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## **APPROVAL OF POWER AND WATER'S NETWORK SERVICES CLASSIFICATION THIRD REGULATORY CONTROL PERIOD**

The Commission hereby approves the network services classification proposed by Power and Water for the third regulatory period.

In particular, as required by the Commission's *2009 Regulatory Reset: Final Price Control Mechanism Decision* (published in May 2008), the Commission is satisfied that the network services classification proposed by Power and Water is not inconsistent with the requirements in the Electricity Networks (Third Party Access) Code or (otherwise) clause 6.2.1 of the *National Electricity Rules*.

This approval is subject to the following amendments to the classification (explained in the supporting information attachment):

- (a) the classification of high load escort services as an alternative control service rather than an unregulated service; and
- (b) the classification of disconnections and reconnections as a standard control service rather than an alternative control service.

### **Network Services Classification**

<b>UC proposed group</b>	<b>Activity description<sup>1</sup></b>	<b>Power and Water proposed group</b>	<b>Current classification</b>	<b>UC classification for third regulatory period</b>
Network Services	Construction of shared network	Conveyance services	Regulated network access services	Standard control service
	Maintenance of shared network	Conveyance services	Regulated network access services	Standard control service
	Operating the shared network	Conveyance services	Regulated network access services	Standard control service
	Planning the shared network	Conveyance services	Regulated network access services	Standard control service
	Designing the shared network	Conveyance services	Regulated network access services	Standard control service
	Emergency response	Not specifically mentioned	Not specifically identified	Standard control service
	Administrative support	Not specifically mentioned	Not specifically identified	Standard control service
Connection Services	Connection of connection assets	Standard connection services	Regulated network access services	Standard control service
	Small service connection	Standard connection services	Regulated network access services	Standard control service
	Installation inspection	Not specifically mentioned	Regulated network access services	Standard control service
	Commissioning of metering and load control equipment	Standard connection services	Regulated network access services	Standard control service
	Disconnection and Reconnection	Excluded services – miscellaneous services	Excluded services	Standard control service

<b>UC proposed group</b>	<b>Activity description<sup>1</sup></b>	<b>Power and Water proposed group</b>	<b>Current classification</b>	<b>UC classification for third regulatory period</b>
Metering Services	Scheduled meter reading	Not specifically mentioned	Regulated network access services	Standard control service
	Unscheduled metering reading – non-chargeable	Not specifically mentioned	Not specifically identified	Standard control service
	Metering investigation	Not specifically mentioned	Not specifically identified	Standard control service
	Maintenance & repair of meters and/or control equipment	Not specifically mentioned	Regulated network access services	Standard control service
Other Services <sup>2</sup>	Safety services (including high load escorts)	Unregulated service	Not specifically identified	Alternative control service
	Rearrangement of shared network assets	Excluded services – quoted services	Excluded services	Alternative control service
	Data services	Not specifically mentioned	Not specifically identified	Alternative control service
	Design services	Not specifically mentioned	Not specifically identified	Alternative control service
	Supply enhancement	Excluded services – quoted services	Excluded services	Alternative control service
	Ancillary metering services	Excluded services – miscellaneous services	Excluded services	Alternative control service
	Metering enhancement	Excluded services – quoted services	Excluded services	Alternative control service
	Re-test	Not specifically mentioned	Not specifically identified	Alternative control service
	Supply abolishment	Excluded services – miscellaneous services	Not specifically identified	Alternative control service
	Temporary connection	Excluded services – miscellaneous services	Not specifically identified	Alternative control service
	Design construction of connection assets	Not specifically mentioned	Not specifically identified	Alternative control service
	Provision, construction and maintenance of street lighting assets	Excluded services – miscellaneous services	Not specifically identified	Alternative control service
	After hours service	Not specifically mentioned	Not specifically identified	Alternative control service
	Emergency recoverable works	Excluded services – quoted services	Not specifically identified	Alternative control service
	Fault response where service provider is not at fault	Excluded services – miscellaneous services	Not specifically identified	Alternative control service
	Wasted attendance	Excluded services – miscellaneous services	Not specifically identified	Alternative control service
Unregulated Services	Contestable networks engineering consulting services	Unregulated service	Unregulated service	Unregulated service

Note: Power and Water did not propose any Negotiated Services.

1. The Activity Descriptions listed here are those recently proposed and published by the AER in its framework and approach paper for the classification of Energen and Ergon Energy's distribution services for the next regulatory period.

2. Other Services are regulated services that are not part of Power and Water Network's 'core business' (that is, regulated services that aren't Network Services, Connection Services or Metering Services). This grouping includes services classified by Power and Water as Miscellaneous Services and Quoted Services.

