

FINAL DECISION

Ausgrid distribution determination

2015−16 to 2018−19

Attachment 17 – Negotiated services framework and criteria

April 2015

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AER reference: 52294

1. Note
2. This attachment forms part of the AER's final decision on Ausgrid’s revenue proposal 2015–19. It should be read with all other parts of the final decision.
3. The final decision includes the following documents:
4. Overview

Attachment 1 - Annual revenue requirement

Attachment 2 - Regulatory asset base

Attachment 3 - Rate of return

Attachment 4 - Value of imputation credits

Attachment 5 - Regulatory depreciation

Attachment 6 - Capital expenditure

Attachment 7 - Operating expenditure

Attachment 8 - Corporate income tax

Attachment 9 - Efficiency benefit sharing scheme

Attachment 10 - Capital expenditure sharing scheme

Attachment 11 - Service target performance incentive scheme

Attachment 12 - Demand management incentive scheme

Attachment 13 - Classification of services

Attachment 14 - Control mechanism

Attachment 15 - Pass through events

Attachment 16 - Alternative control services

Attachment 17 - Negotiated services framework and criteria

Attachment 18 - Connection policy

Attachment 19 - Pricing methodology

Attachment 20 - Analysis of financial viability

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1. Shortened forms

| 1. Shortened form | 1. Extended form |
| --- | --- |
| 1. AEMC | 1. Australian Energy Market Commission |
| 1. AEMO | 1. Australian Energy Market Operator |
| 1. AER | 1. Australian Energy Regulator |
| 1. augex | 1. augmentation expenditure |
| 1. capex | 1. capital expenditure |
| 1. CCP | 1. Consumer Challenge Panel |
| 1. CESS | 1. capital expenditure sharing scheme |
| 1. CPI | 1. consumer price index |
| 1. DRP | 1. debt risk premium |
| 1. DMIA | 1. demand management innovation allowance |
| 1. DMIS | 1. demand management incentive scheme |
| 1. distributor | 1. distribution network service provider |
| 1. DUoS | 1. distribution use of system |
| 1. EBSS | 1. efficiency benefit sharing scheme |
| 1. ERP | 1. equity risk premium |
| 1. Expenditure Assessment Guideline | 1. expenditure forecast assessment Guideline for electricity distribution |
| 1. F&A | 1. framework and approach |
| 1. MRP | 1. market risk premium |
| 1. NEL | 1. national electricity law |
| 1. NEM | 1. national electricity market |
| 1. NEO | 1. national electricity objective |
| 1. NER | 1. national electricity rules |
| 1. NSP | 1. network service provider |
| 1. opex | 1. operating expenditure |
| 1. PPI | 1. partial performance indicators |
| 1. PTRM | 1. post-tax revenue model |
| 1. RAB | 1. regulatory asset base |
| 1. RBA | 1. Reserve Bank of Australia |
| 1. repex | 1. replacement expenditure |
| 1. RFM | 1. roll forward model |
| 1. RIN | 1. regulatory information notice |
| 1. RPP | 1. revenue and pricing principles |
| 1. SAIDI | 1. system average interruption duration index |
| 1. SAIFI | 1. system average interruption frequency index |
| 1. SLCAPM | 1. Sharpe-Lintner capital asset pricing model |
| 1. STPIS | 1. service target performance incentive scheme |
| 1. WACC | 1. weighted average cost of capital |

# Negotiated services framework and criteria

1. The NER requires us to make constituent decisions on:

* the negotiating framework that is to apply to Ausgrid (which may be as proposed by the distributor, some variant of it, or a framework substituted by us),[[1]](#footnote-1) and
* a decision on the negotiated distribution service criteria (NDSC) for the distributor.[[2]](#footnote-2)

1. While our final decision is not to classify any of Ausgrid' s distribution services as negotiated distribution services, the NER require us to set out these matters irrespective of our classification decisions. Ausgrid submitted a negotiating framework as part of its regulatory proposal for our consideration.[[3]](#footnote-3)

The NDSC set out criteria that a distributor must apply in negotiating terms and conditions including the prices for negotiated distribution services. They also contain the criteria that a commercial arbitrator must apply to resolve disputes about such terms and conditions and/or prices. This section sets out our final decision on Ausgrid's negotiating framework and NDSC.

## Final decision

1. Negotiating framework

We approve Ausgrid's proposed negotiating framework as it meets the requirements of the NER.[[4]](#footnote-4) Therefore, our final decision is to accept the negotiating framework submitted by Ausgrid for the 2015–19 regulatory control period.[[5]](#footnote-5)

1. Negotiated distribution service criteria

Our final decision is to retain the NDSC that we published for Ausgrid in June 2014[[6]](#footnote-6) for the 2015–19 regulatory control period. The NDSC give effect to the negotiated distribution service principles.[[7]](#footnote-7)

## Ausgrid’s revised proposal

As we accepted Ausgrid's negotiating framework without amendment in our draft decision, Ausgrid stated that it has no further submissions on this issue.[[8]](#footnote-8)

In its revised proposal, Ausgrid submitted the NDSC we proposed in June 2014, while based on the principles of clause 6.7.1 of the NER, adopted a mandatory language rather than a principles or criteria based approach. Ausgrid indicated we should explain the basis of our approach and why we had departed from the language of the principles and criteria in the NER. Ausgrid further submitted that in the absence of any basis for our approach, we should move away from mandatory language and revert to language which is more consistent with clause 6.7.1.[[9]](#footnote-9)

## AER’s assessment approach

1. Negotiating framework

To be approved, a proposed negotiating framework must specify the obligations in clause 6.7.5(c) of the NER. We examined whether Ausgrid's proposed negotiating framework has done that.

1. Negotiated distribution services criteria

We consider NDSC that reflect the negotiated distribution service principles would satisfy the NER. Therefore we assessed whether our proposed NDSC reflect the negotiated distribution service principles in clause 6.7.1 of the NER.

## Reasons for final decision

1. Negotiating framework
2. We approve Ausgrid's proposed negotiating framework because it specifies the minimum requirements of the NER.[[10]](#footnote-10) Those requirements include, among other things, a statement that a distributor will negotiate in good faith and a description for dealing with disputes.
3. Table 17.1 summarises our assessment of Ausgrid's proposed negotiating framework. It shows that each of the NER requirements for a negotiated framework is satisfactorily addressed.

