Final decision

Early application of the market impact component of the service target performance incentive scheme for Powerlink

Performance Target

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Shortened forms

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
DIs	dispatch intervals
MAR	Maximum Allowed Revenue
STPIS	Service Target Performance Incentive Scheme
TNSP	Transmission Network Service Provider

1 Introduction

On 31 August 2007, the AER published its service target performance incentive scheme (STPIS) in accordance with clause 6A.7.4 of the National Electricity Rules (Electricity Rules). This scheme focuses on network availability and reliability by providing incentives for transmission network service providers (TNSPs) to improve their performance against these parameters by providing rewards for improvements in performance standards and penalties for declining standards.

In March 2008, the AER amended the STPIS to incorporate a market impact parameter. The market impact component of the amended scheme supplements the original scheme by targeting outages that have an adverse impact on dispatch outcomes.

The amended scheme provides financial rewards to a TNSP for improvements in its performance measure against a performance target. This complements the financial rewards and penalties of the service target framework outlined in the original scheme. The market impact component of the scheme enables a TNSP to earn an additional revenue increment of up to 2 per cent of the TNSP's maximum allowed revenue (MAR) for the relevant calendar year.

On 11 March 2010, the Australian Energy Market Commission (AEMC) approved the addition of clause 11.32 of the Electricity Rules which enabled the early implementation of the market impact component of the STPIS. On 17 March 2010, Powerlink Queensland (Powerlink) applied to the AER for the early application of the market impact component.

2 Powerlink's application

On 17 March 2010, Powerlink submitted its proposal for the early application of the market component of the STPIS to the AER. Powerlink proposed the following:

- start date of 13 July 2010;
- performance target of 1583 dispatch intervals; and
- performance cap of 0 dispatch intervals.

As required by clause 11.32.3(e) of the Electricity Rules, the proposed start date is at least 80 business days after the application.

Powerlink proposed a performance target of 1583 dispatch intervals per annum. The target is the annual average, over a five year period from 2005 to 2009, of the number of dispatch intervals in which a network outage constraint attributable to Powerlink was binding with a marginal value greater than $10/MWh.

Table 2.1 provides a summary of Powerlink's proposed annual performance measures and its contribution to the market impact parameter target.

Table 2.1: Powerlink's proposed annual performance from 2005-2009

Year	2005	2006	2007	2008	2009	Average
Binding intervals	2462	4133	3479	1574	1290	2623.6
Exclusions	295	439	1777	1537	1154	1040.4
Contributions to the performance target	2167	3694	1702	217	136	**1583.2***

*The average is 1583.2, however Powerlink proposed 1583 dispatch intervals.

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3 Consultation

The Electricity Rules require the AER to publish Powerlink's submission for the early application of the market impact component of the STPIS. Therefore, on 30 March 2010, the AER published Powerlink's submission and invited written submissions by interested parties. Written submissions closed on 21 April 2010. No inquiries or submissions were made.

4 AER decision

Under 11.32.3(n) of the Electricity Rules, the AER must make a decision on

- the start date of the application of the market impact component of the STPIS for TNSPs; and
- whether the AER approves or refuses to approve the proposed values for a performance target or a cap for the market impact component of the STPIS,

setting out the reasons for the decision.

4.1 Start date

The AER approves the proposed start date of 13 July 2010 as detailed in Powerlink's application. The market impact parameter of the STPIS for Powerlink will be determined based on outage constraint information from and including 13 July 2010. This date is compliant with 11.32.3(e) of the Electricity Rules and is the earliest date that Powerlink can apply for the scheme.

4.2 Performance target

The AER does not approve Powerlink's proposed performance target for the market impact component of the STPIS. The AER's decision is to substitute the proposed value of 1583 dispatch intervals with 1570.

The AER's analysis concludes that the inclusion of a number of binding network-outage constraints used to calculate Powerlink's proposed performance target is not consistent with the requirement of the STPIS.

The reasons for the adjustments are detailed below. Further information on the AER's adjustments to the performance measure over 2005-2009 is in **Appendix A**.

