

## Attachment 15

### Service Standards Measures

#### 1. Introduction

In Chapter 7 of TransGrid's 2004 Revenue Reset Application it is proposed that the Service Measures and Targets contained in Table 7-1 provide a sound basis for implementing service performance incentives linked to TransGrid's MAR. It is further noted that implementation of these arrangements for the Reset Period covered by the Application is supported subject to:

- The commission incorporating TransGrid's required capital and operating expenditure in the Commission's MAR decision;
- Achieving an appropriate definition of 'force majeure' events; and
- Satisfactorily clarifying the definition of the performance measures involved.

This Attachment clarifies TransGrid's proposals in relation to each of these matters.

#### 2. Recognising Adequate Levels of Capital and Operating Expenditure in TransGrid's MAR

If the Commission determines that the expenditure sought by TransGrid in its Revenue Application needs to be reduced then this reduces the service delivery capability of TransGrid. It follows that the service performance targets and associated incentive arrangements would need to be adjusted accordingly. It is therefore recommended that finalisation of these matters be left until the Commission has reached an advanced stage in its consideration of TransGrid's future capital and operating expenditure needs.

#### 3. An Appropriate Definition of Force Majeure

TransGrid would be agreeable to adopting the definition in the Commission's Draft Decision on Service Standards Guidelines (28 May 2003) with this to be reviewed in the light of experience and the end of the 2004 to 2009 regulatory period. Specifically this definition is:

*"For the purposes of applying the service standards performance incentive scheme, 'force majeure events' means any event, act or circumstance or combination of events, acts and circumstances which (despite the observance of good electricity industry practice) is beyond the reasonable control of the party affected by any such event, which may include, without limitation, the following:*

- *Fire, lightning, explosion, flood, earthquake, storm, cyclone, action of the elements, riots, civil commotion, malicious damage, natural disaster, sabotage, act of a public enemy, act of God, war (declared or undeclared), blockage, revolution, radioactive contamination, toxic or dangerous chemical contamination or force of nature.*
- *Action or inaction by a court, government agency (including denial, refusal or failure to grant any authorisation, despite timely best endeavour to obtain same).*
- *Strikes, lockouts, industrial and/or labour disputes and/or difficulties, work bans, blockades or picketing.*

- *Acts or omissions (other than a failure to pay money) of a party other than the TNSP, which party either is connected to or uses the high voltage grid or is directly connected to or uses a system for the supply of electricity which in turn is connected to the high voltage grid.*

*Where those acts or omissions affect the ability of the TNSP to perform its obligations under the service standard by virtue of that direct or indirect connection to or use of the high voltage grid.”*

#### **4. Clarifying Performance Measures**

The definitions of performance measures in the Commission's Draft Decision on Service Standards Guidelines (28 May 2003) (Draft Decision) appear to contain some errors. TransGrid recommends the following amendments before their adoption as part of a performance incentive scheme for TransGrid over the next reset period:

- In Appendix B (p15) of the Draft Decision *“Individual TNSP Performance measure definitions”*, the Loss of Supply Event Frequency Index measure is reported in ‘minutes’ instead of ‘System Minutes’. System Minutes has a clear and specific meaning, is correct in this situation.
- In Appendix B (p16) of the Draft Decision, *“Individual TNSP Performance measure definitions”*, the Average Outage Duration measure is reported to be 14 days. TransGrid's requests that a 7-day cap be adopted for any single event. TransGrid's proposed annual target of 1500 minutes is firmly linked to the 7-day cap, in keeping with the measure also outlined for Powerlink.

#### **5. Other Matters**

An incentive-based regulatory framework depends on creating clarity and certainty in relation to the incentives over time, particularly in a mature and capital intensive business such as electricity transmission. Accordingly, before adopting the Performance Measures and Targets set out in Table 7-1 of TransGrid's Application, it would be necessary to understand the Commission's position in advance, as to what actions or remedies are to be implemented in “reassessing” performance targets when reviewing a TNSP's actual performance data. (Refer Section 4.2, p.5 of the Draft Decision).

Finally, it needs to be recognised that TransGrid's proposal, as set out in Table 7-1 of TransGrid's Application explicitly includes caps and collars on the revenue impacts associated with service performance outcomes. This is in keeping with the evolutionary approach being adopted by the Commission to the issue of service performance incentives. In this regard, TransGrid also notes that, the ACCC acknowledged the issue of “Caps and collars” in its Draft Decision and that this is linked to achieving symmetry of rewards and penalties.