

13 August 2018

Mr Chris Pattas
General Manager, Networks
Australian Energy Regulator
GPO BOX 520
Melbourne VIC 3001



Submitted electronically

Dear Mr Pattas

AER Draft Guideline – Electricity distribution service classification

SA Power Networks welcomes the opportunity to comment on the AER's Draft Service Classification Guideline (**the Draft Guideline**) and Draft Explanatory Statement to apply to electricity distribution network service providers (**distributors**). In summary, our views are that:

- The role and operation of the Guideline:
 - the AER should avoid over-prescriptive and or quantitative detail from distributors to justify departures from the baseline list of services, and not require distributors to re-justify in subsequent regulatory determinations any previously approved departures;
 - there is no need to further interpret key provisions of the National Electricity Rules (NER) and National Electricity Law (NEL) as they apply to service classification; and
 - while listing activities under service groups aids transparency, these activities should be non-exhaustive; further, any new activities fitting the description of an existing service group should be subject to a pricing approach outlined in a distributor's annual pricing proposal.
- Service terminology and descriptions:
 - some specific amendments are required to the baseline list of services, and we query why some services appear to be missing from the list; and
 - a key amendment is required to the demand management activity listed under 'common distribution services' so that it clearly covers core activities driven by broader market benefits as consistent with the National Electricity Objective (NEO) and the NER.
- Service classifications:
 - we support the proposed classifications with the exception of the various types of connection services for which the AER's intent / rationale remains unclear; and
 - we welcome a further workshop with all distributors to move toward a more common understanding of how connection services should be treated.

If you wish to discuss any of our comments further, please contact Bruno Coelho on 08 8404 5676.

Yours sincerely

A handwritten signature in black ink, appearing to read "Richard Sibly".

Richard Sibly

Head of Regulation



Role and operation of the Guideline

The baseline approach

We accept that setting a baseline list of service descriptions and classifications might promote greater consistency between distributors and facilitate stakeholder engagement. However, we recommend that:

- In applying this new guideline, the AER should not be overly prescriptive and expect an unreasonable degree of justification for proposed departures from the baseline. Judgements on how a classification might influence the potential for competition, and / or judgements on the potential benefits and detriments of departing from a baseline, might not be easily identified or quantified. We note that the AER itself has to date only qualitatively applied the ‘form of regulation factors’ to service classification.
- In subsequent decisions (i.e., in a subsequent Framework and Approach (F&A) / regulatory determination), distributors should not be required to re-justify departures from the baseline, if the AER has previously approved these departures. This avoids unreasonable repetition of analysis and consultation.

Interpretations of rules and laws

We agree that no further interpretation of terms appearing in the NER or NEL is warranted, given that:

- the Draft Explanatory Statement already points to examples where a court interpreted key provisions such as the meaning of “in connection with” as it pertains to ‘distribution services’;¹
- the Australian Energy Markets Commission (AEMC) has in its decision documents on the Contestability of Energy Services Rule Change already clarified the distinction between services and inputs to services, which the Draft Explanatory Statement has added to; and
- attempting to further interpret key terms applying to services, risks potential conflicts and confusion arising between different regulatory instruments over time.

Service grouping approach

We agree with the approach of grouping services but recommend that:

- the activity lists sitting beneath service groupings should not be exhaustive and therefore accommodate new activities arising during a regulatory control period that meet the definitions of existing groupings—this has and continues to be the clear intent of service classification; and
- the most practical approach to treating new services / activities arising during a regulatory period is for distributors to report on these, including the intended price regulation approach (i.e. form and formulae of control) within annual pricing proposals. New services / activities might warrant a different price regulation approach to that identified at the time of the F&A and regulatory determination.

Service terminology & descriptions

Refinements are required to the terminology and descriptions in the baseline list of services. In our view:

- appendix A to the Draft Guideline mostly reflects the services and activities that we currently provide and anticipate providing over the 2020-25 regulatory control period; but
- the coverage of some services is unclear and some appear omitted, as detailed in Appendix 1 to this letter.

