northern Territory is currently under consideration. It is possible that Power and Water will now play a more active role in providing these services than previously anticipated.

The AER has proposed that the provision of SAPs be classified as direct control and further as a standard control service. Power and Water supports this approach and also supports the activities associated with this service being specifically listed under the Common Distribution Service Grouping as:

“Work related to a regulated stand-alone power system (SAPs) deployment, operation (Fault and emergency) and maintenance and customer conversion activities”.

These activities and their specific recognition as a potential part of the regulated distribution service under the National Electricity Law (NEL) and National Electricity Rules (NER) warrant their recognition in this way. For these reasons we do not consider that it would be sufficient or appropriate for SAPs to be regarded as an input to the common distribution service, they are clearly an identifiable service in their own right.

Customer Export Services

Power and Water has carefully considered the two approaches proposed by the AER in relation to customer exports services and supports Energy Networks Australia’s (ENA) position that it is not necessary for export services to be explicitly recognised as a stand-alone activity within the common distribution service grouping.

In its final determination of the DER Rule change, the Australian Energy Market Commission (AEMC) clarified that the conveyance of electricity covers both consumption and export. Consequently, there does not appear to be a need for the AER to distinguish export services from load related services. Instead, we consider that this issue is more appropriately addressed by including commentary in the AER’s Framework and Approach paper which notes that export services fall within the activities that form part of a DNSP’s common distribution services, as they are part of the distributor’s normal planning and operation.

If the AER adopts this proposed approach, the issues which were raised in the AER’s paper regarding the distinction between basic and additional services do not arise. It is our preliminary view that those issues are best considered and addressed through DNSP’s connection policy and at the time of connection, as part of customer’s connection contract.

Proposed Essential System Services in the Northern Territory

The Northern Territory Government is currently progressing the Northern Territory Electricity Market Priority Reform Programme (known as the NTEM Priority Reform Programme) to facilitate an increasing number of market participants and the adoption of emerging technologies that will support the Northern Territory Government’s target of 50% renewable energy by 2030.²

² <https://industry.nt.gov.au/reforms/northern-territory-electricity-market-priority-reform-program>

The government released a draft position paper in January 2021.³ This position paper proposed that certain services known as Essential System Services would be required to be provided by Power and Water in its capacity as the Network Operator. The scope of Essential System Services that would be provided by the Network Operator related to:

- **Voltage management and network support** – activities anticipated to comprise this service included management of network voltage control issues and management of network capacity shortfall issues where required
- **System strength** – activities anticipated to comprise this service included sufficient system strength capability to ensure voltage stability and sufficient fault current.

It is anticipated that the decision making around these reforms will take place over the next 12 to 18 months and will impact upon the services provided by Power and Water through its regulated network. Power and Water is therefore seeking appropriate and flexible wording to anticipate and accommodate these reforms. We do not consider that these requirements will constitute an input to the planning, design and operation of the network, but rather an identifiable service expectation. We would like to work with the AER to develop wording which would accommodate the implementation of the proposed reforms.

In the AER Power and Water classification table we suggest that Essential System Services be included rather than System support/strength services. Our proposed wording is:

“Essential System Services required under NT NER or jurisdictional instruments”

COMMON DISTRIBUTION SERVICES

Power and Water has reviewed the common distribution service grouping and activity descriptions set out in the AER Power and Water Classification Table. Subject to some minor amendments, we are satisfied that it appropriately lists the activities which comprise the Common Distribution Service grouping. The minor clarification and wording changes that we will be seeking are discussed below.

Jurisdictional Technical and Safety Obligations

The AER has recognised that there are specific jurisdictional obligations imposed upon Power and Water which are specific to the Northern Territory, which include reviewing and maintaining the network technical code. We request that the description of this service be further amended to reflect that the network technical code addresses technical issues. This could be addressed by the following revised wording

“meet jurisdictional safety and technical obligations including network integrity test, emergency response, and review of and maintaining technical codes.”

Customer Requested Fault Inspections

This service is currently described as part of Network Safety Services and arises where a customer reports a fault to Power and Water which, when investigated, it is established that the fault arises from the customer’s installation rather than the network. Whilst this service is currently classified as Alternative Control, Power and Water has not established systems for customers to be charged a fee in these circumstances and considers that this service instead be moved under Common Distribution Services.