This is an interim approval - the final network services classification for the third regulatory period will form part of the Commission's *2009 Regulatory Reset: Final Determination* to be released in November 2008. In particular, the Commission will consider the services classification further as part of its assessment of the proposed control mechanism for alternative control services. In deciding on the final services classification, the Commission will consider any submissions received in response to this interim approval and any further developments in relation to the AER's position on these issues.

# **NETWORK SERVICES CLASSIFICATION SUPPORTING INFORMATION**

## **Power and Water's classification proposal**

The Commission's *2009 Regulatory Reset: Final Price Control Mechanism Decision* (the Final Decision) required Power and Water to submit a classification proposal to the Commission in accordance with the following categories of distribution network services in the *National Electricity Rules* (the Rules):

- Direct control services – services that are subject to a direct form of price control. Direct control services are further divided into the following subclasses:
  - Standard control services – services that are subject to the weighted average price cap form of price control; and
  - Alternative control services – services that do not lend themselves to being regulated by a weighted average price cap form of price control; and
- Negotiated network services – services that are not subject to effective competition but do not lend themselves to being regulated by a direct form of price control.

Power and Water has proposed that all of its currently regulated network access services are direct control services. Tables 1.1 and 1.2 (below) summarise Power and Water's justification for this classification against the requirements of the Rules (clause 6.2.1(c)). Table 2 (below) summarises Power and Water's justification for its proposed classification of direct control services between standard and alternative control services against the requirements of the Rules (clause 6.2.2(c)).

## **Divergence from the Commission's default classification**

The Commission's Final Decision also required that, if Power and Water's proposed classification differed from the Commission's default classification set out at Appendix A of the Final Decision, Power and Water must explain the reasons for the difference.

Power and Water's proposal was consistent with the Commission's default services classification, with one exception - the classification of above-standard connection services. These services were classified as a negotiated service in the Commission's default classification.

The Commission accepts Power and Water's proposal that this classification is inconsistent with the Rules, as customers have limited ability to exert substantial market power in the negotiation of above-standard services, and therefore these services are more appropriately classified as an alternative control service.

## **Amendments to Power and Water's classification proposal**

The Commission has approved the network services classification proposed by Power and Water subject to the following amendments:

- (a) the classification of high load escort services as an alternative control service rather than an unregulated service; and
- (b) the classification of disconnections and reconnections as a standard control service rather than an alternative control service.

In amending Power and Water's proposal, the Commission has had regard to the AER's initial interpretation of the Rules' requirements in considering its proposed position on the services classification for the Queensland distribution businesses for the next regulatory period (AER's Framework and approach paper, *Classification of services and control mechanisms, Energex and Ergon Energy 2010-15*, July 2008).

### *High load escort services*

A high load escort is required when a customer (usually a large commercial customer) requests the lowering of powerlines to allow a high load to pass underneath. Power and Water requires that a minimum of two people escort the load in order to prevent damage to its networks assets. Power and Water have proposed that the provision of high load escort services is an unregulated service because these services are subject to competition in the NT.

Consistent with the AER's proposed approach to the classification of these services at this time, and given that the depth of competition in the market is unclear, the Commission considers that the provision of high load escorts is more appropriately classified as an alternative control service.

### *Disconnections and Reconnections*

Disconnection and reconnection services relate to the disconnection and subsequent reconnection of a customer's supply, at the request of a retailer or a customer. Power and Water have proposed that these services be classified as alternative control services.

Consistent with the AER's proposed approach to the classification of these services at this time, the Commission has classified these services as standard control services. The AER considers that disconnections and reconnections are directly related to connection services and therefore should be considered as a standard control service.

## NETWORK SERVICES CLASSIFICATION SUMMARY OF POWER AND WATER'S JUSTIFICATION

<b>Table 1.1 DIRECT CONTROL or NEGOTIATED SERVICE</b> (as per clause 6.2.1(c) of the NER)	<b>Conveyance Services</b>	<b>Standard Connection Services</b>	<b>Miscellaneous Services</b>	<b>Quoted Services</b>
Consideration must be given to: (1) The form of regulation factors (these are set out in section 2F of the <i>National Electricity Law</i> (NEL))	<i>DIRECT CONTROL</i> (see Table 1.2)	<i>DIRECT CONTROL</i> (see Table 1.2)	<i>DIRECT CONTROL</i> (see Table 1.2)	<i>DIRECT CONTROL</i> (see Table 1.2)
(2) The form of regulation (if any) previously applicable to the relevant service or services and, in particular, any previous classification under the present system of classification or under the previous regulatory system	<i>DIRECT CONTROL</i> – this is consistent with the Commission’s current regulation of these services as prescribed services regulated under a weighted average price cap.	<i>DIRECT CONTROL</i> – this is consistent with the Commission’s current treatment of these services.	<i>DIRECT CONTROL</i> – this is consistent with the Commission’s current treatment of these services	<i>DIRECT CONTROL</i> – this is consistent with the Commission’s current treatment of these services, which is to treat them as excluded services under section 72(3) of the Code;
(3) The desirability of consistency in the form of regulation for similar services (both within and beyond the relevant jurisdiction).	<i>DIRECT CONTROL</i> – this is consistent with the classification of this type of service in other jurisdictions.	<i>DIRECT CONTROL</i> – this is consistent with the classification of connection services in the NEM jurisdictions where these services are treated as regulated services, other than in NSW where connection services are treated as excluded services and a separate fee is charged to customers upon connection.	<i>DIRECT CONTROL</i> – this is consistent with the treatment of customer services in NEM jurisdictions	<i>DIRECT CONTROL</i> – this is consistent with NEM jurisdictions where quoted services are treated as regulated services.