The most material omission is the AER’s non-consideration of an issue raised in our submission to the AER’s initial issues paper,² our submission to the AER’s Preliminary F&A for our business,³ and in the AER’s 24 May workshop, being the description of demand management activities within the grouping of ‘common distribution services’. We consider this issue of general applicability to all distributors and should therefore be considered for the baseline list. As previously stated, in our view:

¹ AER, *Explanatory statement – Draft electricity distribution service classification guideline*, p.5.

² SAPN, *Submission to AER issues paper – service classification and asset exemption guidelines*, 13 March 2018 p.1.

³ SAPN, *Response to AER Preliminary Framework and Approach—SA Power Networks 2020-25*, 27 April 2018, p.2.

- the description of demand management in the activities under ‘common distribution services’, should be reworded as “demand management for distribution or system reliability, efficiency or security”;
- limiting the description of demand management to “demand management for distribution purposes” as per the wording in the Draft Guideline inappropriately constrains our ability to efficiently and prudently manage demand with a view to broader National Electricity Market (NEM) impacts;
- the intent of the NEO, NER and the AER’s own mechanisms by way of the Regulatory Investment Test for Distribution and Demand Management Incentive Scheme are for distributors to consider broader impacts arising from their actions (i.e. market benefits); and
- our proposing wording:
 - fits the definition of ‘distribution service’ as it would be limited to activities / investments that we make by *means of, or in connection with*, our distribution system; and
 - would not capture services provided into markets and receiving corresponding payments, such as Frequency Control Ancillary Services (FCAS) or Reliability and Emergency Reserve Trader services (RERT).⁴ Rather, there might be situations (among other examples) where a distributor could invest in a network asset to manage a broader system challenge for AEMO arising from high distributed generation export volumes. This investment could have positive net market benefits but these might pertain more to the broader system rather than to distribution expenditure savings. This investment would be compliant with the NER but not strictly be “...for distribution purposes” as the AER suggests.

Classification and regulatory treatment of services

Connection services

We are not yet able to comment definitively on the proposed classifications as the intent and rationale requires further clarification. We welcome the AER hosting a further workshop in this regard. In exploring how connections should be classified our views are that:

- a. The ability to provide revenue rebates regardless of whether connection works are undertaken by us or a third-party ensures that customers can be financially indifferent as to who undertakes the work, assuming the third-party’s costs were the same as ours. Currently, where a customer requests a third-party to undertake some connection works in isolation of our network (e.g. green-fields sites) to later connect to our network, these customers will receive a rebate from us.
- b. In considering any change in classifications, cross-subsidies should be avoided:
 - new customers should not cross-subsidise existing customers and vice versa;⁵ and
 - customers requesting connections above least cost technically acceptable solutions should not be subsidised by customers with least cost technically acceptable solutions.
- c. ACS prices should be fully costed and reflect the costs recoverable by firms operating in a workably competitive market. In this way, ACS prices can provide a comparator signal for customers wishing to procure a third-party service, should competition for ACS emerge in future.
- d. The approach to (c) must not negatively affect (b). Therefore, as per current practice in South Australia, prices for ‘enhanced connections’ should reflect the full cost, but only of the incremental part of the service that is above the least cost technically acceptable solution. For example, a customer requesting a duplicate supply should face a price for the first supply (least cost technically acceptable solution) that is subject to the typical cost / revenue test, but the price for the additional supply (above least cost technically acceptable solution) should be recovered from that customer via ACS.⁶

⁴ We note there could be good reasons for why FCAS and RERT could also form part of distribution services, but this a separate issue, and these services are not intended to be captured by our proposal here.

⁵ Satisfying this point might require differing approaches between jurisdictions given the differing ways in which connections have been classified to date.

⁶ Our current approach is to charge this component of the service to customers via Negotiated Distribution Services.

Table 1 comments on specific aspects of the AER’s proposed approaches.

