



DRAFT DECISION

Power and Water Corporation Distribution Determination 2019 to 2024

Attachment 16 Negotiated Services Framework and Criteria

September 2018

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Note

This attachment forms part of the AER's draft decision on the distribution determination that will apply to Power and Water Corporation for the 2019–24 regulatory control period. It should be read with all other parts of the draft decision.

The draft decision includes the following attachments:

Overview

Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 3 – Rate of return

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

Attachment 8 – Efficiency benefit sharing scheme

Attachment 9 – Capital expenditure sharing scheme

Attachment 10 – Service target performance incentive scheme

Attachment 11 – Demand management incentive scheme

Attachment 12 – Classification of services

Attachment 13 – Control mechanisms

Attachment 14 – Pass through events

Attachment 15 – Alternative control services

Attachment 16 – Negotiated services framework and criteria

Attachment 17 – Connection policy

Attachment 18 – Tariff structure statement

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Shortened forms

Shortened form	Extended form
ACS	alternative control services
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
augex	augmentation expenditure
capex	capital expenditure
CCP	Consumer Challenge Panel
CCP 13	Consumer Challenge Panel, sub-panel 13
CESS	capital expenditure sharing scheme
CPI	consumer price index
DRP	debt risk premium
DMIAM	demand management innovation allowance (mechanism)
DMIS	demand management incentive scheme
distributor	distribution network service provider
DUoS	distribution use of system
EBSS	efficiency benefit sharing scheme
ERP	equity risk premium
Expenditure Assessment Guideline	Expenditure Forecast Assessment Guideline for Electricity Distribution
F&A	framework and approach
MRP	market risk premium
NEL	national electricity law
NEM	national electricity market
NEO	national electricity objective
NT NER or the rules	National Electricity Rules As in force in the Northern Territory

Shortened form	Extended form
NSP	network service provider
opex	operating expenditure
PPI	partial performance indicators
PTRM	post-tax revenue model
RAB	regulatory asset base
RBA	Reserve Bank of Australia
repex	replacement expenditure
RFM	roll forward model
RIN	regulatory information notice
RPP	revenue and pricing principles
SAIDI	system average interruption duration index
SAIFI	system average interruption frequency index
SCS	standard control services
SLCAPM	Sharpe-Lintner capital asset pricing model
STPIS	service target performance incentive scheme
WACC	weighted average cost of capital

16 Negotiated services framework and criteria

The NT NER requires us to make decisions on:

- the negotiating framework to apply to Power and Water,¹ and
- the negotiated distribution service criteria,² which Power and Water must apply when negotiating terms and conditions for negotiated distribution services and which an arbitrator must apply in the case of an access dispute.

Power and Water submitted a negotiating framework as part of its regulatory proposal. This attachment sets out our draft decision on Power and Water's negotiating framework. Power and Water and any service applicant who is negotiating for the provision of a negotiated distribution service by Power and Water must comply with the requirements of the negotiating framework in accordance with its terms.³

This attachment also sets out our draft decision on the negotiated distribution service criteria for the regulatory control period.

16.1 Draft decisions

In accordance with rule 6.12.1(15) we accept Power and Water's proposed negotiating framework.

Pursuant to rule 6.12.1(16) the negotiated distribution service criteria published for consultation in February 2018⁴ is applicable to Power and Water. The criteria are reproduced at Appendix A.

16.2 Power and Water Corporation's proposal

Power and Water has proposed a negotiating framework⁵ which it says draws on recent AER decisions⁶ and meets the requirements of clause 6.7.5 of the NT NER.

16.3 Assessment approach

16.3.1 Negotiating framework

A negotiating framework must meet the requirements of rule 6.7.5(c) of the NT NER and be consistent with any of the requirements in rule 6.7.5(d). Our assessment therefore examined whether Power and Water's proposal meets these requirements.

¹ NT NER, cl. 6.12.1(15).

