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Dear Chris

Private Generators submission on the AER Service Target Performance Incentive Scheme Issues Paper

The Private Generators listed in the side-bar welcome the opportunity to comment on the AER's Service Target Performance Incentive Scheme (STPIS) Issues Paper. The group represents large businesses engaged in the design, construction and operation of some of Australia's largest infrastructure projects that provide vital electricity supply services to Australian business and domestic consumers.

Generators have made previous submissions on the STPIS design and previous versions of the scheme. In advancing a new version of the STPIS, the AER would find it useful to review the earlier submissions as some of the proposed actions that were not considered at the time still remain relevant. In regard to the sector's earlier response:

- The STPIS should be universally applied, including to AEMO, rather than to SP Ausnet and others that are covered by AEMO as the defined coordinating TNSP.
- Exclusions for forced maintenance should be avoided or at least the scope of the exclusions should be severely limited since planning and maintenance should take account of foreseeable events.
- The STPIS focus should be on issues that matter, namely critical elements at times of high market impact.

The AER has analysed the impact of the STPIS on the behaviour of the TNSPs and on improved market outcomes for participants. However, we recommend an assessment to see if, in fact, the incentive amounts that have been paid to the TNSPs have been productive in reducing overall costs of network incidents to the market.

Although the Issues Paper is very thorough, it tends to focus on consumer impacts of the Service Component (SC) and less attention is given to the Market Impact Component (MIC), particularly as it affects suppliers. Generators believe that both the SC and the MIC should be reviewed with equal rigour, with both being made more challenging for the TNSPs to achieve targets as part of the incentive scheme.

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With better defined elements, more stretching targets and symmetrical application of reward/penalty to the MIC, generators support lifting the overall STPIS to the maximum allowable 5% of Maximum Average Revenue (MAR) conditional on there being sufficient controls and processes to limit the ability of the TNSPs to manage their STPIS exposure through their operating costs.

Accordingly, generators support:

- Increasing the STPIS risk revenue from the current 3% to 5%
- Making the MIC symmetrical and strengthening its elements and targets over time
- More thorough assessment of the SC elements, further shaping their relevance and tightening targets
- Further assess the value of including some 'near miss' indicators, but noting the challenges in doing so
- Minimising exclusions applied to the STPIS, with the ultimate aim of no exclusions, and making exclusions consistent amongst TNSPs
- Abolishing the current approach to amending the STPIS within the relevant regulatory control period
- Standardising the weighting parameters across all TNSPs.

Increasing the STPIS risk revenue from the current 3% to 5%

The Private Generators support an increase in the at risk revenue in the STPIS from 3% to 5%, the allowable maximum in any one year under the National Electricity Rules.

Currently, there is 1% of a TNSPs MAR at risk under the SC of the STPIS, plus an additional 2% for the MIC.

Subject to some more focussed SC and MIC elements with more stringent targets, the Private Generators support:

- the financial bonus or penalty of up to +2/-2% of the MAR under the SC of the scheme
- the financial bonus of up to +3/- 3% of the MAR under the MIC.

As such, the MIC of the STPIS needs to be symmetrical with the addition of potential penalties as well as existing potential bonuses.

In addition to increasing the overall STPIS to 5% of MAR, the AER needs to ensure that the appropriate controls are in place to deliver the desired TNSP behaviour and response .For example, under the *ex ante* revenue cap, TNSPs should not be allowed to underspend their forecasts costs as an insurance against failing to meet STPIS targets.

The AER needs to strengthen the MIC elements and tighten their targets over time in light of the increased incentives. As the Issues Paper shows, TNSPs have successfully deferred most their planned outage work to non-market impact periods and thus maximised their MIC bonuses. Although this clearly reflects the desired market benefits of the MIC, it does question the value of this only MIC target that can be so readily achieved without much effort by the TNSPs. Even scaling back the bonuses by making the MIC symmetrical would have limited impact on the TNSPs incentives unless non achievement of the \$10/MWh marginal value target is more heavily penalised than the current bonus scaling between \$10/MWh and \$0/MWh. Alternatively, additional MIC elements should be considered over time, given the significant market value of this component.

More thorough assessment of the SC elements, further shaping their relevance and tightening targets

Private Generators support expanding the assessment of existing SC elements and the proposed new approaches detailed in the Issues Paper. For instance, while 'output' based incentives are mentioned, they require further work to assist in understanding and development.

As alluded to in the Issues paper, the lead indicator of transmission circuit availability would appear to more effectively covered by the MIC, particularly if the MIC is strengthened as suggested. However, this does lead to a dearth of SC parameters and the Private Generators would recommend a more thorough review.

Private Generators support the collars, targets and caps approach to incentives, but question if the bands should not be set in a more stretching manner or the linear slope changed to reflect more challenging approaches to the collars and caps.

Private Generators support the addition of some near miss indicators that are discussed in the Issues Paper, noting that transmission networks are inherently reliable, but when interruptions do occur, they do have widespread consequences.

Private Generators support the AER suggestion that it would make sense to broaden the performance indicators currently applied under the SC and add some 'lead' indicators to the scheme. Such added measures will help trace the effectiveness of the TNSPs maintenance, operations and training practices that have a high correlation to the likelihood of an unplanned outage if not undertaken.

The lead indicators that could be included are those that the AER has considered in the Issues Paper, such as:

- unplanned outages of plant
- incorrect operation of protection and control equipment
- failure to meet reliability and other standards – either operational or for planned construction work; and
- incorrect operational isolation of the network.

Minimising exclusions applied to the STPIS, with the ultimate aim of no exclusions, and making exclusions consistent amongst TNSPs

In general, Private Generators question the need for exclusions to the STPIS and propose that, over time, exclusions should be abolished. Generators support an improvement in the manner in which the service component parameter exclusions are applied.

The AER notes that there has been a lack of clarity in the in the definitions of some of the exclusions to the scheme. This has made it difficult to assess whether some applications for exclusions meet the definitions in the scheme itself. In some cases, the AER has used technical consultants to determine whether specific events have satisfied the definitions of each TNSP's 'exclusions'.

As a consequence, it is timely for major changes to the manner in which exclusions to the STPIS are incorporated in the scheme to be implemented. In this regard, generators welcome the AER's investigations into a number of options to the applications of exclusions under an amended scheme. Overall, Private Generators consider that any amended scheme should ensure that exclusions are applied consistently in the different jurisdictions.

In addition, generators support improvements in the clarity of the definitions of any exclusion in any amended STPIS.

Abolishing the current approach to amending the STPIS within the relevant regulatory control period

Private Generators agree to the merit of abolishing the current approach of amending the STPIS.

The current flexible approach that allows TNSPs to change any aspect of the scheme up to 22 months before the next relevant regulatory control period leads to an inconsistent approach of the operation of the STPIS. This is particularly true in relation to the application of particular parameters or parameter definitions that apply to each TNSP.

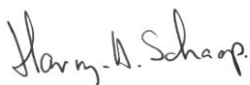
Generators support the AER's proposed change that would see it undertake periodic reviews of the scheme. This approach would allow it to undertake a detailed review of the STPIS, including the parameters that apply to each TNSP. In addition, it would help ensure that the STPIS effective as an incentive scheme over time.

Standardising the weighting parameters across all TNSPs

Private Generators support the proposition that parameter weights should be standardised across TNSPs.

There is no overwhelming reason for why weightings should vary across TNSPs.

Yours sincerely



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