Table 1: AER draft positions and SA Power Networks comments

AER Draft Guideline & Explanatory Statement		SA Power Networks comments
Service group	Description & classification	
Basic connections	Small customers (no extension & augmentation)— ACS	<p>The AER’s intent for these services is unclear:</p> <ul style="list-style-type: none"> It appears the intent of the SCS classification for ‘non-basic connections: standard’ is for the price of connections involving extensions or augmentations to be subject to the cost / revenue test. This implies some costs are to be recovered equally across all customers on average via Distribution Use of System (DUoS) charges, and other costs directly recovered from the customer requesting the connection. However, currently we do not provide any ‘non-basic connections: standard’, and connections for any customer requiring extension or augmentation are regarded as ‘non-basic connections: negotiated’, which the AER considers should be ACS. It is unclear why the AER seeks / why there should be differing treatment of standard and negotiated connections.
Non-Basic connections: Standard	Small customers (extension or augmentation required & subject to cost / revenue test)— SCS	
Non-Basic connections: negotiated	Connections which meet specific requirements including for large / major customers, real estate developers etc— ACS	
Connection management services	Related connection activities— ACS	These are appropriately classified as ACS, being customer specific and requested services.
Enhanced (non-standard) connections	Connections requested above the minimum required standard— ACS	<p>These are appropriately classified as ACS, being customer specific connections requested above least cost technically acceptable solutions.</p> <p>However, as described above, the price should only reflect the full cost of the incremental component of the service that is above the least cost technically acceptable solution. This ensures that customers requesting ‘enhanced connections’ are:</p> <p>(1) not being not being subsidised by other customers who only request / have least cost technically acceptable solutions; and</p> <p>(2) not subsidising other customers by paying both the full costs of the ‘least cost’ and ‘above least cost’ technically acceptable solution parts of their service via ACS and also subsidising the connection costs of other customers via their DUoS.</p>

Ancillary, metering and public lighting services

We accept that ‘ancillary services’, ‘metering services’ and ‘public lighting services’ as identified in the baseline list of services all meet the conditions necessary to be classified as ACS.

Unregulated services

It is undesirable to attempt to define an exhaustive list of services to deem as being unregulated distribution and or non-distribution services. If the AER had firm views, there would be merit in making these clear given the implications for ring-fencing,⁷ but this does not appear the case. Rightly these services will and should be considered on a case-by-case basis. Further most distributors have in recent F&As already identified a select non-exhaustive list of services which we consider to fit these definitions.

⁷ SAPN, *Submission to AER issues paper – service classification and asset exemption guidelines*, 13 March 2018.

Appendix 1: SA Power Networks comments on AER draft baseline list of services—groupings and descriptions

AER service grouping	AER service description	SAPN comments
Common distribution services		
Common distribution services	<p>The suite of activities that includes, but is not limited to, the following:</p> <ul style="list-style-type: none"> ▪ <u>network demand management for distribution purposes</u> <p>**Other activities listed are not repeated here.</p>	<p>As discussed on page 3 of this submission – the dot point “<i>network demand management for distribution purposes</i>” should be reworded in favour of “<i>demand management for distribution or system reliability, efficiency or security</i>”. This ensures consistency with the ability to consider broader NEM benefits, as provided by the National Electricity Objective (NEO) and NER.</p>
Network ancillary services	customer and third party initiated services related to common distribution services	
Unidentified		<ul style="list-style-type: none"> ▪ We cannot locate a service the AER was proposing to include under ‘ancillary services’, as reflected in its initial Guideline consultation and in its Preliminary F&A for our business.⁸ The service was: “connection application related services - Activities include: <ul style="list-style-type: none"> ○ Assessing connection applications and preparing offers ○ Processing preliminary enquiries requiring site specific or written responses ○ Undertaking planning studies & associated technical analysis (e.g. power quality investigations) to determine suitable / feasible connection options for further consideration by applicants. ○ Site inspection in order to determine the nature of the connection service sought by the connection applicant and ongoing coordination for large projects ○ Registered participant support services associated with connection arrangements and agreements made under Chapter 5 of the NER.” ▪ This service / fee is also intended to cover works requested by customers in the pre-connection planning phase which might not proceed to a connection being requested.
(6) Network safety services	<p>Examples include:</p> <ul style="list-style-type: none"> ▪ provision of traffic control and safety observer services by the distributor where required ▪ fitting of tiger tails and aerial markers ▪ high load escorts. 	<ul style="list-style-type: none"> ▪ The description omits an additional activity listed in the AER’s final F&A for our business, of: “<i>de-energising wires for safe approach (e.g. for tree pruning by a customer / third party).</i>”⁹ ▪ It is unclear if the AER intends this activity to be captured under service grouping (2) “access permits, oversight and facilitation”? ▪ For our F&A we initially proposed to include an additional example activity of “<i>inspection work undertaken to determine the cause of a customer fault where there may be a safety or reliability impact on the network or related component and associated works to rectify the impact on the network caused by a customer</i>”.

