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Mr Chris Pattas  
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Dear Mr Pattas

## **Submission on AER's Preliminary Framework and Approach Paper for Power and Water Corporation's Regulatory Control Period Commencing 1 July 2019**

Thank you for the opportunity to make this submission on the "Preliminary Framework and Approach Paper (Preliminary F&A Paper) for Power and Water Corporation's (PWC) Next Regulatory Control Period, Commencing 1 July 2019", published by the Australian Energy Regulator's (AER) in March 2017.

In summary, PWC:

- proposes to revise the AER's service classification framework to provide a clearer basis for a detailed listing of distribution service in its Regulatory Proposal;
- accepts the application of a revenue cap for Standard Control Services (SCS) and price caps for Alternative Control Services (ACS);
- accepts the application of the Capital Efficiency Sharing Scheme (CESS) and the Demand Management Incentive Scheme (DMIS) for SCS;
- accepts the AER's proposal to only apply the Efficiency Benefit Sharing Scheme (EBSS) for SCS if PWC's forecast opex allowance based on its historical opex and would not support its application under any other circumstance;
- supports the proposal to not apply the Service Target Performance Incentive Scheme (STPIS);
- notes the AER's intention to apply the suite of assessment techniques in its November 2013 Expenditure Forecast Assessment (EFA) Guideline to assess PWC's expenditure forecasts; and
- notes the AER's intention to apply forecast depreciation to determine PWC's regulatory asset base at the start of the subsequent regulatory control period.

The attachment to this letter provides more information on these positions and identifies further points for clarification.

If you wish to discuss this letter further, please contact Jodi Triggs, Senior Manager Network Regulation, on (08) 8985 8456 or [jodi.triggs@powerwater.com.au](mailto:jodi.triggs@powerwater.com.au).

Yours sincerely

A handwritten signature in black ink, appearing to read 'Michael', followed by a large, stylized flourish that extends to the right.

**Michael Thomson**

Chief Executive

21 April 2017

## Attachment

This attachment provides a more detailed response to the AER's Preliminary F&A Paper.

### 1. Service Classification

PWC generally accepts the classification of services suggested in the Preliminary F&A Paper.

PWC notes that, in other jurisdictions connection services may be provided on a contestable basis, or may be treated as ACS. PWC considers that given the current maturity of the regulated power industry in the NT, classifying connection services as SCS in the current regulatory control period is more likely to achieve the National Electricity Objective.

The potential for the development of a viable competitive market for contestable connection services, within the NT, within the foreseeable future, is unlikely, however PWC considers that in the long term an ACS classification is the most appropriate approach to achieving the National Electricity Objective, in the NT, and will consider proposing this approach for the next regulatory control period.

It is recognised that the AER is seeking to establish a broadly consistent national framework for classifying electricity distribution services. In doing so, the distinction between service groupings and individual services seems to have been lost. For example, the AER's list of PWC's proposed metering services includes:

- "Type 1 to 6 metering services", which could be interpreted to be a catch-all for every service that PWC provides as the monopoly Metering Coordinator, Metering Provider and Metering Data Provider in the NT for Types 1 to 6 metering installations. It is therefore best considered as a service group, to which multiple services could be assigned.
- "NMI extinction fee" – this is a very specific service (and fee) and there are no other services that can be grouped under it.

PWC understands that the role of the service classification in F&A Paper is to:

- confirm the categories of distribution services that PWC can provide;
- clarify the scope and coverage of these categories of distribution services;
- establish (given the classification) the form of regulation that will, or can, apply to these categories of distribution services; and
- establish a framework within which PWC can propose its detailed listing of distribution services in its Regulatory Proposal. PWC may subsequently levy charges for the provision of these services as approved in the AER's Distribution Determination. The F&A paper should not seek to provide an exhaustive list of individual distribution services that PWC can provide.

To give effect to this, PWC proposes to retain the AER's high-level service groupings (such as Common Distribution, Ancillary, Metering, Connection, Unregulated Services) and introduce new sub-groupings under them based on the drivers of its distribution services.<sup>1</sup> The services that the AER has detailed in its Preliminary F&A Paper are examples of services that can be grouped under this framework but do not form an exhaustive list.

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<sup>1</sup> These drivers are expected to be common across all DNSPs, so this framework could be applied generally.

PWC's proposed service classification framework is presented in Appendix A. Additionally, the services that the AER included in its Preliminary F&A Paper are mapped against this framework. PWC will provide a more comprehensive mapping in the Regulatory Proposal.

## 2. Control Mechanisms

### Standard Control Services

PWC accepts the AER's proposal to continue to apply a revenue cap to SCS in the next regulatory control period.

PWC notes that the AER's proposed formula for the SCS revenue cap must properly account for revenue true-ups both arising:

- within the 2019/20-2023/24 regulatory control period; and
- as a result of revenue increments or decrements caused by application of the current revenue cap at the end of the current 2014/15-2018/19 period.

PWC considers that the calculation of the Annual Revenue Requirement should include any revenue increments or decrements arising from the application during the current regulatory control period of the control mechanism in the 2014 NT Network Price Determination, as modified by the 2014 NT Ministerial Direction. PWC understands that this requirement will be reflected into Chapter 6 of the NT NER through the NT Government's proposed 1 July 2017 amendments.