<b>Table 1.2 FORM OF REGULATION FACTORS</b> (section 2F of the NEL)	<b>Conveyance Services</b>	<b>Standard Connection Services</b>	<b>Miscellaneous Services</b>	<b>Quoted Services</b>
Presence and extent of any barriers to entry in a market for electricity network services	<i>Applicable – there are barriers to entry for any other party providing conveyancing services to users on PWC’s network. General applications of property rights, as well as the Electricity Reform Act, would prevent any other party providing services using PWC’s network without its approval</i>	<i>Applicable – there are high barriers to a new entrant competing with PWC to provide connection services to customers from PWC’s network. This is because there is a legislative prohibition on unauthorised persons interfering with PWC’s network.</i>	<i>Applicable - the current legislative restriction on any other party interfering with PWC’s network would effectively stop any person from providing these services, therefore establishing barriers to entry.</i>	<i>Applicable - the current legislative restriction on any other party interfering with PWC’s network would effectively stop any person from providing these services, therefore establishing barriers to entry</i>
Presence and extent of any network externalities (that is, interdependencies) between an electricity network service provided by a network service provider and any other electricity network service provided by the network service provider	<i>Applicable - it is difficult to isolate the incremental or stand alone costs for individual users of conveyancing services, as these services are provided by a shared network with indivisible usage</i>	<i>Applicable – there are network externalities present, because PWC can use factors of production that relate to its shared network to provide connection and metering services to customers</i>	<i>Applicable - PWC can use its existing assets, which form part of the shared network, to provide these services at far more cost efficient levels than any other market entrant could – therefore there are positive network externalities.</i>	<i>Applicable - PWC can use its existing assets, which form part of the shared network, to provide these services at far more cost efficient levels than any other market entrant could, therefore there are positive network externalities</i>
Extent to which any market power possessed by a network service provider is, or is likely to be, mitigated by any countervailing market power possessed by a network service user or prospective network service user	<i>Applicable - while there are large customers using the network, these customers have limited ability to exert substantial market power in the negotiation of conveyancing services because:</i> <ul style="list-style-type: none"> <li>• <i>no single customer contributes a significant proportion of the costs of the shared network in revenue; and</i></li> <li>• <i>the possibilities for a customer to by-pass the network or seek substitutes for the supply of electricity are limited.</i></li> </ul>	<i>Applicable - there are limited opportunities for customers to exert countervailing market power given the legislative impediments to customers performing the connection works themselves.</i>	<i>Applicable - there is little opportunity for customers, retailers or developers to exert countervailing market power because PWC is the sole provider of these services, and in any event, there is no single customer which demands enough of these services to cause PWC to negotiate on price or service</i>	<i>Applicable - there is little opportunity for customers, retailers or developers to exert countervailing market power because PWC is the sole provider of these services, and in any event, there is no single customer which demands enough of these services to cause PWC to negotiate on price or service</i>
Presence and extent of any substitute, and the elasticity of demand, in a market for an electricity network service in which a network service provider provides that service	<i>Applicable - the possibilities for a customer to by-pass the network or seek substitutes for the supply of electricity are limited.</i>	<i>Applicable – there is no competition to PWC in the provision of these services given the legislative impediments to other suppliers interfering with PWC’s network</i>	<i>Applicable - there are no competitive or substitution possibilities for these services, meaning that a customer must use these services when it has a need for them – it cannot use a substitute product either from PWC or from another supplier</i>	<i>Applicable - there are no competitive or substitution possibilities for these services, meaning that a customer must use these services when it has a need for them – it cannot use a substitute product either from PWC or from another supplier</i>
Extent to which there is information available to a prospective network service user or network service user, and whether that information is adequate, to enable the prospective network service user or network service user to negotiate on an informed basis			<i>Applicable - there are significant information asymmetries between PWC and the customers of these services in terms of understanding the costs of providing these services. This means that PWC has the power to set prices for these services relatively unhindered</i>	<i>Applicable - there are significant information asymmetries between PWC and the customers of these services in terms of understanding the costs of providing these services. This means that PWC has the power to set prices for these services relatively unhindered</i>

