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Mr Sebastian Roberts
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Attention: Mr Matthew McQuarie

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Dear Mr Roberts

TransGrid Submission – Draft Decision: Service Standards Guidelines

Thank you for the opportunity to respond to the 'Draft Decision - Service Standard Guidelines' dated 28 May 03. TransGrid remains committed to the objectives of the ACCC Service Standards Review for TNSPs, as well as the introduction of an appropriate risk - reward incentive-based regulatory framework.

In the application of a Performance Incentive scheme, basing service performance targets on TransGrid's historical performance is supported since electricity consumers and the Government within the NSW jurisdiction has expectations of the continuation of the current network performance in the important area of the provision of a reliable transmission network.

Although TransGrid is supportive of the main elements of this Draft Decision, a number of comments are offered on specific issues in the report, and in addition discusses some important matters of principle, including:

- Understanding the impact of the RIEMNS Stage 1 proposals.
- Addressing the expectations of some stakeholders that TNSPs need to be more responsive to market conditions.
- Possible triggers for a review of performance targets.

Specific Issues in Draft Decision (Publication Order)

- If the ACCC is committed to an incentive-based regulatory framework, it would be necessary to understand ACCC's position in advance, as to what actions or remedies should be implemented in "reassessing" performance targets when reviewing a TNSP's actual performance data. (Section 4.2, p.5)

- The appropriate definitions and application of force majeure in performance measures need to be clarified. TransGrid is happy to work with the ACCC, as part of its revenue cap application process, to arrive at a mutually suitable outcome. (Section 4.4, p.6)

- As part of the brief discourse in Section 5 "*Market impact performance measures*", the ACCC could bolster its arguments by mentioning other factors that complicate the measuring of "market impacts", including Generator bidding behaviour. This would complement the existing example. (pp.9-11).

- Calendar year reporting and "*Timing of the financial incentives*" (Section 4.6, pp.8-9). This needs to be considered in the context of revenue reset adjustments, TUOS adjustments, and reporting of other outcomes to the ACCC at the end of financial years.

- In Appendix B (p15) "*Individual TNSP Performance measure definitions*", the Loss of Supply Event Frequency Index measure is reported in 'minutes' instead of 'System Minutes', which would be more technically correct.

- In Appendix B (p16) "*Individual TNSP Performance measure definitions*", the Average Outage Duration measure is reported to be 14 days. TransGrid's previous submission requested that a 7-day cap be recommended for any single event. TransGrid's annual target of 1500 minutes is firmly linked to the 7-day cap, in keeping with the measure outlined for Powerlink.

Although the ACCC acknowledged the issue of "Caps and collars" raised in TransGrid's previous submission (Appendix D - Submissions (p18), a more thorough discussion on this issue would be welcomed, so as to achieve a more robust Section 4.5.2. "*Asymmetric rewards and penalties*" (pp.7-8).

Understanding the Impact of the RIEMNS Stage 1 Implementation (Network Constraints)

With the gazettal of the Code changes in response to the Review into the Integration of the Energy Market and Network Services (RIEMNS Stage 1) in late January 03, TNSPs continue to work with NEMMCO in the monthly publication of transmission outage information. In implementing the RIEMNS Code changes, it has become apparent that these changes merely reinforce the existing 'passive' role of TNSPs in relation to the wholesale market. That is, these Code changes encourage TNSPs to schedule outages well in advance, advise the market and NEMMCO of any intended outages, and to endeavour to meet the scheduled arrangements. These Code changes have the effect of discouraging TNSPs from responding to short-term changes in market conditions, because of the importance placed by the RIEMNS Stage 1 arrangements on improving the information (and reducing the risk) to market traders on transmission outages and their possible impact on network capability.