Table 17.1 AER's assessment of Ausgrid's proposed negotiating framework

| 1. NER requirements | 1. AER assessment of Ausgrid |
| --- | --- |
| Requirement for a distributor and applicant[[11]](#footnote-11) to negotiate in good faith— cl. 6.7.5(c)(1) | Section 2 of Ausgrid's framework |
| Requirement for a distributor to provide all such commercial information reasonably required to enable the applicant of a negotiated distribution service to engage in effective negotiations— cl. 6.7.5(c)(2) | Section 5 of Ausgrid's framework |
| Requirement for a distributor to identify and inform the applicant of the reasonable costs of providing the negotiated service; demonstrate the charges reflect costs and have appropriate arrangements for assessment and review of the charges and the basis on which they are made— cl. 6.7.5(c)(3) | Section 5.1 of Ausgrid's framework |
| Requirement for the applicant to provide all such commercial information reasonably required for a distributor to engage in effective negotiation— cl. 6.7.5(c)(4) | Section 4 of Ausgrid's framework |
| Requirement to specify a reasonable period of time for commencing, progressing and finalising negotiations; and a requirement for each party to use their reasonable endeavours to adhere to those time periods during the negotiation— cl. 6.7.5(c)(5) | Section 3 of Ausgrid's framework |
| Requirement to specify a process for dispute resolution in accordance with the relevant provisions for dispute resolution— cl. 6.7.5(c)(6) | Section 9 of Ausgrid's framework |
| Requirements to specify arrangements for the payment of a distributor's reasonable direct expenses incurred in processing the application to provide the negotiated distribution service— cl. 6.7.5(c)(7) | Section 10 of Ausgrid's framework |
| Requirement for a distributor to determine the potential impact of the provision of a negotiated distribution service on other distribution network users— cl. 6.7.5(c)(8) | Section 7.1 of Ausgrid's framework |
| Requirement for a distributor to notify and consult with any affected distribution network user and ensure that the provision of the negotiation distribution service does not result in noncompliance with obligations in relation to other network users under the NER— cl. 6.7.5(c)(9) | Section 7.2 of Ausgrid's framework |
| Requirement that the distributor publish the results of negotiations on its website − 6.7.5(c)(10) | Section 12 of Ausgrid's framework |

Source: AER analysis

We are also satisfied that Ausgrid's negotiating framework appropriately addresses its dual function assets.[[12]](#footnote-12) We are therefore satisfied that Ausgrid's framework is consistent with the requirements of clause 6.7.5(d) of the NER.

1. A copy of Ausgrid's framework is at appendix A.
2. Negotiated distribution services criteria

In June 2014, we published an invitation for submissions on our proposed NDSC for Ausgrid. We did not receive any submissions in response to our proposed NDSC. However, Ausgrid, in its revised proposal submitted that we did not explain the basis for our use of 'mandatory' language in the proposed NDSC.

We have considered Ausgrid's submission. While we have adopted mandatory language we are satisfied that the language used in our proposed NDSC gives effect to and is consistent with the negotiated distribution services principles in clause 6.7.1 of the NER.[[13]](#footnote-13) The NER do not require us to use language that entirely replicates the negotiating principles. Clause 6.7.2(a)(2) of the NER provides that a distributor must comply with the NDSC when negotiating terms and conditions of access to negotiated distribution services. Further, clause 6.7.4 provides that the determination specifying the NDSC forms part of the distribution determination for a distributor is to set out the criteria that are to be applied by the provider and the AER. Therefore, we consider that the use of mandatory language gives effect to how the principles are to be applied under the NER.

On that basis, the NDSC we have decided to apply to Ausgrid follows:

1. National Electricity Objective
   1. The terms and conditions of access for a negotiated distribution service, including the price that is to be charged for the provision of that service and any access charges, should promote the achievement of the national electricity objective.

Criteria for terms and conditions of access

Terms and Conditions of Access

* 1. The terms and conditions of access for a negotiated distribution service must be fair and reasonable and consistent with the safe and reliable operation of the power system in accordance with the NER.
  2. The terms and conditions of access for a negotiated distribution service (including in particular, any exclusions and limitations of liability and indemnities) must not be unreasonably onerous taking into account the allocation of risk between a distributor and any other party, the price for the negotiated distribution service and the costs to a distributor of providing the negotiated distribution service.
  3. The terms and conditions of access for a negotiated distribution service must take into account the need for the service to be provided in a manner that does not adversely affect the safe and reliable operation of the power system in accordance with the NER.

Price of Services

* 1. The price for a negotiated distribution service must reflect the costs that a distributor has incurred or incurs in providing that service, and must be determined in accordance with the principles and policies set out in the relevant Cost Allocation Method.
  2. Subject to criteria 7 and 8, the price for a negotiated distribution service must be at least equal to the cost that would be avoided by not providing that service but no more than the cost of providing it on a stand-alone basis.
  3. If a negotiated distribution service is a shared distribution service that:
     + 1. exceeds any network performance requirements which it is required to meet under any relevant electricity legislation: or
       2. exceeds the network performance requirements set out in schedule 5.1a and 5.1 of the NER,