The  $B_t$  parameter in the AER's proposal is presently defined as '*the sum of annual adjustment factors in year t. Likely to incorporate but not limited to adjustments for the unders and overs account. To be decided in the distribution determination.*' PWC notes that the determination version of this definition must address this cross-period issue.

### Alternative Control Services

PWC accepts the AER's proposal to apply price caps to ACS. PWC notes that:

- this is a change from the treatment of ACS in the current regulatory control period. Clause 72(4) of the *Electricity Networks (Third Party Access) Code 2015* requires PWC to provide them on fair and reasonable terms.
- this is a change in the treatment of metering services, which are classified as SCS in the current regulatory control period, and so are subject to a revenue cap.

PWC accepts the AER's proposed approach to the formulae for giving effect to the price caps for:

- Type 1–6 metering services;
- ancillary fee based services; and
- ancillary quoted services.

## 3. Incentive schemes

PWC accepts the AER's proposal to apply the CESS and the DMIS to SCS in the next regulatory control period.

PWC supports the proposal not to apply the STPIS during the next regulatory control period.

PWC accepts the AER's proposal to continue to apply the NT jurisdictional Guaranteed Service Level (GSL) Scheme in the next regulatory control period.

PWC accepts the AER's proposal to apply the EBSS to SCS in the next regulatory control period *only* if the AER determines PWC's efficient opex on a revealed (historical) cost basis, consistent with the discussion in the Preliminary F&A Paper. This will allow PWC to continue to reveal its efficient opex progressively in response to the incentives in the EBSS while maintaining the safety, security and reliability of the distribution system.

#### **4. EFA Guideline**

PWC notes the AER's intention to apply the suite of techniques in its November 2013 Expenditure Forecast Assessment (EFA) Guideline to assess PWC's expenditure forecasts for the next regulatory control period.

#### **5. Depreciation approach**

PWC notes the AER's intention to apply forecast depreciation to determine PWC's regulatory asset base at the start of the subsequent regulatory control period.

#### **6. Connection Services**

The AER proposes that connection services (premises connection services, extensions and network augmentation) be treated as SCS. That is, a connection service that would be provided under chapter 5 or chapter 5A of the NER would be classified as SCS.

However, in the discussion of Ancillary Services in section 2.4 of the Preliminary F&A Paper, the AER states:

Prices for certain ancillary services (quoted services) will be determined on a quoted basis. ... For example, where a customer seeks a non-standard connection which may involve an extension to the network the distributor may only be able to quote on the service once it knows the scope of the work.

PWC notes that the treatment of an extension as a quoted service seems contrary to the intention that connection services be SCS and seeks further clarification.

#### **7. Public Lighting**

PWC notes that the AER has not classified public lighting services.

## Appendix A - PWC's proposed service classification framework and mapping of services in Preliminary F&A Paper

Service classification	AER service grouping	PWC's proposed new service driver	Services Proposed in AER's Preliminary F&A Paper	
Standard Control Services	Common distribution	-	Common distribution services (formerly 'network services')	
			Network tariff change request	
			Recovery of debt collection costs – dishonoured transactions	
	Type 7 metering	-	Type 7 metering services	
	Connection works	Premises Connection	Connection services include premises connection services, extensions and network augmentation Site establishment services	
		Extension		
Network augmentation				
Alternative Control Services	Ancillary	Administration	Notices of arrangement	
			Networks safety services	
			Access permits and oversight	
			Customer vegetation defect works	
		ROLR (not covered by other service)	Services provided in relation to a Retailer of Last Resort (ROLR) event	
		Customer-specific arrangement	Planned Interruption – Customer requested	
	Customer-driven re-work	Attendance at customers' premises to perform a statutory right where access is prevented		
	Type 1-6 metering	Metering Coordinator		Type 1 to 6 metering services
				Site alteration service
				NMI extinction fee
				Correction of metering and market billing data
		Metering Provider		Type 1 to 6 metering services
				Type 5 and 6 metering provision (before 1 July 2019)
				Emergency maintenance of failed metering equipment not owned by the network
				Meter recovery - type 5 and 6 current transformer metering
				Distributor arranged outage for purposes of replacing metering
Metering Data Provider			Type 1 to 6 metering services	
	Meter reading and testing			
	Types 5 and 6 meter reading, maintenance and data services			
Connection	Pre-connection	Design related services		

			Property services
			Site establishment services
			Site inspection
		Registered participant support	Registered participant support services
		Generation	Facilitation of generator connection and operation on the network
		Disconnection and reconnection	Reconnections/Disconnections
Unregulated Distribution Services		Distribution asset rental	Distribution asset rental

**Notes:**

1. The proposed classification of metering services is based on version 3 of the draft Chapter 7A of the NT National Electricity Rules (NT NER), which was provided to PWC by the NT Government on 21 March 2017. PWC understands the AER also has this draft. This draft makes PWC the monopoly provider of Types 1 to 7 metering services in the NT in the next regulatory control period.
2. The AER's proposed "contestable metering support roles" will not be a service in the NT in the next period given draft Chapter 7A.