A move to a more 'active' role, where transmission outages are rescheduled at short notice in response to pool or FCAS price spikes, is a significant change to the 'passive information' effect of the RIEMNS Code changes (favoured by some Market Participants). It needs to be recognised that RIEMNS Code changes have only just come into being after extensive Participant consultation, suggesting that there is a general preference for greater predictability of the impact of transmission outages than for the uncertainty associated with the more active role advocated by some parties.

Addressing Expectations That TNSPs Should be More Responsive to Market Conditions

TransGrid notes that both the ACCC and Sinclair Knight Merz have recognised the very real issues associated with implementing any network constraint performance measures, including the following.

- that a considerable proportion of network constraints result from factors outside the control of TNSPs and are unrelated to transmission outages, which include generator dispatch patterns;
- the adequacy of relevant data from the NEMMCO market information systems made available to Market Participants; and
- whether the issue of market efficiency is better resolved if TNSPs provided certainty of outage timing, or moving outages in response to pool price signals.

While agreeing with these observations TransGrid recognises that a number of stakeholders remain concerned about the potential impact of transmission outages on wholesale trading positions and that there is a perception that these risks are a significant factor inhibiting interregional hedging. The following discussion is offered as an input into the future discussion on the development of rational market based performance indicators.

The Predictability of Outage Scheduling vs Outage Scheduling in Response to Spot Prices: No meaningful progress could be made on performance Measures 4 and 5 (intra and inter-regional constraints) while the relative importance of predictability of the timing of future outages, compared with outage timing to spot prices, remains unresolved.

TransGrid is aware that some Market Participants value the predictability of future outages as being more important because it enables them to enter into hedging arrangements for the future with greater certainty. Other Participants, however, clearly support the notion that TNSPs should reschedule outages, when such outages create 'significant' price separation between regions, or require generators to be constrained on or off, especially in times of high prices.

Measuring the Potential Economic Benefits of Removing the Trading Risk Associated with Transmission Outages: This involves a number of important considerations. Firstly, significant interregional pool price separation is much an indicator of short term market power involving transfers of wealth from customers to generators than net economic impacts. Secondly, it is not clear that the elimination of all transmission outages would do much to remove the uncertainty associated with interconnector capability as much of this uncertainty arises in any case with all transmission elements in service.
Finally, quantification of the possible economic benefits of changed TNSP outage timing is essential in order to determine the level of benefits that can be shared with TNSPs under an incentive scheme.

The Need for Meaningful Price Signals for the Timing of Transmission Outages: In the event that it is decided that TNSPs should respond to price signals the nature of these signals needs to be determined. Pool prices have proven unhelpful in this regard because of the rebidding that occurs after a TNSP has committed resources to a planned outage. Pre-dispatch prices do not measure economic benefits and would be very disruptive and costly for TNSPs to respond to. One possibility is the use of Settlement residue Auction prices as an indication to TNSPs as to the periods to avoid outages that affect the capability of certain interconnectors. For example, TransGrid already avoids scheduling outages that impact on the Snowy to Victorian transfer capability during summer at its own cost. This position is vindicated by the value that Participants currently place on the relevant settlement residues at auction.

Events That Would Trigger a Review of Service Performance Targets

Performance targets would need to be reviewed in the event that there were changes to TransGrid's ability to carry out the functions that impact on service delivery. This would include the overall revenue caps set by the ACCC and changes in TransGrid's ability to make individual planning and investment decisions.

In the event that there is ACCC an inadequate provision for future capital and operating expenditures in the regulated revenue caps to cover future expectations and risks for TransGrid, it is likely that service performance could be adversely affected in the longer term.

Similarly, changes in the ability of TransGrid to make prudent planning and investment decisions will have a major impact on the allocated accountability for reliable network service performance. Such changes could include reductions in TransGrid's transmission planning responsibilities or changes to the scope of the regulatory test.

Should you wish to discuss any of the matters raised in this submission, please feel free to contact Mr Philip Gall, Manager/Regulatory Affairs on (02) 9284 3434.

Yours Sincerely

[Original Signed]

A/General Manager/Corporate Development