Contestability of energy services
Draft determination

Public forum – 27 August 2017

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Improvements to service classification processes
Contestability of energy services – draft determination

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.

Non-distribution services

- 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.

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.

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In this session …

• Reasons for making the draft rule
• Overview of the draft rule
• Benefits if the draft rule is made
Reason for our decision
Why are we making changes?

• Current process does not facilitate stakeholder engagement

• Limited understanding of the AER’s approach in classifying services

• Current framework limits the AER’s discretion when responding to changes in the market
Overview of the draft rule
Improvements to the service classification processes: overview

Changes to service classification framework

1. AER to publish a distribution service classification guideline
2. Remove AER’s obligation to consider service classification from previous regulatory period
3. Reduces threshold for AER to change classification decision during a determination process
Publication of Distribution Service Classification Guidelines

Requirements under the draft rule

- First Distribution Service Classification Guidelines published by **30 September 2018**
- Service classification still conducted on a business by business basis
- If the AER departs from the approach stated in the guideline, it must state its reasons for departure

Implementation (transitional)

- Does not apply to the 2019-24 determination process for DNSPs in the following jurisdiction:
  - NSW, ACT, TAS, NT
Consideration of previous classification approach

Changes under the draft rule

- Requirement to not depart from previous classification unless a different classification is clearly more appropriate removed
  - Delete clause 6.2.1(d) – classification of distribution services
  - Delete clause 6.2.2(d) – classification of direct control services and alternate control service

Implementation (transitional)

- Does not apply to the 2019-24 determination process for DNSPs in the following jurisdiction:
  - NSW, ACT, TAS, NT
Changing classification during a determination process

Changes under the draft rule

- Threshold to change classification during a determination process reduced from:
  - “unforeseen circumstance”
  to
  - “a material change in circumstances”

Implementation (transitional)

- Change to apply from rule commencement
Benefits under the draft rule

- Provide clarity, transparency and regulatory predictability to stakeholders
- Improve the AER’s discretion when classifying services in a changing market
  - Classification of services based on form of regulation factors, not previous approaches
Summary
Summary

• Why
  – Current process does not facilitate stakeholder engagement
  – Current framework limits the AER’s discretion when responding to changes in the market

• How?
  – Publication of distribution service classification guidelines
  – Changes to improve framework’s responsiveness to market changes

• Benefits
  – Provide clarity, transparency and regulatory predictability to stakeholders