³ Northern Territory Government, ‘NTEM Priority Reform Program: Review of essential system services: Draft Position Paper,’ January 2021.

There are several reasons for this, the key one being that Power and Water is concerned that this may discourage customers from reporting potentially unsafe conditions on, or connected to, the network in case it leads to a charge. This possibility and the gravity of neglected safety issues, outweighs likely revenue arising from the charges which are anticipated to be very limited. We also consider that charging individual customers for reporting safety issues to be inconsistent with our commitment to supporting the community in the provision of electricity as an essential services.

Site Establishment Services

Site establishment services are currently classified as Alternative Control. This was a change moving into the current period. Power and Water has not been in a position to charge for these services during the current period as we currently lack the necessary systems to enable the costs of these services to be recovered by customers on an individual basis and do not anticipate that we will be in a position to transition to this type of recovery during the upcoming 2024-2029 period. For this reason we are seeking for the classification of these services to be incorporated as part of the Common Distribution Service and classified as Standard Control.

NETWORK ANCILLIARY SERVICES

Power and Water has reviewed the service grouping and activity descriptions of ancillary network services set out in the AER Power and Water Classification Table and we are satisfied that it appropriately reflects and describes the range of network ancillary network services provided by Power and Water.

There are also some very minor wording changes that we will be seeking which we can explain further if necessary. One of these relates to “Customer or third party requested provision of electricity network data.”

Power and Water receives requests for information as well data, particularly historical information about customers which might not strictly be regarded as “data.” For this reason, we are seeking that this service include reference to “network data or information.” Similarly, in relation to Network Tariff change requests we have requested changes to the tariff types in the example that reflect Power and Water tariffs.

We also note that with respect to Design Related Services and “the provision of engineering consulting”, the AER’s view is that it not necessary to indicate that the services include retaining external engineering consultants. We understand and accept this but are concerned that customers may not understand that Power and Water often needs to draw on external consultants to review customer designs. We would therefore appreciate the AER’s acknowledgement of the scope of the service in the commentary provided as part of its Framework and Approach decision.

METERING SERVICES

The AER has proposed that Type 1-6 metering services continue to be classified as Alternative Control while Type 7 metering services remain classified as Standard Control. Power and Water supports the proposed classification.

CONNECTION SERVICES

Power and Water has reviewed the service grouping and activity descriptions of connection services set out in the AER Power and Water Classification Table and are satisfied that it appropriately reflects and describes the range of connection services provided by Power and Water. The one important exception to this is in relation to Basic Connection Services which is discussed in further detail below.

Basic Connection Services

Power and Water has raised informally with the AER that the proposed classification of Basic Connection Services as Alternative Control Services appears to have been a transposition error when preparing the AER Power and Water Classification Table. Basic Connection Services should be classified as Standard Control Services to align with the approach to the provision of connection services in the Northern Territory.

In terms of the actual services which comprise the Basic Connection Service, we would also like to clarify that unmetered supply should not be included as part of this service grouping. These services are all charged separately and directly to the relevant customers and should therefore be part of the Negotiated Connection Service and classified as Alternative Control.

Negotiated Connection Services

Power and Water supports the proposed classification of Negotiated Connections Services as Alternative Control. Power and Water has transitioned to the Chapter 5A process since its 2019-2024 determination was made and the Alternative Control classification is consistent with the approach to “non-basic” connections under Chapter 5A of the Northern Territory NER.

We note that the AER has noted that customer contributions for these services may be made in accordance with the connection policy. We would like to clarify that as alternative control services, these connections will be fully funded by the customers, however there may be aspects of the service which are governed by the connection policy such as pioneer schemes and security fees. Consequently, we suggest that reference to the connection policy be removed and instead include commentary in the Framework and Approach decision on the interaction between the AER’s decision to classify this service as Alternative Control and the DNSP’s connection policy.

