

Proposed Negotiating Framework

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Contact

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1 Introduction

The National Electricity Rules (the Rules) require certain *transmission services* (*negotiated transmission services*) to be provided on terms and conditions of access that are negotiated between the *Transmission Network Service Provider* (TNSP) and the *Service Applicant*. Each TNSP is required to prepare a *negotiating framework*, which sets out the procedure to be followed during negotiations. The *negotiating framework* must comply with and be consistent with:

- the applicable requirements of a transmission determination applying to the provider; and
- the minimum requirements for a negotiating framework, which are set out in clause 6A.9.5(c).

Clause 6A.10.1(c) requires each TNSP to submit its proposed *negotiating framework* to the Australian Energy Regulator (AER) at the same time that it submits its *Revenue Proposal*. This document is SP AusNet's proposed *negotiating framework*, and applies for the period 1 April 2008 to 31 March 2014.

Note: Italicised terms used in this document have the same meaning as given to those terms in the National Electricity Rules (the Rules). For ease of reference, the definitions of these terms are provided in Appendix 1 to this document.

2 Obtaining Access to the Victorian Transmission Network

SP AusNet owns a *transmission network* in the State of Victoria and is therefore a *Transmission Network Service Provider* as defined by the Rules. SP AusNet provides and offers *connection services* to *Network Users*.

In Victoria, two organisations – SP AusNet and VENCORP – together fulfil the function of *Local Network Service Provider* as defined in the Rules. The respective roles of SP AusNet and VENCORP in respect of the Rules are set out in Chapter 9 of the Rules and in Licences administered by the Essential Services Commission (ESC). These licences may be viewed on the website of the ESC (<http://www.esc.vic.gov.au/>).

VENCORP has primary responsibility in relation to use of the *transmission network* by the applicant, and consideration of the impact of a proposal to connect on the overall *transmission network* (shared network services – also referred to as use of system services).

In respect of enquiries for connection to the network, SP AusNet has primary responsibility for assessing and advising an applicant regarding the *connection assets* at the physical interface with the network (network exit services and network entry services).

This *negotiating framework*, therefore, has application only to proposed connection assets which are *negotiated transmission services*.

3 Objectives of Negotiation

The principal objective of negotiation is the completion of an Offer to Connect in respect of *connection services* required by the *Connection Applicant*, and execution of the *connection agreement*. Clause 5.3.6(g) of the Rules provides:

“Both the *Network Service Provider* and the *Connection Applicant* are entitled to negotiate with each other in respect of the provision of *connection* and any other matters relevant to the provision of *connection* and, if negotiations occur, the *Network Service Provider* and the *Connection Applicant* must conduct such negotiations in good faith”.

For its part, SP AusNet shall negotiate in good faith, having regard to, amongst other things, all relevant provisions of clause 5.3.6 of the Rules, including the following obligations (paraphrased) placed on SP AusNet as *Network Service Provider*:

- use reasonable endeavours to provide the *Connection Applicant* with an Offer to Connect in accordance with the reasonable requirements of the *Connection Applicant*, including without limitation, the location of the proposed *connection point* and the level of power transfer capability that the (connection) *network* will provide;
- make an Offer to Connect (which includes proposed terms and conditions for *connection* to the *network*, and define the basis for determining service charges) within a defined time-frame, unless otherwise agreed; and
- make an Offer to Connect that is fair and reasonable, and consistent with safe and reliable operation of the power system in accordance with the Rules.

4 New Connections

SP AusNet's Connection Application Process is a two-stage process.

The first stage (Connection Enquiry) is initiated when an intending *Connection Applicant* submits a connection enquiry as described in clause 5.3.2 of the Rules. SP AusNet will respond to the enquiry in respect of its primary responsibilities, however the *Network User* must separately submit a Connection Enquiry to VENCORP to obtain advice in respect of that organisation's primary responsibilities.

In response to the connection inquiry SP AusNet will outline details of:

- the expected process to progress a connection application;
- SP AusNet's standard connection agreement and pricing schedule;
- a preliminary program;
- any additional information that may be required to process a connection application, should the proponent wish to proceed with a connection application;
- an estimate of the connection application charges that will be required to process a connection application;
- a definition of the boundaries of contestable and non-contestable assets; and
- any other authorities that also must be notified for the applicant to connect.

