Distribution service classification – importance and clarifications

Contestability of energy services – public forum

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Distribution service classification - importance
Importance – economic regulatory implications

- **Distribution services**
  - **Direct control services**
    - **Standard control service**
      - Services that exhibit natural monopoly characteristics and are relied on by most (if not all) customers.
    - **Alternative control service**
      - Customer specific or customer requested services. May have potential for provision on a contestable basis.
  - **Negotiated distribution services**
    - Services which parties have a degree of market power to negotiate the provision of those services.
  - **Unclassified distribution services**
    - Services that are contestable and therefore are not regulated.
  - **Non-distribution services**

The DNSP has broad discretion over the service delivery method and the efficient costs of the services are recovered through regulated revenue and/or prices.

The DNSP may not recover the cost of the services through regulated revenue and/or prices.
Importance – contestable service provision

- Service classification also has a significant impact on the ability for other parties to compete with DNSPs in providing services.
  - Standard control services
  - Alternative control services
  - Other services
Distribution service classification - clarifications
Clarifications

- Distribution service classification involves the classification of services that DNSPs supply customers.
- Not the classification of:
  - the assets used to provide such services;
  - the inputs/delivery methods DNSPs use to provide such services to customers; or
  - services that consumers or other parties provide to DNSPs.
Clarifications - assets

- Assets can, and often are, used to provide multiple services with different service classifications. For example, a truck that a DNSP purchases is an asset that may be used to provide:
  1. standard control services, for example, network services;
  2. alternative control services, for example, public lighting services; and
  3. a number of negotiated or unclassified distribution services.

- As long as DNSPs do so in accordance with their cost allocation methodology, the shared asset guideline and distribution ring-fencing guideline, such multiple use of an asset is permissible under the NER.
Clarifications – inputs or services?

• It is the services provided by DNSPs to customers that are classified within distribution service classification.

• The inputs that a DNSP uses in providing distribution services to customers are not classified. Equivalently, services that are provided to the DNSP as inputs to providing services to customers are not classified. For example:
  – Tree trimming
  – Network support
Application of clarifications to the rule change requests

- The rule change requests seek to require DNSPs to procure certain inputs to standard control services from third parties or related entities, rather than investing in assets that provide such inputs.

- The requests focus on changes to the service classification framework to achieve this aim.

- The consultation paper highlighted that:
  1. Reclassifying these services away from direct control services would prevent DNSPs from procuring them from other parties, **not** promote such procurement.
  2. These are unlikely to be services that can be classified separately because they are inputs to providing network services, not services provided to customers.
Other issues

• The consultation paper noted that the distinction between inputs/services is not always clear. For example:
  – metering; and
  – connections services.

• A key distinction between these and other inputs/services is that these services are provided to a single customer by the DNSP.