Connection related Services

Power and Water notes the AER’s preference to move to a more high level service grouping of “Connection Application and Management Services” with a more succinct list of activities rather than the more extensive list of services comprised in several separate groupings including: “Connection application related services”, “Connection services” and “Reconnections and Disconnections” groupings. Power and Water is broadly comfortable with this approach as it will provide more flexibility for services to be described, particularly in the annual price lists, and will better accommodate changes over time.

However, we would request that the potential scope of this grouping to include all of the activities previously described as part of the above groupings is discussed and explained in the AER's Framework and Approach decision so that stakeholders and customers appreciate and understand the range of services which are intended to be captured by this service grouping.

FORM OF CONTROL AND CONTROL MECHANISMS

The AER's Preliminary Paper proposes to maintain the revenue cap for standard control services and price caps for alternative control services. Power and Water supports this approach.

We note that the AER proposes that the revenue cap control mechanism formulae mostly stay the same as it is currently applied. The AER has also indicated that the main formulae be set out in its Framework and Approach decision, while the definition of factors in the formulae will be set in the determination and foreshadowed that definitions will likely change to improve their transparency and operation. We look forward to engaging further with the AER on these definitional improvements as part of the determination process.

The AER has also indicated that the price control mechanism formula will stay the same for metering, public lighting and fee based ancillary network services, which we support. In relation to quoted ancillary network services, the AER sets a formulae for calculating and presenting quoted services where the price varies for a number of components for each instance of that service. The AER has also observed that the inclusion of a margin component in the formula has differed across jurisdictions and that the inconsistency has created stakeholder confusion.

To address this, the AER proposes to standardise the approach across jurisdictions by including a margin component to the quoted service formula as well as a tax component. Power and Water supports the inclusion of both these elements in the formula and looks forward to working through the details of this as part of the determination.

The AER has also proposed introducing greater transparency of quoted services by requiring distributors to provide itemised quotes to the customer. Under this approach, as a minimum quotes provided to customers must contain information on the cost components to demonstrate compliance with the control mechanism formula including: labour, material, contractor costs, margins and tax. Power and Water is committed to working towards greater transparency in its quotes to customers and is happy to work with the AER on an approach which is consistent with the capability of our existing systems.

INCENTIVE MECHANISMS

The AER has indicated that it intends to apply the Efficiency Benefit Sharing Scheme (EBSS), Capital Efficiency Sharing Scheme (CESS) and the Demand Management Incentive Scheme (DMIS) to Power and Water and noted that the Service Target Performance Incentive Scheme (STPIS) and Customer Service Incentive Scheme (CSIS) will not apply.

Application of CESS and Demand Management Incentive Schemes

Power and Water agrees with the AER's proposed approach of applying the CESS, and DMIS and notes that it has clarified that it also proposes to continue application of the Demand Management Innovation Allocation (DMIA).

We strongly support the continuation of the DMIA during the 2024-2029 regulatory period. We have significantly relied on DMIA funding during the current period to identify and help bridge key gaps in our knowledge and capability to assist us in more efficiently integrating distributed energy resources (DER) and managing technical issues associated with their increased uptake. As we are one of the smallest networks in Australia covering one of the largest geographical areas it is important that we have an opportunity to test and pilot new technologies and investment to help identify the 'no regrets' investment for managing our network.

Application of the EBSS and application of the AER's expenditure forecasting guideline

In our request to amend our Framework and Approach, we noted that the AER did not apply the EBSS in the current 2019-2024 period because it did not use revealed costs to set the opex for that allowance, which was consistent with the AER's current practice.

We understand that the EBSS and a base step trend opex forecasting method should be considered together to ensure that appropriate incentives are applied. However, we note that there will need to be some flexibility in how this scheme is applied given legacy issues associated with our aging ICT systems which limits our ability to capture data and creates inherent data quality and accuracy issues. This has meant that to date the AER has been unable to rely on Power and Water's revealed opex as the basis for forecasting our operating expenditure.

CALCULATION OF DEPRECIATION ON RAB ROLL FORWARD FOR 2029-2034 REGULATORY PERIOD

The AER's preliminary position, consistent with the capital expenditure incentive guideline is to use forecast depreciation to establish the regulatory asset base (RAB) for the 2029-2034 regulatory control period. Power and Water sought this approach in our request to amend our Framework and Approach and consequently supports the AER's proposed approach.

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