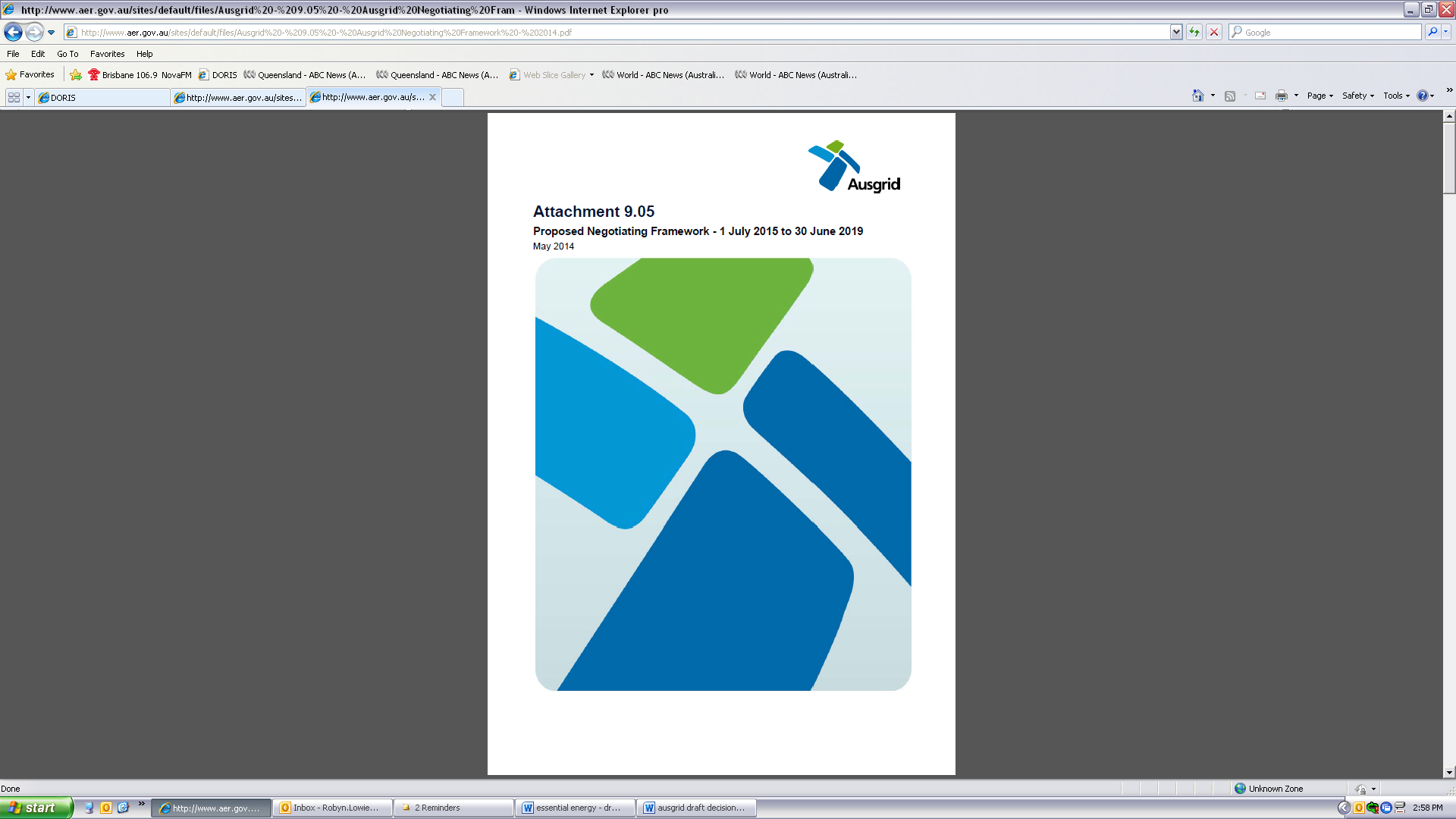
then the difference between the price for that service and the price for the shared distribution service which meets network performance requirements must reflect a distributor’s incremental cost of providing that service (as appropriate).

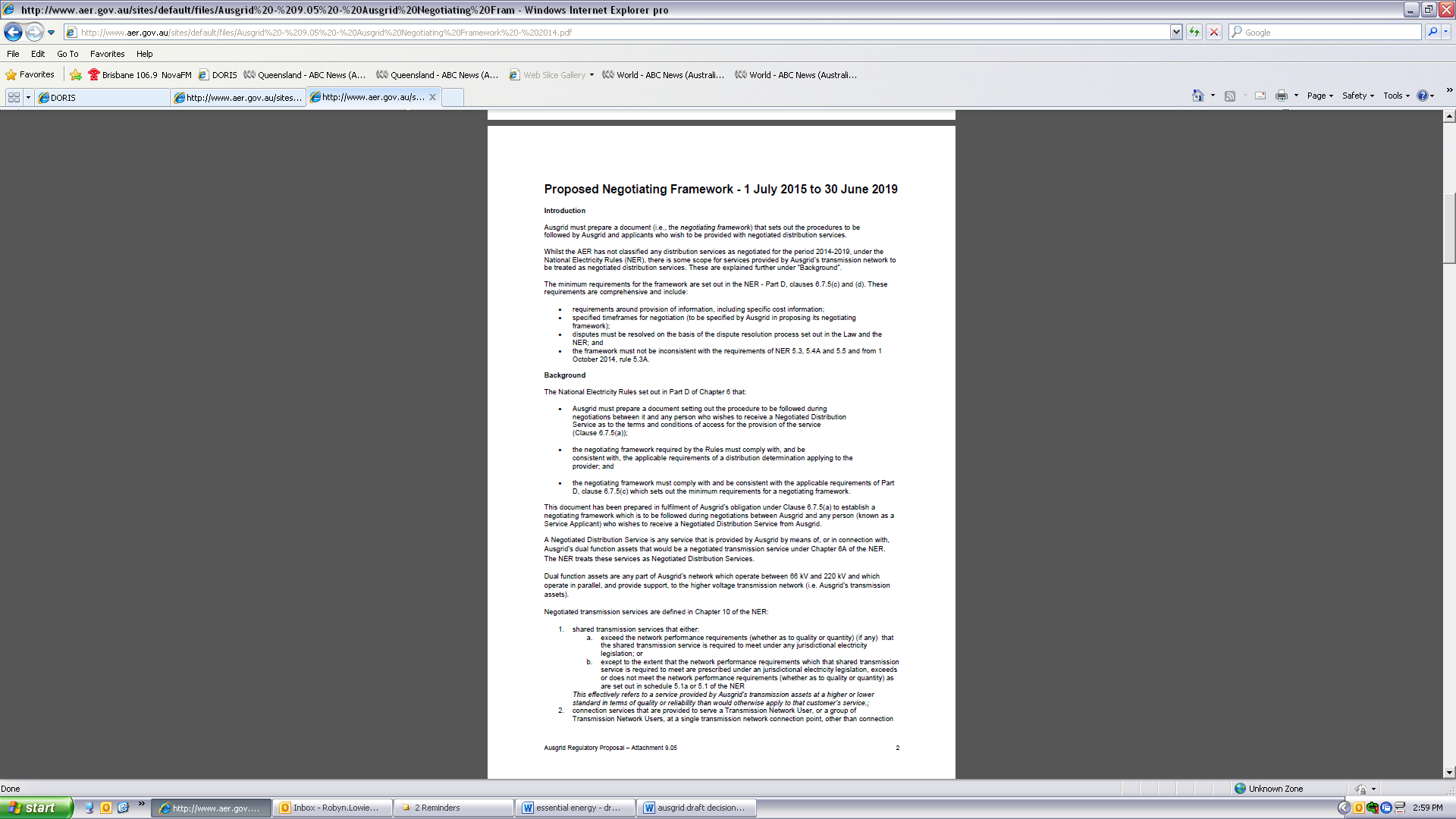
* 1. If a negotiated distribution service is the provision of a shared distribution service that does not meet or exceed the network performance requirements, the difference between the price for that service and the price for the shared distribution service which meets, but does not exceed, the network performance requirements should reflect the cost a distributor would avoid by not providing that service (as appropriate).
  2. The price for a negotiated distribution service must be the same for all Distribution Network Users unless there is a material difference in the costs of providing the negotiated distribution service to different Distribution Network Users or classes of Distribution Network Users.
  3. The price for a negotiated distribution service must be subject to adjustment over time to the extent that the assets used to provide that service are subsequently used to provide services to another person, in which case such adjustment must reflect the extent to which the costs of that asset are being recovered through charges to that other person.
  4. The price for a negotiated distribution service must be such as to enable a distributor to recover the efficient costs of complying with all regulatory obligations or requirements associated with the provision of the negotiated service.