- Powerlink's proposed performance target included a number of binding network-outage constraints that were used to manage the reclassification of *non-credible contingency events to credible contingency events*[1]. According to the requirements of the STPIS, constraints that are used to manage the reclassification of lines in the network are excluded from the performance measure. Powerlink has agreed that a number of constraints were incorrectly classified. As a result, the performance measure count was reduced by 40 dispatch intervals over the five year period.
- Powerlink's proposed performance target was determined using constraint marginal values detailed in the AEMO *dispatch constraint* data table. However in May 2009, AEMO (in consultation with the AER), commenced the publication of a table called *MCC_Constraintsolution*. This table provides a more accurate measure of constraint marginal values. Powerlink's

[1] As defined in clause 4.2.3(f) of the Electricity Rules.

performance measure for part of 2009 should have been calculated based on this data. This reduces the 2009 proposed measure by 1 dispatch interval. The count for the Q^FNQ4-030 constraint should have been 9 dispatch intervals instead of 10. There are other discrepancies as a result of the different tables used. However, these discrepancies are not material to the performance target as it ignores outage constraints with marginal values of less than $10/MWh.

- Powerlink's submission identified that the Q>BI_1TX_865_GD460 constraint could be invoked to manage either the outages of the H8 transformer (owned by Boyne Island Smelter) and/or the outages of the 275 kV line number 865 (owned by Powerlink). The total binding count for this constraint over the five years was 542 dispatch intervals, 131 dispatch intervals of which were included in the performance target calculation for Powerlink. However, in consultation with Powerlink, the AER found that the performance count should be reduced from 131 dispatch intervals to 117, as Powerlink incorrectly identified 14 dispatch intervals attributable to Powerlink's outages, when in fact they were attributable to third party system outages. The remaining 411 dispatch intervals were excluded as they related to third party system outages.

- In consultation with Powerlink, a further reduction of 2 dispatch intervals to the five year performance measure was required as the Q>MUTE757_758_B constraint was invoked as a result of an outage requested by Country Energy.

- In consultation with Powerlink and AEMO, a reduction of 17 dispatch intervals to the five year performance measure was required as a outage constraint did not accurately reflect the network capability that Powerlink had advised AEMO.

- The AER found that a constraint used to manage the outage of the Woolooga to Palmwoods 275 kV line bound for 8 dispatch intervals during 2009, which was not included in Powerlink's proposed performance measure. The AER has adjusted the performance target to reflect this.

Powerlink has agreed to all of these adjustments. Overall, the five year performance measure was reduced by 66 dispatch intervals[2]. This reduces Powerlink's annual performance target by 13.2 dispatch intervals. The AER decision is to substitute the proposed performance target with 1570 dispatch intervals.

4.3 Performance cap

In accordance with 11.32.3 of the Electricity Rules, the AER approves Powerlink's performance cap detailed in its submission being 0 dispatch intervals as it is consistent with the scheme. This means that the maximum incentive payment is made when Powerlink achieves a performance measure of 0 dispatch intervals.

[2] This consists of a reduction by 74 dispatch intervals and an increase by 8 dispatch intervals.

A.1 Appendix A: AER adjustments to Powerlink's proposed performance measure

Year	Constraint ID	Adjustment to performance measure (DIs)	Reason for adjustment	Date binding
2005	Q>BI_1TX_865_GD460	-14	Invoked for third party system outage	10/5/05 7/4/05 28/6/05
2006	Q>>BRTR_NTH-PRE	-2	Invoked for reclassification of lines	15/12/06
	Q>MUTE757_758_B	-2	Outage request made by Country Energy	16/05/06
	Q_GLD34_500	-17	Constraint bound in preparation for network outages and so did not reflect network capability	23/1/06 24/3/06
2008	Q>>BRTR_NTH-PRE	-37	Invoked for reclassification of lines	30/1/08 4/2/08
	Q>>BCKBR_NTH-PRE	-1	Invoked for reclassification of lines	5/2/08
2009	Q_CS_1500	8	Invoked for Powerlink's outage	24/1/09
	Q^FNQ4-030	-1	Binding count reduced as a result of a change in marginal cost table used	29/11/08
Total		-66		
Annual average		-13.2		