⁸ AER, *Preliminary Framework and Approach—SA Power Networks 2020-25*, p.74.

⁹ AER, *Final Framework and Approach—SA Power Networks 2020-25*, p.95.



AER service grouping	AER service description	SAPN comments
		<ul style="list-style-type: none"> The AER final F&A for our business worded this activity as being “inspection and rectification of customer fault where there may be a safety and or reliability impact on the network or related component”.¹⁰ It appears the “inspection” component of this activity is intended to be covered under service grouping 15—‘fault response’. However, it is unclear where the AER proposes to capture the rectification aspect of this service. We note that charging a customer to rectify an issue they have caused on network is not something that a customer would request but rather initiate. The AER’s final decision should clarify how costs for these rectification activities are intended to be recovered. As stated in the row above, the coverage of this service needs clarification. In our view, “attendance” should cover identification and rectification of any impact that a customer has caused on network assets.
(15) Fault response	Attendance at a customer’s premises to restore supply or investigate power quality issues where it’s determined the fault was unrelated to the distributor’s equipment or infrastructure (this excludes circumstances where the fault relates to the network).	
(14) Customer requested provision of electricity network data	Data requests by customers or third parties including requests for the provision of electricity network data or consumption data outside of legislative obligations.	<ul style="list-style-type: none"> The description of this service appears to appropriately reflect that the information might be requested by customers or third parties, and might pertain to information on the condition and location network assets as well as electricity consumption data. However, it is unclear if the title of the service grouping adequately reflects the service description.
(13) customer initiated network asset relocations / re-arrangements	Relocation of assets that form part of the distribution network in circumstances where the relocation was initiated by a third party (including a customer).	<ul style="list-style-type: none"> Asset relocations might be requested by a third party including a customer, but might also be triggered by a customer’s non-compliance with network safety or security standards—the service should apply to both situations. We wish to clarify if the AER’s use of the term “initiated” is intended to capture both.
Metering services		
Unidentified		<ul style="list-style-type: none"> The Final F&A for our business proposed including the service: “third party requested outage for the purposes of replacing a meter”, described as “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”.¹¹ We wish to clarify why this service was omitted, and if the intent was to capture it service grouping 7—“planned interruption – customer requested”. If it is to be included in this service, the description needs to specifically refer to meter replacements as the examples listed under service grouping 7 only discuss activities which impact other customers (e.g. when a network outage is required to allow a contractor to performance maintenance of customer assets).
Connection services		

¹⁰ AER, Final Framework and Approach – SA Power Networks 2020-25, p.95.

¹¹ AER, Final Framework and Approach – SA Power Networks 2020-25, p.94.

AER service grouping	AER service description	SAPN comments
Enhanced connection services	<p>Other or enhanced connection services provided at the request of a customer or third party that includes those that are:</p> <ul style="list-style-type: none"> ▪ provided with higher quality of reliability standards, or lower quality of reliability standards (where permissible) than required by the NER or any other applicable regulatory instruments ▪ in excess of levels of service or plant ratings required to be provided by the distributor ▪ for large embedded generators (30 kW 3 phase or above and 5 kW 1 phase or above). 	<ul style="list-style-type: none"> ▪ The description omits an additional dot point reasonably included in the AER's Final F&A for our business, of: "other additional customer dedicated connection lines / assets".¹² There is some uncertainty as to the AER's intended scope of the terms "higher quality" and "higher reliability".

¹² AER, Final Framework and Approach – SA Power Networks 2020-25, p.90.