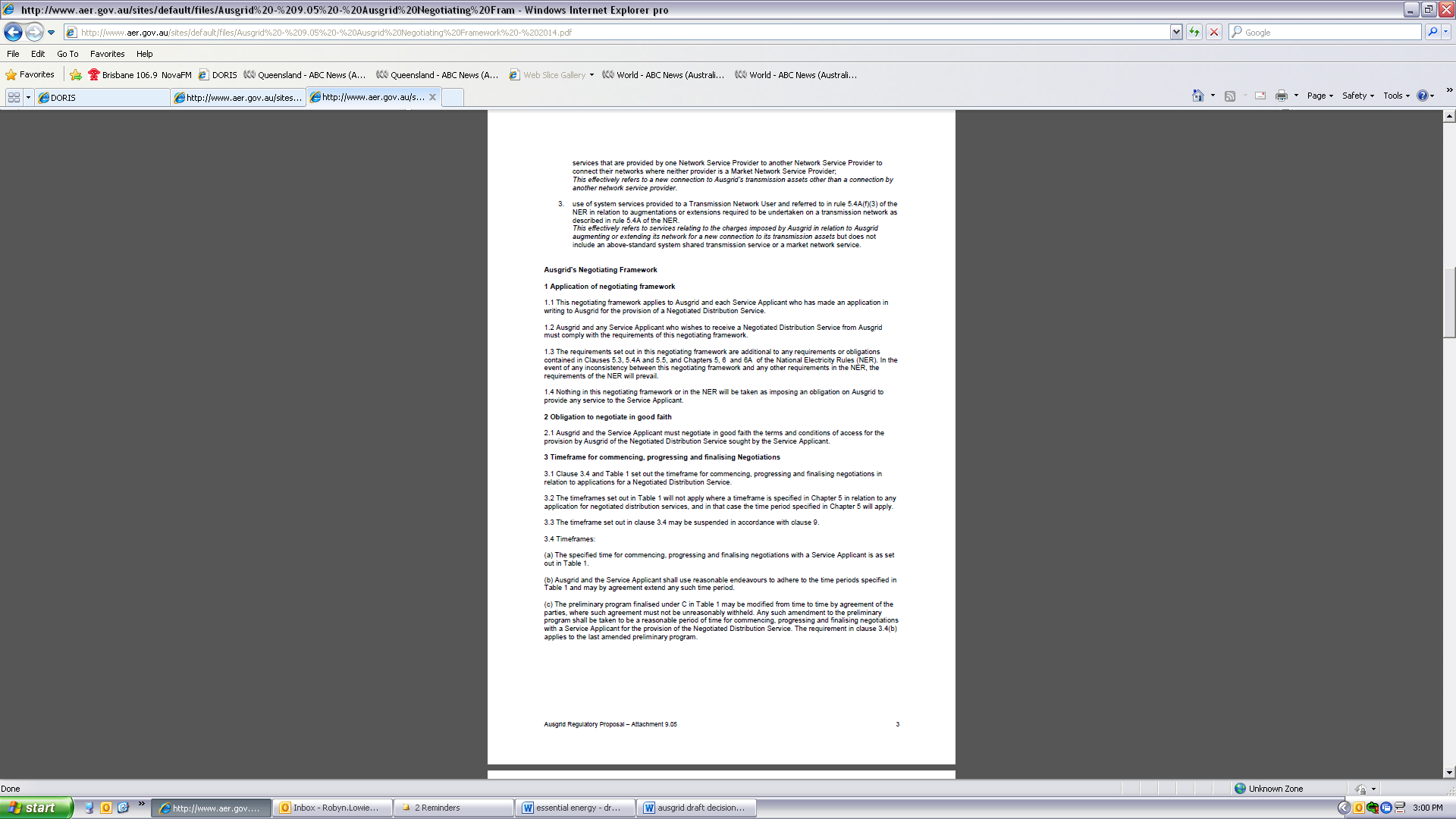
Criteria for access charges

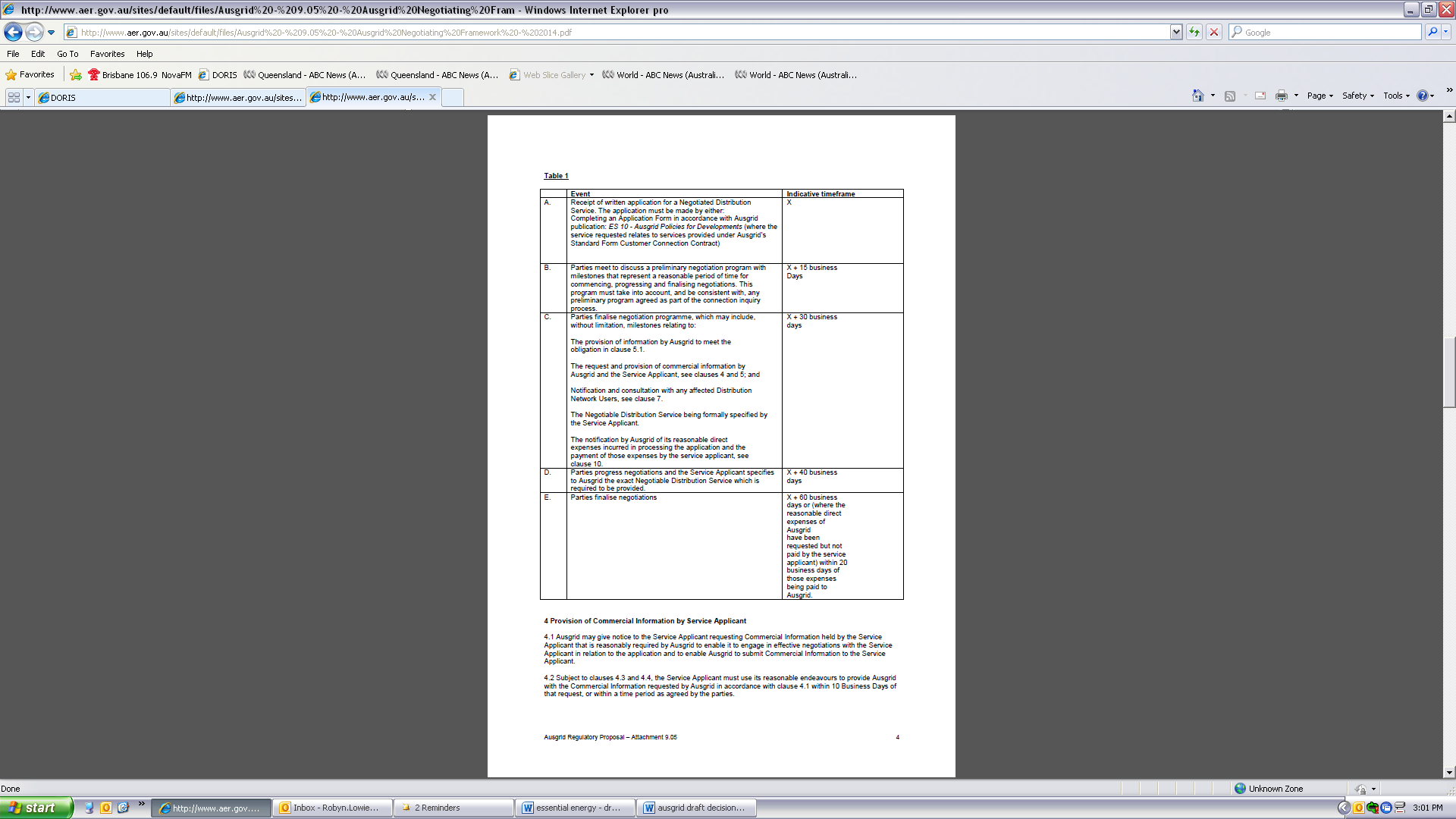
Access Charges

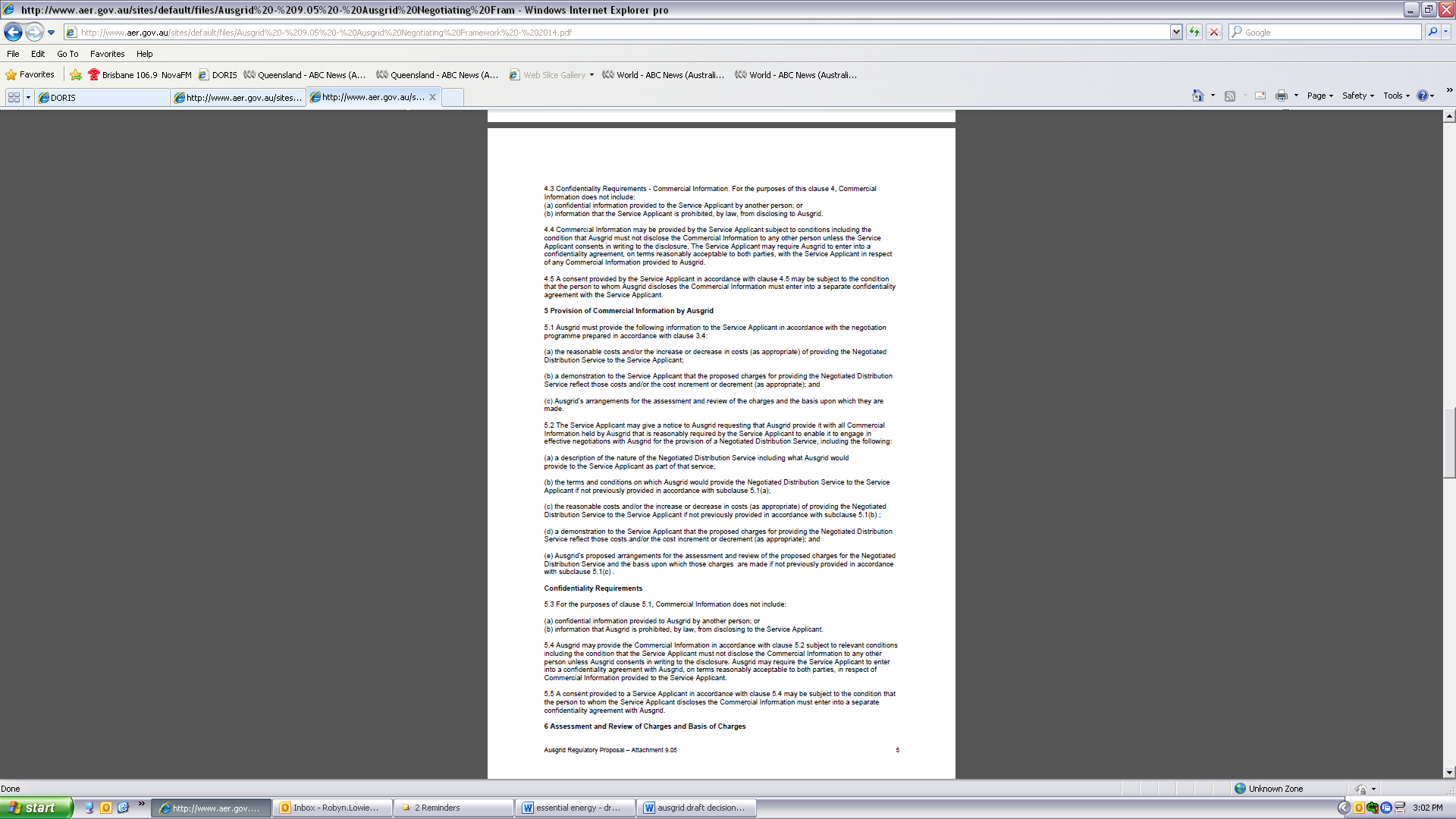
* 1. Any charges must be based on costs reasonably incurred by a distributor in providing distribution network user access, and, in the case of compensation referred to in clauses 5.5(f)(4)(ii) and (iii) of the NER, on the revenue that is likely to be foregone and the costs that are likely to be incurred by a person referred to in those provisions where an event referred to in those provisions occurs (as appropriate).
  2. Any charges must be based on costs reasonably incurred by a distributor in providing transmission network user access to services deemed to be negotiated distribution services by clause 6.24.2(c) of the NER, and, in the case of compensation referred to in clauses 5.4A(h) to (j) of the NER, on the revenue that is likely to be foregone and the costs that are likely to be incurred by a person referred to in those provisions where an event referred to in those provisions occurs (as appropriate).

