



AUSTRALIAN
ENERGY
REGULATOR

Call for submissions:

Proposed Negotiated Transmission Service Criteria

for SP AusNet and VENCORP

June 2007



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Glossary and definitions

AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
NER	National Electricity Rules
NTSC	Negotiated Transmission Service Criteria
NTSP	Negotiated Transmission Service Principles
TNSP	Transmission Network Service Provider

In this paper, the words and phrases presented in italics *such as this* have the meaning given to them in the National Electricity Rules (NER).

In this paper, any reference to clauses, such as ‘clause 6A.9.1’, is a reference to clauses of the NER unless otherwise stated.

1 Introduction

Under Chapter 6A of the NER, the Australian Energy Regulator (AER) must make *transmission determinations* for *Transmission Network Service Providers* (TNSPs) in respect of *prescribed services* and *negotiated transmission services*.¹

Clause 6A.2.2(3) of the NER states that a *transmission determination* made by the AER must include a determination specifying the *negotiated transmission service criteria* (NTSC) that will apply to the TNSP's provision of negotiated transmission services.

The AER's *transmission determination* must set out the NTSC specific to the TNSP², that are to be applied by the TNSP in negotiating the *terms and conditions of access* for *negotiated transmission services* and *access charges*. The NTSC will also be used by a *commercial arbitrator* in resolving any dispute between a TNSP and a person wishing to receive a *negotiated transmission service* in relation to the *terms and conditions of access* for the service and *access charges* to be paid to or by the TNSP.³

In determining the NTSC, clause 6A.11.3 of the NER requires the AER to publish proposed NTSC for consultation. In accordance with this requirement, Attachment 1 to this paper sets out the proposed NTSC for SP AusNet and VENCORP.

A separate determination of the NTSC will be made for each of these TNSPs, in the transmission determinations made by the AER for those TNSPs. The AER seeks submissions on the proposed NTSC, and in particular on the NTSC that should be determined for each individual TNSP. Submissions on the proposed NTSC will be taken into account in making the draft determination on the NTSC that will apply to each TNSP.

¹ National Electricity Rules, clause 6A.2.1

² National Electricity Rules, clause 6A.14.1(7)

³ National Electricity Rules, clause 6A.9.4(a)

2 Consultation process

The AER will engage in the following consultation process:

- publication of proposed NTSC for SP AusNet and VENCORP and invite submissions by 3 August 2007
- consider submissions on the proposed NTSC for SP AusNet and VENCORP
- establish the NTSC in the draft decisions for each TNSP.

3 Invitation for written submissions

Interested parties are invited to make written submissions to the AER in relation to the proposed NTSC for SP AusNet and VENCORP outlined in this paper and, where possible, include examples which assist in clarifying aspects of the submission. Interested parties are also invited to make written submissions on relevant matters not canvassed in this paper.

The AER prefers that all submissions be publicly available to facilitate an informed and transparent consultative process. Submissions will therefore be treated as public documents unless otherwise requested. Parties wishing to submit confidential information are requested to:

- clearly identify the information that is the subject of the confidentiality claim
- provide a non-confidential version of the submission, in addition to a confidential one.

All non-confidential submissions will be placed on the AER's website.

Any submissions on the proposed NTSC for SP AusNet and VENCORP must be received by close of business 3 August 2007 and should be addressed to:

Mr Chris Pattas
General Manager
Network Regulation South
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001
Email: AERInquiry@aer.gov.au

4 Negotiated Transmission Service Criteria

There are three types of *negotiated transmission services* that a *service applicant* may request from a TNSP. These services include:

- connection services including entry, exit and TNSP to TNSP connection services
- use of system services supplied by the shared transmission network that exceed or are below the networks specified performance standard under any legislation of a participating jurisdiction
- use of system services relating to augmentation or extension for loads of the transmission network.⁴

Under Chapter 6A *negotiated transmission services* are regulated under a negotiate/arbitrate regime. As such, these services are not subject to upfront price control that *prescribed transmission services* are in *revenue determinations*, but are the result of commercial agreement or failing agreement where the terms and conditions are determined by commercial arbitration.