² NT NER, cl. 6.12.1(16).

³ NT NER, cl. 6.7.5(e).

⁴ AER, *Proposed Negotiated Distribution Service Criteria for Power and Water, Regulatory Control Period 1 July 2019 to 30 June 2024, Call for submissions*, February 2018.

⁵ Power and Water, [Attachment 01.7: Negotiating Framework](#), on the AER website.

⁶ Power and Water, *Regulatory Proposal 1 July 2019 to 30 June 2024*, 16 March 2018, p. 146.

16.3.2 Negotiated distribution service criteria

The negotiated distribution service criteria apply to negotiations for access to any services classified as negotiated distribution services or offered by a distributor during a regulatory control period. The criteria also apply to the resolution of access disputes over negotiated distribution services.⁷ The negotiated distribution services criteria must give effect to principles set out in the NT NER, which are as follows:⁸

(1) the price for a negotiated distribution service should be based on the costs incurred in providing that service, determined in accordance with the principles and policies set out in the Cost Allocation Method for the relevant Distribution Network Service Provider;

(2) subject to subparagraphs (3) and (4), the price for a negotiated distribution service should be at least equal to the cost that would be avoided by not providing the service but no more than the cost of providing it on a stand alone basis;

(3) if the negotiated distribution service is the provision of a shared distribution service that:

(i) exceeds the network performance requirements (if any) which that shared distribution service is required to meet under any jurisdictional electricity legislation; or

(ii) exceeds the network performance requirements set out in schedules 5.1a and 5.1,

then the differential between the price for that service and the price for the shared distribution service which meets (but does not exceed) the network performance requirements under any jurisdictional electricity legislation or as set out in schedules 5.1a and 5.1 (as the case may be) should reflect the increase in the Distribution Network Service Provider's incremental cost of providing that service;

(4) if the negotiated distribution service is the provision of a shared distribution service that does not meet (and does not exceed) the network performance requirements set out in schedules 5.1a and 5.1, the differential between the price for that service and the price for the shared distribution service which meets (but does not exceed) the network performance requirements set out in schedules 5.1a and 5.1 should reflect the cost the Distribution Network Service Provider would avoid by not providing that service;

(5) 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;

⁷ NT NER, cl. 6.7.4(a).

⁸ NT NER, cl. 6.7.1; cl 6.7.4(b).

(6) the price for a negotiated distribution service should 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 the adjustment should reflect the extent to which the costs of that asset are being recovered through charges to that other person;

(7) the price for a negotiated distribution service should be such as to enable the Distribution Network Service Provider to recover the efficient costs of complying with all regulatory obligations or requirements associated with the provision of the negotiated distribution service;

(8) any access charges:

(A) in respect of providing distribution network user access to negotiated distribution services which would have been negotiated distribution services regardless of the operation of clause 6.24.2(c) should be based on the costs reasonably incurred by the Distribution Network Service Provider in providing that access and, in the case of compensation referred to in clauses 5.5(f)(4)(ii) and (iii), 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; and

(B) in respect of providing transmission network user access to negotiated distribution services which would have been treated as negotiated transmission services were it not for the operation of clause 6.24.2(c) should be based on the costs reasonably incurred by the Distribution Network Service Provider in providing that access and, in the case of compensation referred to in clauses 5.4A(h) - (j), 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;

(9) the terms and conditions of access for a negotiated distribution service should be fair and reasonable and consistent with the safe and reliable operation of the power system in accordance with the Rules (for these purposes, the price for a negotiated distribution service is to be treated as being fair and reasonable if it complies with principles (1) to (7) of this clause);

(10) 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 the Distribution Network Service Provider and the other party, the price for the negotiated distribution service and the costs to the Distribution Network Service Provider of providing the negotiated distribution service;

(11) the terms and conditions of access for a negotiated distribution service should 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 Rules.