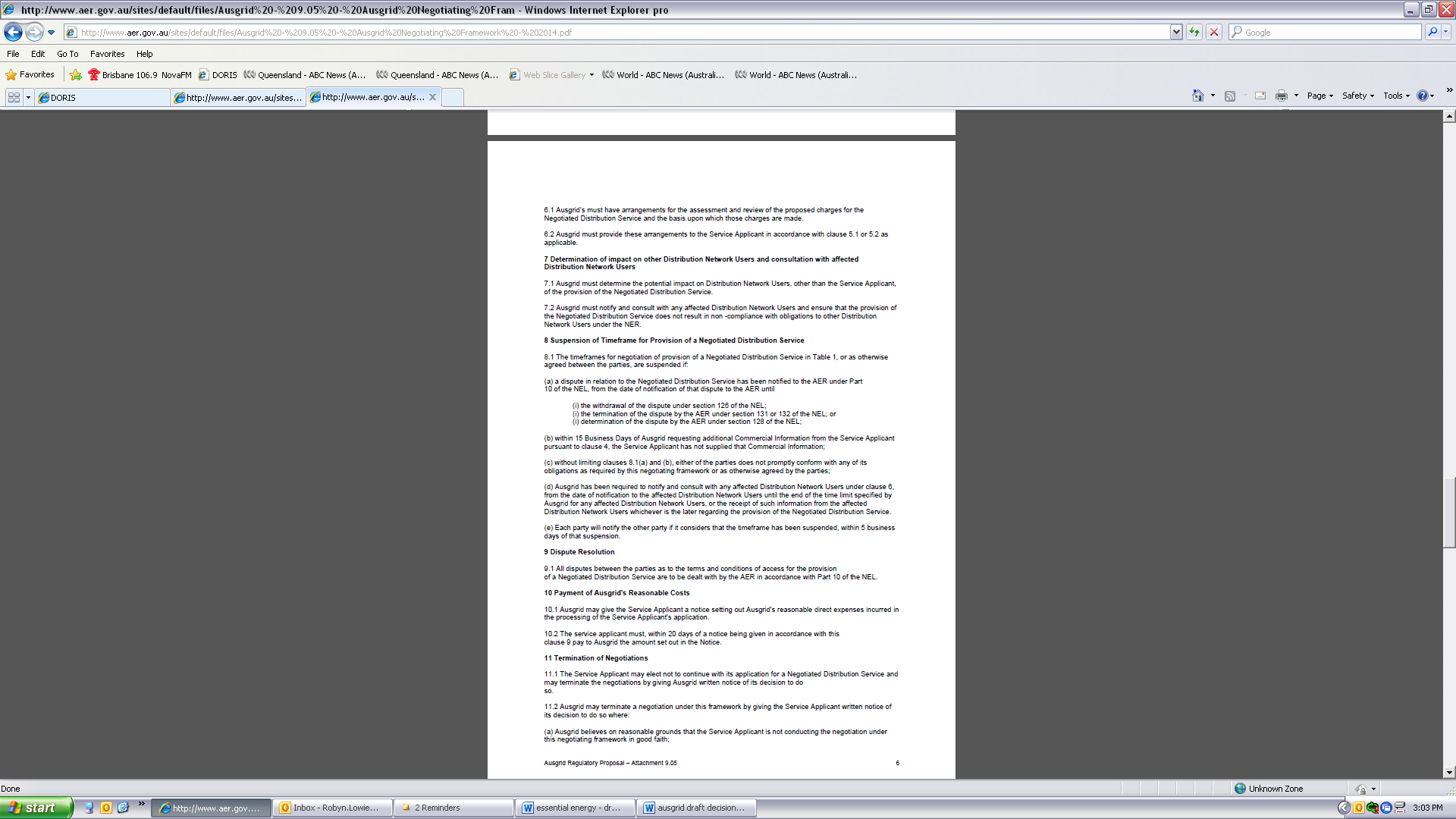
1. The above therefore constitutes our constituent decisions on the negotiating framework and NDSC to apply to Ausgrid for the 2015–19 regulatory control period.
2. Ausgrid's negotiating framework

