



**ACCC's Consultation on Transmission
Network Service Provider (TNSP)
Service Standards**

TransGrid Comments

24 January 2003



Introduction

This submission is in response to the Australian Competition and Consumer Commission (ACCC) report "Transmission Network Service Provider (TNSP) Service Standards" dated November 2002 ("the Report"). TransGrid is pleased to be given the opportunity to respond to this ACCC proposal.

TransGrid remains committed to the objective of the ACCC Service Standards Review for TNSPs, including the introduction of an appropriate incentive scheme within a low risk framework.

TransGrid's position with respect to a Performance Incentive (PI) scheme associated with service standards is that transmission companies should be rewarded for achieving and maintaining "best practice" and should only be penalised when performance falls below "acceptable practice". TransGrid understands that the current proposal developed for the ACCC by Sinclair Knight Merz (SKM) does not attempt to establish best practice benchmarks, nor to compare the performance between TNSPs.

The practical issues associated with benchmarking, such as definitional variations and the availability of reliable and consistent data between TNSPs, are understood and appreciated.

TransGrid also understands that the PI scheme currently being developed by the ACCC is established around a set of High Level Principles (refer section 3.3. of the Report). In working with SKM in the development of the PI scheme it has become apparent that the application of these principles has drawn out some other key considerations that underpin the scheme, but these do not appear to have been documented explicitly in the Report. These are:

- TNSPs should be exposed to a fair balance of upside and downside risk;
- Targets are being developed around the historical performance of each TNSP (using their own data definitions and data) with the incentive scheme designed to maintain or improve performance of the existing transmission network. As such, the targets will be chosen to be realistically achievable; and
- Where incremental performance improvements are more difficult to achieve than declines in service levels, asymmetric caps, collars and ramping factors will be applied to the design of the PI scheme.

Given the present difficulties associated with the development of a PI scheme based around "best practice" benchmarks, TransGrid accepts that an initial TNSP PI scheme established around the High Level Principles and the additional principles listed above is a reasonable alternative. TransGrid's position is, however, that the ultimate development of a PI scheme tied more closely to "best practice" benchmarks should be undertaken. TransGrid remains willing to participate in the development of such a scheme, and would urge the ACCC to consider the process for achieving this outcome.

TransGrid would like to note two related matters that need to be considered in the application of a PI scheme based upon TransGrid's historical performance in future revenue determinations. These are that:

- Sufficient revenue for operating and capital works be approved in future revenue determination by the ACCC in order to continue to maintain and develop the network to standards consistent with historical practice, and
- Key factors driving network performance outcomes are the planning and reliability standards. TransGrid considers that a PI scheme using the service standards proposed in this ACCC report is only appropriate whilst responsibility for network planning remains with TransGrid.

Structure of the Proposed Incentive Scheme

It should be noted that TransGrid has participated actively with the ACCC and SKM in developing the proposed Service Standards scheme.

TransGrid supports the use of the following service measures with appropriate targets implemented for each TNSP, in relation to an incentive scheme with approximately 1% of Maximum Allowable Revenue (MAR) at risk:

- Measure 1 – Circuit Availability
- Measure 2 – Loss of Supply Event Frequency Index
- Measure 3 – Average Outage Duration

In relation to Measure 4 (“Hours Constrained – Intra-Regional”) and Measure 5 (“Hours Constrained – Inter-Regional”), TransGrid does not support the use of these measures in their present form. TransGrid agrees with SKM that “the lack of available and consistent data should not become the basis for dispensing with a valid and appropriate measure”¹. However, TransGrid does not accept that sufficient evidence has been provided to justify the selection of these simplistic measures for application to a TNSP PI scheme, either at this time or in the foreseeable future. Additional comment is provided on this issue in the section of this submission entitled “Network Constraints” including proposed processes for progressing this important area of work.

Proposed Service Standards for TransGrid

TransGrid notes the initial performance targets that have been proposed for application to TransGrid. These targets are consistent with TransGrid’s historical performance and reflect a fair and reasonable outcome from the consultation process conducted by SKM.

It should be noted, however, that the application of the specific caps and collars (as described in general terms in Section 4 of the Report) are of equal importance to the selection of target measures in determining the impact of the PI scheme on a TNSP.

In order to ensure an appropriate balance of risk to TNSPs, particularly where performance is already of a high standard, an asymmetric application of caps and collars is necessary. With such an arrangement, rewards for improvement in performance above target levels are obtained more readily than penalties are applied for deteriorating performance, to reflect “the law of diminishing returns”.

Whilst the general description of the PI scheme provided in this document makes provision for asymmetric caps and collar, there does not appear to be any discussion in relation to the fact that such asymmetry is an essential part of the PI scheme. This aspect of the proposed PI scheme is a key element of the scheme and needs to be recognised explicitly.

The following additional comments are offered:

- In relation to Measure 3 – Average Outage Duration, TransGrid’s target was derived from data with the application of a cap on any given outage duration of 7 days. Accordingly, the use of a similar duration cap needs to be adopted and documented accordingly for application to TransGrid’s PI scheme.

¹ The Report, Executive Summary, page 2



- In relation to Measure 3 – Average Outage Duration, the unit of measure for TransGrid² is shown incorrectly as “hours”. The correct unit of measure is “minutes”.
- The service measure historical data collected by TransGrid in relation to its work with SKM was done in conjunction with a number of amendments to the Service Measure Definitions (refer Appendix B of the Report). The definitions included in the Report do not reflect all the comments provided by TransGrid. TransGrid would like to refer the ACCC to its amended definitions provided to SKM on 1 November 2002, which are now included in Appendix O of the Report.
- TransGrid supports the use of a more explicit guidelines within the definition of Force Majeure for the avoidance of doubt in relation to what TNSPs are reasonably expected to cater for in their design and asset management.

