

# Chapter 2: Classification of services and control mechanisms

## Introduction

Ergon Energy provides a number of different services.

The AER determines how all of our regulated services are classified and how they will be regulated. This is important as it determines how prices will be set and how charges are recovered from our customers.

The main service that is incorporated within the customer's standard bill relates to the access and supply of electricity to customers. This service and a number of others are classified as Standard Control Services. However, a number of other user specific and asset specific services are separately charged. These are generally classified as Alternative Control Services.

Our proposal adopts the changes to the classification of services that were put forward by the AER for the next regulatory control period.

## Customer benefits

Our best possible price commitment applies to our Standard Control Services. We're targeting to reduce what we charge for the use of our network in 2015-16, and keep increases overall in network charges under inflation for the next five years.

This, and a number of our Alternative Control Services, is also central to our commitment to playing our part in powering economic growth by making it easier to connect to the network.

The classification changes, such as with metering services, will provide greater transparency of prices and facilitate choice. For customer-specific services, we're providing clear service definitions to ensure customers understand what services they can expect to receive.

The revised classifications will also minimise cross-subsidies – this will be complemented by more cost reflective network charges as we move forward.

## 2. Classification of services and control mechanisms

### 2.1 Background

The purpose of this chapter is to outline Ergon Energy’s proposed classification of services for the next regulatory control period and the form of control that is proposed to apply to these services, including where Ergon Energy’s proposal may differ from that outlined by the AER in the Framework and Approach Paper.

### 2.2 Service classification

Service classification is the process of determining which distribution services are to be subject to economic regulation under the NER and whether those services will be subject to:

- direct regulatory oversight by the AER (e.g. as a Direct Control Service subject to price or revenue setting)
- a more light-handed form of regulatory oversight (e.g. through the application of a negotiating framework)
- no regulatory oversight (e.g. where a service is unclassified).

The classification that is applied to Ergon Energy’s Direct Control Services will have a direct bearing on whether the costs of the services are recovered from:

- all customers via DUOS charges, where classified as Standard Control Services. The method by which these charges are established is discussed in Chapters 3 and 4.
- those customers requesting the service, where classified as Alternative Control Services. The method by which these charges are established is discussed in Chapter 5.

#### 2.2.1 Outcomes of the Framework and Approach Paper

The AER’s Framework and Approach Paper set out its proposed approach, including rationale, for the classification of distribution services for Ergon Energy for the regulatory control period 2015-20. The AER’s proposed classification is set out in Figure 3 below.

Figure 3: AER’s proposed classification of Ergon Energy’s distribution services, 2015-20



## 2.2.2 Summary of changes to last Distribution Determination

The AER's Framework and Approach Paper proposed a number of changes to the service classifications for the next regulatory control period. The proposed changes in service classifications are set out in Table 2.

**Table 2: AER's proposed changes in service classifications, 2015-20**

Service	Current classification	Proposed AER classification for 2015-20
Carrying out planning studies and analysis relating to connection applications	Standard Control / Alternative Control	Alternative Control
Feasibility and concept scoping, including planning and design, for large customer connections	Standard Control / Alternative Control	Alternative Control
Tender process	Not currently classified	Alternative Control
Protection and Power Quality assessment – prior to connection and after connection	Standard Control / Alternative Control	Alternative Control
Customer build, own and operate consultation services	Not currently classified	Alternative Control
Commissioning and energisation of large customer connections	Standard Control	Alternative Control
Real estate development connection	Standard Control	Alternative Control
Removal of network constraint for embedded generator	Standard Control	Alternative Control
Accreditation of alternative service providers and approval of their designs, works and materials	Standard Control / Alternative Control	Alternative Control
Type 5 and 6 metering installation, provision, maintenance, reading and data services	Standard Control	Alternative Control
Auxiliary metering services	Not currently classified / Standard Control / Alternative Control	Alternative Control
Services provided in relation to a Retailer of Last Resort (ROLR) event	Standard Control	Alternative Control
Customer requests provision of electricity network data requiring customised investigation, analysis or technical input	Standard Control	Alternative Control
Witness testing	Not currently classified	Alternative Control

Service	Current classification	Proposed AER classification for 2015-20
Emerging public lighting technology	Not currently classified	Alternative Control
Emergency recoverable works	Alternative Control	Unclassified
High load escorts	Alternative Control / Unclassified	Unclassified

The main implication for those services that have changed classification from a Standard Control Service to an Alternative Control Service is that the costs of providing those services will be recovered through charges levied directly on the customer requesting the service. This means that other customers are not contributing to the costs of these services.

For those services that were not previously classified, such as witness testing, Ergon Energy will be able to explicitly recover AER-approved costs of providing those services.

The change in classification for emergency recoverable works and high load escorts to “unclassified” means that the AER will have no regulatory oversight over these services in the next regulatory control period.

In addition to the above, the AER highlighted that it considers embedded generators between 30kVA and 1MW should be charged the full cost of their connection. As such, the AER has specified that these connections should be treated as large customer connections and be subject to the relevant Alternative Control Service charges.

### 2.2.3 Classification proposal

As part of this Regulatory Proposal, Ergon Energy is required to provide a classification proposal that shows how our distribution services, in our opinion, should be classified. If our proposed classification differs from the AER’s likely classification, we must include reasons for the difference.

Our classification proposal adopts the AER’s classification of services set out in Appendix B of its Framework and Approach Paper, as well as the AER’s decision to not classify any of our distribution services as negotiated distribution services.

Further detail on our classification proposal is contained in our supporting document *02.01.01 – Classification Proposal*. This document also provides our interpretation of how the AER’s classification of services will apply in practice in the next regulatory control period.

### 2.2.4 Unregulated services

Ergon Energy provides a range of other services (unregulated services) that do not fall within the definition of a distribution service. For example, provision of training to external parties and providing property services to customers such as conducting easement negotiations. These activities are not regulated by the AER and therefore are not subject to the Distribution Determination process.

## 2.3 Control service mechanisms

As stated in the AER’s Framework and Approach Paper, the form of control for:

- Standard Control Services will be a revenue cap.
- Alternative Control Services will be a cap on the price of individual services.

Our positions on the formulae to implement the control mechanisms, tariff design and mechanisms for adjusting the allowable revenue are set out in Chapter 4 for Standard Control Services and Chapter 5 for Alternative Control Services.

## 2.4 Supporting documentation

The following documents referenced in this chapter accompany our Regulatory Proposal:

Name	Ref	File name
Classification Proposal	02.01.01	Classification Proposal