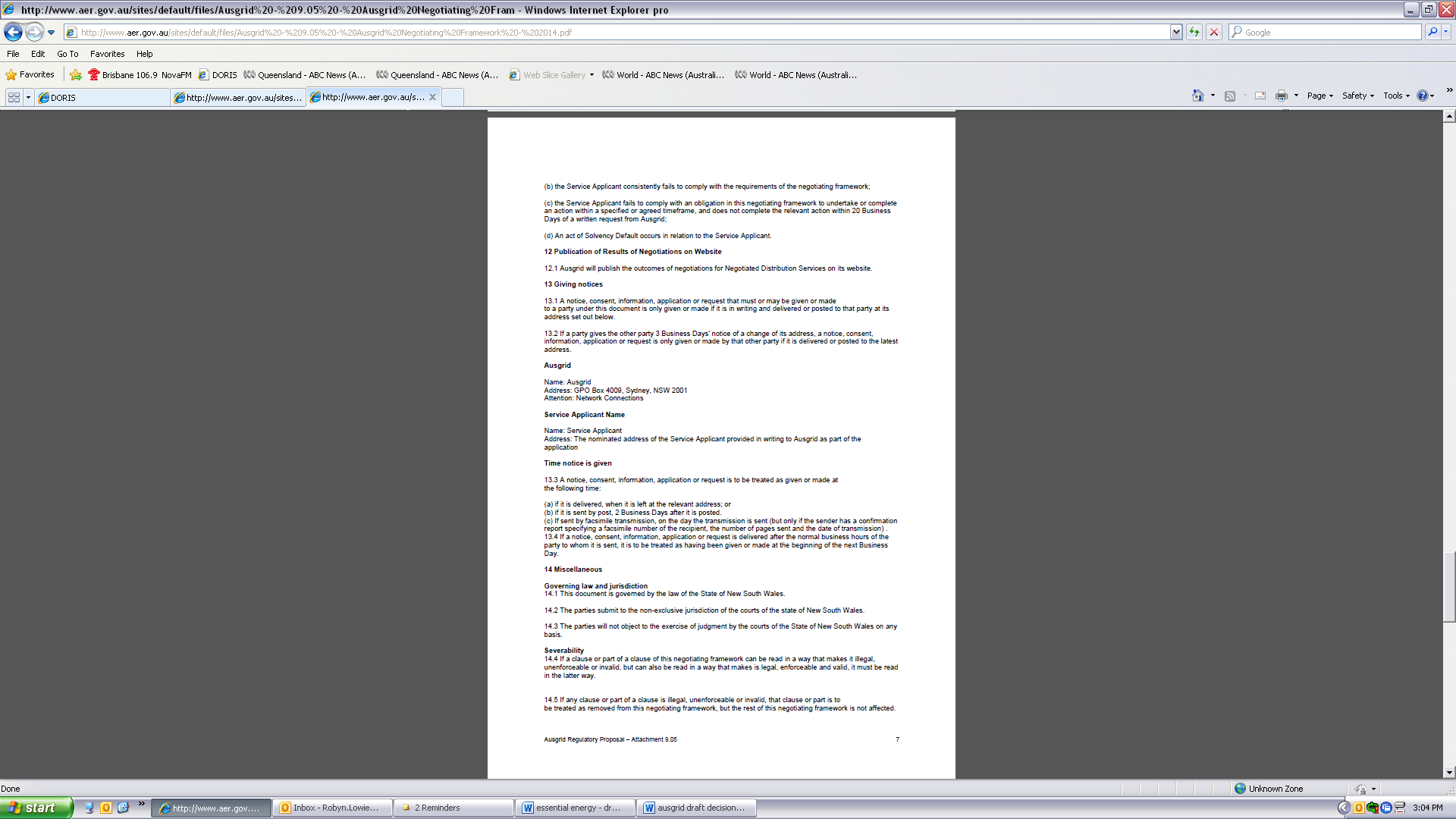


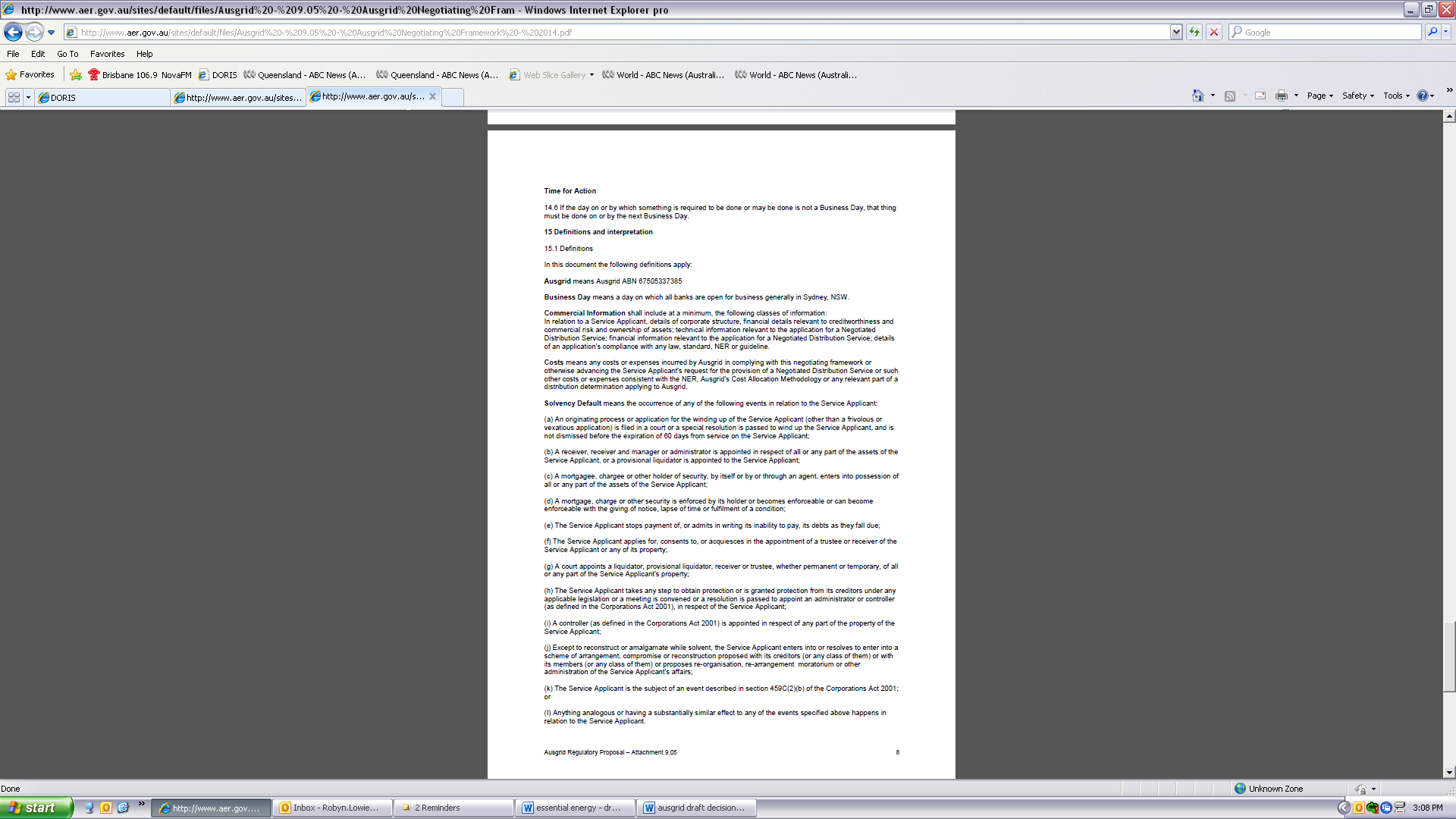


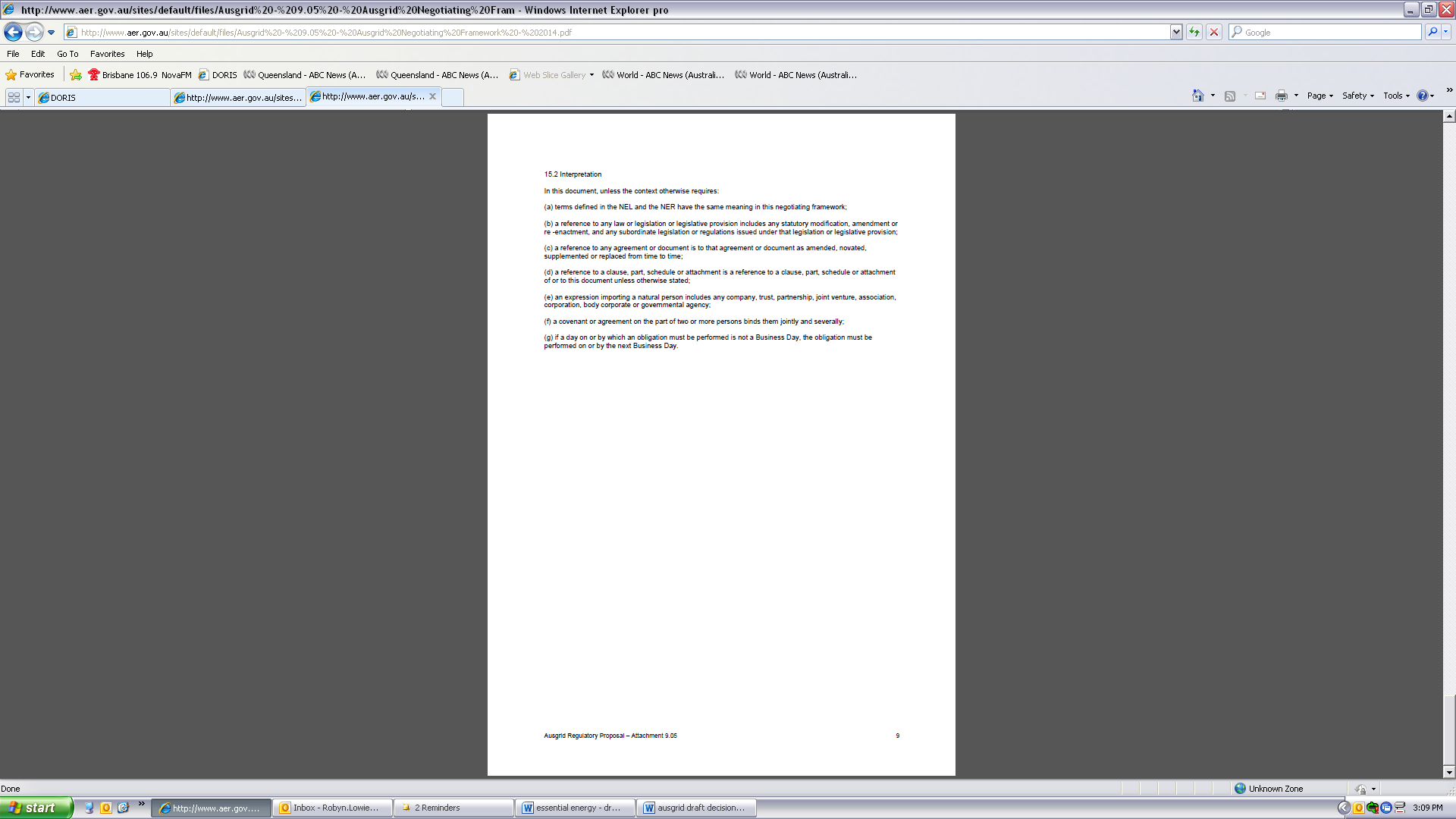












1. NER, cl. 6.12.1(15) [↑](#footnote-ref-1)
2. NER, cl. 6.12.1 (16). [↑](#footnote-ref-2)
3. Ausgrid, Regulatory proposal, May 2014, p. 102 and attachment 9.05. [↑](#footnote-ref-3)
4. NER, cl. 6.7.5. [↑](#footnote-ref-4)
5. NER, cl. 6.12.1(15). [↑](#footnote-ref-5)
6. AER, Proposed Negotiated Distribution Service Criteria for Ausgrid – period commencing 1 July 2014, June 2014. [↑](#footnote-ref-6)
7. NER, cl. 6.7.1. [↑](#footnote-ref-7)
8. Ausgrid, Revised proposal, January 2015, p. 215. [↑](#footnote-ref-8)
9. Ausgrid, Revised proposal, January 2015, p. 215. [↑](#footnote-ref-9)
10. NER, cl. 6.7.5(c). [↑](#footnote-ref-10)
11. An applicant or service applicant is the person who wishes to receive a negotiated distribution service. NER, ch. 10. [↑](#footnote-ref-11)
12. Ausgrid's dual function assets are the 66kV and 220kV part of its network that provide support to the high voltage transmission network. [↑](#footnote-ref-12)
13. NER, cl. 6.7.4(2)(b). [↑](#footnote-ref-13)