TransGrid’s proposal in relation to its performance incentive scheme, reproduced including all the suggested caps, collars and with the relative weighting of the various measures, is given below:

Performance Measure	Unit of Measure	Weighting %	Collar	Deadband Knee 1	Target	Deadband Knee 2	Cap
Transmission Line Availability	%	20	98.9	n/a	99.4	n/a	99.7
Transformer Availability	%	15	98.0	n/a	99.0	n/a	99.5
Reactive Plant Availability	%	10	97.0	n/a	98.5	n/a	99.3
Reliability (Events >0.05 system minutes)	Number	25	4	n/a	6	n/a	9
Reliability (Events >0.4 system minutes)	Number	20	0	n/a	1	n/a	3
Average Outage Restoration Time (7 day cap)	Minutes	10	2400	1800	1500	1200	800

Network Constraints

It is noted that the ACCC and SKM service standard proposals have recognised the very real issues associated with implementing network constraint performance measures including:

1. That a significant proportion of network constraints result from factors outside the control of TNSPs and, in particular, are unrelated to transmission outages;
2. The adequacy of available relevant data from the NEMMCO market information systems; and
3. Resolving whether market efficiency is enhanced most by TNSPs providing certainty of outage timing, or by moving outages in response to pool price signals.

² The Report, Executive Summary, page 4



This explicit recognition of the complexity of the issues involved is essential to achieving meaningful progress in establishing market impact performance measures and targets (Measures 4 and 5). Indeed, the Measures 4 and 5 proposed in the Report do recognise the first of these issues by seeking to exclude non-outage related system constraints. This initiative is supported.

However, in line with the recommendations of the recent COAG Energy Market Review Panel report, further progress on developing network constraint performance measures will be expected by a significant proportion of market stakeholders. In TransGrid's view the ACCC, together with the TNSPs and NEMMCO, need to be more proactive in further developing these measures than has been foreshadowed in this Report. This applies particularly to issues 2 and 3 above. In this regard TransGrid makes the following specific proposals.

Adequacy of Relevant Data From NEMMCO Market Information Systems

To implement the recent RIEMNS Code changes NEMMCO has already initiated a consultation process that includes changes to the information collected and published in relation to transmission outages and constraints. TransGrid will be working with other TNSPs and NEMMCO through this process to develop the information collected and produced by NEMMCO into a form that will assist in establishing records of proposed measures 4 and 5. The ACCC's final report should support this and commit the ACCC to continuing involvement in this process.

Examples of the issues that need to be dealt with through this process include:

- The data needs to be collected in such a way that better discriminates between constraints resulting from transmission outages and constraints that occur at the same time as a transmission outage but were due to another concurrent cause (e.g. market driven changes in flow patterns).
- The data needs to clearly discriminate between outages due to different causes, including differentiation of outages required to facilitate transmission upgrades from outages resulting from other causes. This is because the benefits in the longer term of completing upgrades may well outweigh the costs of the delays that result from deferring outages because of prevailing market conditions. A recent example of this was the SNOVIC upgrade program which was required to be completed by summer 2002/03 to ensure adequate generation capability into the Victorian region from NSW. Under these circumstances it may be inappropriate to encourage transmission businesses to defer outages needed for these upgrades if the result was failure to commission SNOVIC on time.

Certainty of Outage Timing vs Outage Scheduling in Response to Spot Prices

No meaningful progress can be made on the performance Measures 4 and 5 while the relative importance of the predictability of the timing of future outages compared with the responsiveness of outage timing to spot prices remains unresolved. TransGrid is aware of at least some Market Participants that value the predictability of future outages as most important because it enables these Participants to enter into hedging arrangements for the future with much greater certainty. Other Participants clearly support the notion of TNSPs rescheduling outages when such outages create 'significant' price separation between regions or require generators to be constrained on or off. A process is required to resolve this dilemma as a matter of priority.

TransGrid recommends that the ACCC, in its final report on this matter, seek consensus submissions from the various Participant peak bodies on this issue setting out their preferred position and the reasons for this position in terms of improved market efficiency. Specifically, the National Generator



Forum and National Retailer Forum should be included in this request. This would enable the ACCC to achieve progress on this issue while minimising its role in brokering consensus positions.

As part of this consultation the ACCC could invite these bodies to comment on the use of pre-dispatch prices to serve as the price signal to TNSPs for rescheduling planned transmission outages. This would help overcome the exposure of TNSPs to last minute changes in market conditions (which are clearly outside their control) following the commencement of a planned outage. TransGrid has experienced occasions when actual generation dispatch patterns vary significantly from pre-dispatch predictions after the commencement of a transmission outage. Often, when this occurs, the recall times for the outage prevent a prompt return to service of the affected transmission equipment resulting in higher pool prices (sometimes for a significant period) that are completely outside the control of TNSPs.

It is recommended that this form of consultation process, involving the peak Participant bodies, be initiated by the ACCC as a matter of priority. Among other matters, the results of this consultation could have a significant bearing on NEMMCO's current evaluation of the type of information that NEMMCO would collect and disseminate to the market in relation to transmission outages and associated constraints.