<b>Table 2 STANDARD CONTROL or ALTERNATIVE CONTROL</b> (as per NER clause 6.2.2(c))	<b>Conveyance Services</b>	<b>Standard Connection Services</b>	<b>Miscellaneous Services</b>	<b>Quoted Services</b>
<p>Consideration must be given to:</p> <p>(1) The potential for development of competition in the relevant market and how the classification might influence that potential</p>	<p><i>STANDARD CONTROL</i> - there is neither actual, nor potential for the development of, competition for the supply of conveyance services on PWC's network. There is a legislative restriction on third parties interfering with PWC's network</p>	<p><i>STANDARD CONTROL</i> - there is neither actual, nor potential for the development of, competition for the supply of conveyance services on PWC's network. There is a legislative restriction on third parties interfering with PWC's network</p>	<p><i>ALTERNATIVE CONTROL</i> - the classification of PWC's [miscellaneous services] as alternative control services would not, of itself, impede a new entrant from providing these services in competition with PWC in the future. This would need to be facilitated via legislative amendment.</p>	<p><i>ALTERNATIVE CONTROL</i> - the classification of PWC's [quoted services] as alternative control services would not, of itself, impede a new entrant from providing these services in competition with PWC in the future. This could be facilitated via legislative amendment</p>
<p>(2) The possible effects of the classification on administrative costs of the [Commission], the Distribution Network Service Provider and users or potential users</p>			<p><i>ALTERNATIVE CONTROL</i> - classifying [miscellaneous services] as anything other than alternative control services would involve a change in administrative costs for PWC as it would alter the way in which these services are currently provided. PWC does not consider that the benefits of doing this would exceed the costs</p>	<p><i>ALTERNATIVE CONTROL</i> - classifying quoted services as anything other than alternative control services would involve a change in administrative costs for PWC as it would alter the way in which these services are currently provided. PWC does not consider that the benefits of doing this would exceed the costs</p>
<p>(3) The regulatory approach (if any) applicable to the relevant service immediately before the commencement of the distribution determination for which the classification is made</p>	<p><i>STANDARD CONTROL</i> - this is consistent with the Commission's current treatment of PWC's conveyance services</p>	<p><i>STANDARD CONTROL</i> - this is consistent with the Commission's current treatment of PWC's connection services</p>	<p><i>ALTERNATIVE CONTROL</i> - these services are currently excluded services under the current regime, and subject to separate pricing arrangements under a schedule of fees. This would lend itself to classifying these services as alternative control services.</p>	<p><i>ALTERNATIVE CONTROL</i> - these services are currently excluded services under the current regime, and subject to separate pricing arrangements. This would lend itself to classifying these services as alternative control services.</p>
<p>(4) The desirability of a consistent regulatory approach to similar services (both within and beyond the relevant jurisdiction)</p>	<p><i>STANDARD CONTROL</i> - this is consistent with the classification of these services in NEM jurisdictions</p>	<p><i>STANDARD CONTROL</i> - this is consistent with the classification of these services in NEM jurisdictions. While connection services are excluded services in NSW and Victoria, PWC does not consider that this is relevant to this classification as there are no legislative prohibitions on third parties undertaking these services in these jurisdictions.</p>	<p><i>ALTERNATIVE CONTROL</i> - this proposed classification would be in line with the way in which these services are classified in NEM jurisdictions. This would suggest classifying these services as alternative control services.</p>	<p><i>ALTERNATIVE CONTROL</i> - this proposed classification would be in line with the way in which these services are classified in NEM jurisdictions. This would suggest classifying these services as alternative control services.</p>
<p>(5) The extent the costs of providing the relevant service are directly attributable to the customer to whom the service is provided</p>	<p><i>STANDARD CONTROL</i> - the costs of providing network services are not directly attributable to individual customers, and involve allocations of shared and overhead costs</p>	<p>While the costs of connection works could be assigned to customers, PWC does not consider this to be an appropriate way of dealing with connection costs, and also considers that this is outweighed by the remaining factors.</p>	<p><i>ALTERNATIVE CONTROL</i> - the costs for these services are predominantly labour and vehicle based and can generally be assessed for individual customers on a service by service basis.</p>	<p><i>ALTERNATIVE CONTROL</i> - the costs of these services are impossible to estimate in advance, and therefore must by definition be assessed for individual customers on a service by service basis.</p>