SP AusNet's *preliminary program* (subject to Clause 5.3.3 (b) of the Rules) provided in response to the *connection enquiry* will include milestones for provision of an *offer to connect* and for execution of a *connection agreement*.

Intending *Connection Applicants* should note that SP AusNet must, in progressing a Connection Enquiry, and subject to its obligations relating to *confidential information*, disclose details of the proposal to VENCORP, and where necessary may also disclose details to other *Network Service Providers* (where their terms and conditions of connections agreements with those *Network Service Providers* will be affected) and to NEMMCO. SP AusNet does not take any responsibility for information provided by a *Connection Applicant* under a Connection Enquiry that SP AusNet discloses to VENCORP and other *Network Service Providers*, or NEMMCO.

The treatment of *confidential information* is discussed in Section 8 of this document.

The first stage of the Connection Application Process (Connection Enquiry) concludes with an understanding between SP AusNet and the *Connection Applicant* concerning the broad scope of the required *connection services*, other *Network Service Providers* who must be involved in assessment of an *application to connect*, broad issues arising for SP AusNet relevant to the *Connection Point*, and a preliminary program relating to the connection proposal.

Following completion of the first stage, the *Connection Applicant* may proceed to the second stage, by making an *application to connect*. Where, in the opinion of the *Network User*, the *connection services* satisfy the definition of *negotiable services*, the *Network User* may initiate negotiation in accordance with this *negotiating framework* by completing and submitting the "Application to Connect" to this effect.

The *Network user* is responsible for contacting VENCORP regarding the new service proposal and making a separate *Application to Connect* to VENCORP to cover any shared network augmentations that may be required.

If SP AusNet's view is that the *connection services* are not *negotiable services* it shall inform the *Network User*, and advise its reasons, in writing within 5 *business days*.

4.1 Augmentations to Existing Connections

By prior arrangement with SP AusNet, network users wishing to augment an existing connection and may in a "one step process" submit a combined connection enquiry and *application to connect* to request SP AusNet make an offer to increase the performance of an existing connection. This request for offer will be considered as a connection application as defined in the rules. All information that would normally be required to be provided in both the connection enquiry stage and *application to connect* stage must be provided in the *application to connect* prior to commencement of processing.

As noted in the previous section a *Network User* must also separately make an *application to connect* to VENCORP.

5 Connection Application

A *Network User* who requires SP AusNet to make an offer to connect in accordance with this *negotiating framework* must make an *application to connect*. The *application to connect* will also be considered as a request for offer as defined under SP AusNet's transmission licence.

In accordance with the rules, SP AusNet will respond to the *application to connect* in respect of its primary responsibilities, however, the *Network User* must separately make an *application to connect* to VENCORP to obtain advice in respect of that organisation's primary responsibilities.

5.1 Timeframe for negotiation

SP AusNet's *preliminary program* (subject to Clause 5.3.3 (b) of the Rules) provided in response to the connection enquiry will include milestones for provision of an offer to connect and for execution of a *connection agreement*.

SP AusNet is required by its Licence to make an offer to connect within 65 business days of receiving all necessary information to process an *application to connect*. The information requirements SP AusNet would typically include the following (subject to SP AusNet's satisfaction):

- Single Line Diagram;
- Site Layout;
- required ratings;
- Protection and Control requirements; and
- plant life.

Having regard to this constraint, SP AusNet undertakes to provide a reasonable period of time in its preliminary program for commencing, progressing and finalising negotiations with the *Network User* for the provision of *negotiable services*. The preliminary program may be varied by agreement of the parties at the commencement of negotiation.

During the negotiation SP AusNet and the intending *Network User* must use their reasonable endeavours to adhere to the time periods set for provision of the offer to connect and for execution of the *connection agreement*.

5.2 Fees for Connection Services

SP AusNet will charge an application fee to process an *application to connect*. The minimum fee for an *application to connect* is \$10,000. SP AusNet will not incur costs above \$10,000 unless the *Connection Applicant* agrees to pay the additional costs.