5 Victorian electricity transmission arrangements

Victoria's electricity transmission arrangements are unique within the National Electricity Market. The separation of functions between the two TNSPs, SP AusNet and VENCORP, is set out in the Victorian jurisdictional derogation in chapter 9 of the NER.

The Victorian derogation does not explicitly address the application of the NTSC to SP AusNet and VENCORP. In seeking submissions on the NTSC proposed for SP AusNet and VENCORP, the AER is particularly interested in submissions on whether the NTSC proposed for these TNSPs require amendment to specifically accommodate the Victorian arrangements.

⁴ AEMC, Rule Determination, *National Electricity Amendment (Economic Regulation of Transmission Services) Rule 2006 No. 18*, 16 November 2006, p. 36.

6 AER's proposed negotiated transmission service criteria

In determining proposed NTSC, the AER has considered the *negotiated transmission service principles* set out in clause 6A.9.1, and developed criteria that are consistent with, and give effect to those principles in accordance with clause 6A.9.4(b) of the NER.

Submissions are invited on the suitability of these core criteria and any additional or different criteria that should apply to SP Aus Net and/or VENCORP in order to meet the requirements of the NER and the principles set out in clause 6A.9.1. Submissions received will be taken into account in tailoring the NTSC to the extent necessary and appropriate for that TNSP.

This approach provides TNSPs and their customers with certainty by setting out a common basis for determination of NTSC, while still providing TNSPs and their customers flexibility to take into account specific circumstances.

Attachment 1: Proposed Negotiated Transmission Service Criteria

National Electricity Market Objective

1. The *terms and conditions of access* for a *negotiated transmission 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 *market* objective.

Criteria for terms and conditions of access

Terms and Conditions of Access

2. The *terms and conditions of access* for a *negotiated transmission service* must be fair and reasonable and consistent with the safe and reliable operation of the power system in accordance with the NER.
3. The *terms and conditions of access* for a *negotiated transmission 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 TNSP and the other party, the price for the *negotiated transmission service* and the costs to the TNSP of providing the *negotiated transmission service*.
4. The *terms and conditions of access* for a *negotiated transmission 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

5. The price for a *negotiated transmission service* must reflect the costs that the TNSP has incurred or incurs in providing that service, and must be determined in accordance with the principles and policies set out in the *Cost Allocation Methodology*.
6. Subject to criteria 6 and 7, the price for a *negotiated transmission service* must be at least equal to the avoided cost of providing that service but no more than the cost of providing it on a stand alone basis.
7. If the *negotiated transmission service* is a *shared transmission service* that:
 - (i) exceeds any network performance requirements which it is required to meet under

any relevant electricity legislation; or

- (ii) 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 transmission service* which meets network performance requirements must reflect the TNSP's incremental cost of providing that service.

8. If the *negotiated transmission service* is the provision of a *shared transmission 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 transmission service* which meets, but does not exceed, the network performance requirements should reflect the amount of the TNSP's avoided cost of providing that service.
9. The price for a *negotiated transmission service* must be the same for all *Transmission Network Users* unless there is a material difference in the costs of providing the negotiated transmission service to different *Transmission Network Users* or classes of *Transmission Network Users*.
10. The price for a *negotiated transmission 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 is being recovered through charges to that other person.
11. The price for a *negotiated transmission service* must be such as to enable the TNSP to recover the efficient costs of complying with all regulatory obligations associated with the provision of the *negotiated transmission service*.

Criteria for access charges

Access Charges

12. Any *access charges* must be based on costs reasonably incurred by the TNSP in providing *Transmission Network User* access and (in the case of compensation referred to in clauses 5.4A(h) to (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 rule 5.4A(h)-(j) where an event referred to in those paragraphs occurs.