The criteria must comply with rule 6.7.5(d) which provides:

Notwithstanding the foregoing, the negotiating framework must not be inconsistent with any of the requirements of:

(1) rules 5.3, 5.3A and 5.5 insofar as the negotiating framework applies to negotiated distribution services which would have been negotiated distribution services regardless of the operation of clause 6.24.2(c); and

(2) rules 5.3, 5.3A and 5.4A insofar as the negotiating framework applies to negotiated distribution services which would have been treated as negotiated transmission services were it not for the operation of clause 6.24.2(c),

and any other relevant provisions of this Chapter 6 and, in the event of any inconsistency, those requirements prevail.

16.4 Reasons for draft decisions

Power and Water's negotiating framework⁹ incorporates the requirements specified in the NT NER and is consistent with the requirements of rule 6.7.5(d). Our assessment of Power and Water's proposal against the NT NER requirements is set out in Table 16.1. Power and Water's negotiated framework can be found on the AER website; [Attachment 01.7: Negotiating Framework](#).

Table 16.1 Assessment of proposal against NT NER requirements

NT NER requirement	Power and Waters' proposal	AER assessment
Distributor and applicant to negotiate in good faith— cl. 6.7.5(c)(1)	Section 2	Satisfies NT NER
Distributor to provide all such commercial information reasonably required to enable the applicant to engage in effective negotiations— cl. 6.7.5(c)(2)	Section 6	Satisfies NT NER
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)	Sections 6.3(c) and 8	Satisfies NT NER
Applicant to provide all such commercial information reasonably required for a distributor to engage in effective negotiation— cl. 6.7.5(c)(4)	Section 6.1	Satisfies NT NER
Framework to specify a reasonable period of time for commencing, progressing and finalising negotiations and require each party to use	Section 3	Satisfies NT NER

⁹ Power and Water, Attachment 01.7: Negotiating Framework, on the AER website.

NT NER requirement	Power and Waters' proposal	AER assessment
reasonable endeavours to adhere to time periods— cl. 6.7.5(c)(5)		
Framework to specify a dispute resolution process in accordance with the relevant provisions— cl. 6.7.5(c)(6)	Section 12	Satisfies NT NER
Framework to specify arrangements for payment of distributor's reasonable direct expenses incurred in processing the application— cl. 6.7.5(c)(7)	Section 10	Satisfies NT NER
Distributor to determine the potential impact of providing a negotiated distribution service on other distribution network users— cl. 6.7.5(c)(8)	Section 9.1	Satisfies NT NER
Distributor to notify and consult with any affected distribution network user and ensure that providing the negotiated distribution service does not result in noncompliance with obligations to other network users under the NER— cl. 6.7.5(c)(9)	Section 9.2	Satisfies NT NER
Distributor to publish the results of negotiations on its website	Section 11	Satisfies NT NER

16.4.1 Negotiated distribution service criteria

On 16 February 2018, we published for consultation our negotiated distribution service criteria for Power and Water. The criteria were developed in accordance with the principles relating to access to negotiated distribution services.¹⁰ We received no submissions on our proposed criteria, and our draft decision is to adopt them for this determination. Our negotiated distribution service criteria are set out at Appendix A.

¹⁰ NT NER, cl. 6.7.4(b).

A Negotiated Distribution Services Criteria

A.1 National Electricity Objective

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.

A.2 Criteria for terms and conditions of access

A.2.1 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 NT 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 NT NER.

A.2.2 Price of services

- 4) 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.
- 5) 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.
- 6) If a negotiated distribution service is a shared distribution service that:
 - (a) exceeds any network performance requirements which it is required to meet under any relevant electricity legislation, or
 - (b) 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).
- 7) 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).

8) 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.

9) 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.

10) 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.

A.2.3 Criteria for access charges

11) 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 NT 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).

12) 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 NT NER, and, in the case of compensation referred to in clauses 5.4A(h) to (j) of the NT 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).