SP AusNet may agree an alternative arrangement with the *Connection Applicant* to recover connection application fees. In all instances, the agreed charging arrangements will be consistent with the applicable AER *cost allocation guidelines* and *Negotiated Transmission Service Criteria*, and will only cover SP AusNet's reasonable direct expenses incurred in processing the application to provide the *negotiated transmission service*, in accordance with the requirements of clause 6A.9.5(c)(7).

6 Service Level Requirements and SP AusNet's charges

The *Connection Applicant* is required to specify its service level requirements as part of the *application to connect*.

SP AusNet will provide a scope of works to the *Connection Applicant* detailing the electrical layout, major plant items and activities necessary to meet the *Connection Applicant's* service level requirements. SP AusNet will also provide a description to the *Connection Applicant* of the nature of the *connection* service that is the subject of negotiation, including details of the service that SP AusNet will provide to the *Connection Applicant*.

The price (charges) for the new or augmented services must be in accordance with the principles set out in clause 6A.9.1 of the Rules. Accordingly, SP AusNet's Offer to Connect will include charges which are "based on the costs incurred in providing that service, determined in accordance with the principles and policies set out in the Cost Allocation Methodology" (as per clause 6A.9.1(1) of the NER), and taking into account all other principles in clause 6A.9.1 that are applicable. SP AusNet and the *Connection Applicant* may agree to an alternative scope of works and price through the negotiation process.

SP AusNet will also provide information and meet with the *Connection Applicant* to explain and substantiate the proposed scope of work on request from the *Connection Applicant*. Supplementary information provided by SP AusNet in these circumstances may include information about timing of works activities.

7 Provision of Information

By entering into the negotiation process, SP AusNet and the *Connection Applicant* each agree to provide to the other party all such commercial information as the other party may reasonably require, to enable that party to engage in effective negotiation with the other party, for the provision of the *negotiable services* as to the price at which the negotiated service is to be provided including cost information.

SP AusNet's information provision obligations include that SP AusNet shall identify and inform the *Connection Applicant* of the reasonable costs, and/or the increase or decrease in costs (as appropriate), of providing the *negotiable services*. SP AusNet must demonstrate to the *Connection Applicant*, upon request, that its charges for providing those negotiable services reflect those costs, and/or cost increment or decrement (as appropriate).

In accordance with clause 6A.9.5(c)3(i) of the rules, SP AusNet will provide cost information to assist the *Connection Applicant* that will be itemised into a breakdown of incremental costs to provide the network services. The typical cost breakdown structure will be as follows:

- Project Establishment;
- Project Management;
- Project Closeout;
- Design;
- Procurement;
- Installation;

- Civil Works;
- Dismantling;
- Contingency;
- Finance Charges; and
- Specific allowance for defined project risks.

The purpose of providing this information is to demonstrate to the *Connection Applicant* that SP AusNet's charges are fair and reasonable in accordance with 6A.9.5(c)1(ii).

Either party may determine that, in its opinion, information requested by the other party is not reasonably required by that party for the effective negotiation of provision of the *negotiable services*. If, in these circumstances, the requesting party maintains its request for the subject information then the parties shall meet and the requesting party will explain the need for the subject information and how it intends to use the information in the negotiation process. If the parties then fail to agree on whether the information is reasonably required, the matter shall be referred to the dispute resolution process (as outlined in Section 9 of this document).

8 Confidential Information

All information disclosed to the *Connection Applicant* by SP AusNet shall be treated as *confidential information*. SP AusNet may require the *Connection Applicant* to enter into a confidentiality agreement prior to providing information.

In processing a connection enquiry and *application to connect* SP AusNet must consult with other *Network Service Providers* and NEMMCO (as noted in Section 2 of this document) and must therefore disclose information provided by the *Connection Applicant*. Having regard to this obligation the *Connection Applicant* must, upon provision of information to SP AusNet, advise in writing if any of the information is *confidential information* and is not to be disclosed to these other *Network Service Providers* and NEMMCO.

Unless advised to the contrary, SP AusNet will consider that the *Connection Applicant* consents to disclosure as outlined in the preceding paragraph.

Neither party shall be required to disclose information which would put it in breach of its obligations relating to *confidential information* set out in clause 8.6 of the Rules.

9 Dispute Resolution

By entering into the negotiation process, SP AusNet and the *Connection Applicant* agree that disputes arising during the course of the negotiation shall be dealt with in accordance with Part K of Chapter 6A of the Rules.

10 Impact on Other Network Users

In accordance with clause 6A.9.5(c)(8) SP AusNet will determine the potential impact on other *Transmission Network Users* of the provision of the *negotiated transmission service*. Where a potential impact is determined, SP AusNet will notify and consult with any affected *Transmission Network Users* and ensure that the provision of the *negotiated transmission services* does not result in non-compliance with any service standards or other obligations in relation to other *Transmission Network Users* under the Rules.

11 Appendix 1 – Glossary

above-standard system shared transmission service

A *shared transmission service* that exceeds the requirements referred to in paragraph (a)(1) or (2) of the definition of *negotiated transmission service* principally as a consequence of investments that have *system-wide benefits*.

Connection Applicant

A person who wants to establish or modify *connection* to a *transmission network* or *distribution network* and/or who wishes to receive *network services* and who makes a *connection enquiry* as described in clause 5.3.2.

connection service

An *entry service* (being a service provided to serve a *Generator* or a group of *Generators*, or a *Network Service Provider* or a group of *Network Service Providers*, at a single *connection point*) or an *exit service* (being a service provided to serve a *Transmission Customer* or *Distribution Customer* or a group of *Transmission Customers* or *Distribution Customers*, or a *Network Service Provider* or a group of *Network Service Providers*, at a single *connection point*).

market network service

A *network service* which is classified as a *market network service* in accordance with clause 2.5.2.

negotiated transmission service

Any of the following services:

- (a) a *shared transmission service* that:
 - (1) exceeds the *network performance requirements* (whether as to quality or quantity) (if any) as that *shared transmission service* is required to meet under any *jurisdictional electricity legislation*; or
 - (2) except to the extent that the *network performance requirements* which that *shared transmission service* is required to meet are prescribed under any *jurisdictional electricity legislation*, exceeds or does not meet the *network performance requirements* (whether as to quality or quantity) as are set out in schedule 5.1a or 5.1;
- (b) *connection services* that are provided to serve a *Transmission Network User*, or group of *Transmission Network Users*, at a single *transmission network connection point*, other than *connection services* that are provided by one *Network Service Provider* to another *Network Service Provider* to connect their *networks* where neither of the *Network Service Providers* is a *Market Network Service Provider*; or
- (c) *use of system services* provided to a *Transmission Network User* and referred to in rule 5.4A(f)(3) in relation to *augmentations* or *extensions* required to be undertaken on a *transmission network* as described in rule 5.4A,

but does not include an *above-standard system shared transmission service* or a *market network service*.

negotiating framework

For a *Transmission Network Service Provider*, the negotiating framework approved or included by the *AER* for that *Transmission Network Service Provider* in a final decision under clause 6A.14.1(6). The term negotiating framework is also defined in clause 6.6.7 for the purposes of that clause and, when used in that clause, has the meaning given to it for those purposes.

Network User

A Generator, a Transmission Customer, a Distribution Customer or a Market Network Service Provider.

Registered Participant

A person who is registered by NEMMCO in any one or more of the categories listed in clauses 2.2 to 2.7 (in the case of a person who is registered by NEMMCO as a Trader, such a person is only a Registered Participant for the purposes referred to in clause 2.5A). However, as set out in clause 8.2.1(a1), for the purposes of some provisions of clause 8.2 only, NEMMCO and Connection Applicants who are not otherwise Registered Participants are also deemed to be Registered Participants.

Revenue Proposal

For a Transmission Network Service Provider, a proposal submitted or resubmitted by the Transmission Network Service Provider to the AER pursuant to clause 6A.10.1(a), clause 6A.11.2 or clause 6A.12.3(a) (as the context requires).

Service Applicant

A person who is an existing or intending Registered Participant or a person who is eligible to become a Registered Participant.

shared transmission service

A service provided to a Transmission Network User for use of a transmission network for the conveyance of electricity (including a service that ensures the integrity of the related transmission system).

transmission determination

Has the meaning given in the National Electricity Law, and includes a determination by the AER as described in rule 6A.2.

use of system services

Transmission use of system service and distribution use of system service.