Energy Retailers Association of Australia Incorporated

18 April 2005

Mr Sebastian Roberts
General Manager
Electricity Group
Australian Competition and Consumer Commission
GPO Box 520J
Melbourne VIC 3001

Email: electricity.group@accc.gov.au

Dear Sebastian,

ERAA submission on Directlink Service Standards

Thank you for the opportunity to comment on the service standards for the Directlink cable as part of the DJV application for conversion to regulated status.

The position of the ERAA on transmission service standards is simple:

- Transmission service providers should have the incentive to provide transfer capacity when required.
- Transmission service providers should not be penalised for not providing transfer capacity when it is not required.
- Any incentive should be proportionate to the value of the service being provided.

These straight forward principles become complex when applied to meshed networks that provide multiple and sometimes mutually exclusive services. To date, the industry and its regulatory bodies have struggled to produce practical solutions to this problem.

As a result it is generally recognized that there are significant benefits in sharpening the focus of transmission service standards, and hence transmission service standards remain an unresolved issue between network owners, network users and regulatory bodies.

Directlink, as a single, point to point link avoids much of the difficulty associated with quantifying the service delivery of meshed networks. The conversion process also seeks explicitly to identify and assign an economic value to each of the services provided by Directlink.

We believe this situation presents a unique opportunity to enhance the value of Directlink to network users by developing a superior service standards regime. Indeed development of such a scheme may also provide important insight into the design of practical, focused service standards on more complex networks.

Some possible directions are detailed in the following pages for development of a focused incentive scheme on the reliability services provided to northern NSW, as identified in the "Review of Directlink Conversion Application" prepared by PB Associates for the ACCC. It must be noted that our work is limited to the development of service standards on the basis of the benefits outlined in this review.

We recognise that the actual identification and quantification of benefits allowable under the regulatory test is an issue of contention at this point in time, and we do not seek to comment on these aspects of the determination. However, once the allowable benefits have been identified, we would be happy to assist with the design of sophisticated performance measures.

Directlink Focused Service Standard outline.

Under the regulatory test, six sources of benefit are allowable:

- Increased electricity demand resulting from price reductions caused by increased competition.
- Reduced cost of interruptions (base on VCR, Voll) due to increased reliability of supply.
- Increased efficiency of operation (predominately displacement of expensive fuel with cheaper fuel).
- Reduced capital costs (ie. Defers requirement for other plant).
- Reduced ancillary services costs.

An effective service standard must create incentives for the network owner to deliver the specific benefits identified by the regulatory test, with the level of incentive associated with each identified benefit being proportional the relative value of that benefit.

Consider the example of capital deferral benefits to meet a local area reliability statutory requirement:

Say the capital deferral benefits of meeting a statutory local area reliability requirement is worth $1M per year out of total benefits of $3M per year. This suggests 33% of the any incentive amount should be allocated based on the extent to which the local area reliability objective is achieved.

In determining whether the asset in question is indeed providing the benefit identified, it is necessary to clearly identify a measure of service delivery, and the role each specific asset plays in delivery of that service. For example, where the benefit allowed is the provision of N-1 supply to a local area, then the measure of whether this benefit is delivered during the period in question, is the degree to which N-1 supply is

actually achieved. This is typically a straight forward exercise, and has strong parallels with the processes run by NEMMCO and TNSPs to meet their power system security obligations.

For a local area supplied by more than two transmission elements, the requirement for a third element to meet peak loads may only be a few days a year. Clearly an incentive based on these few critical days will drive better outcomes for the customers in that area while allowing the network service provider vastly improved access to plant for maintenance and testing purposes.

It would appear these principles could be applied to reliability benefits identified by BRW and PB associates for northern NSW.

Principles for designing service measures for other identified benefits.

Without going into to much detail at this stage, it would seem that similar measures could be designed for other identified benefits. Some brief principles are given below:

Ancillary services:

Ancillary service requirements are determined by NEMMCO for each five minutes. It would seem sensible that a 'shadow' market service requirement could be calculated (based on the existing methodology) for an outaged network element. This would allow the effectiveness of the network element in reducing the ancillary service requirement to be measured.

Competition:

This would seem to have strong parallels with market incentives. This suggests that current work stream on market incentives on TNSPs could be applied to this aspect.

Increased efficiency of operation:

Production costs as estimated by an economic consultant are using in application of the Regulatory test by TNSPs. This readily available data allows a cost based (as opposed to bid based) shadow dispatch to be calculated with relative ease. The calculation of the sensitivity of these costs to network element availability would form the foundation of performance measure and hence the basis of an incentive scheme.

Reduced cost of interruptions (base on VCR, Voll) due to increase reliability of supply.
Reduced capital costs (ie. Defers requirement for other plant).

Improved reliability of supply on a regional basis and reduced capital cost of plant are essentially the same objective, as the plant being deferred is capacity support plant (ie. insensitive to marginal costs). This is a difficult area due to the statistical nature of reliability analysis and the sparsity of forced outage data. This may be one area where raw circuit availability based incentives may be appropriate, although weighting this

incentive toward high load periods, or low plant margin periods (for instance LOR1 conditions) would add considerable value.

If you wish to further discuss any aspects of this submission, please contact Andrew Jones at Origin Energy on 02 8345 5555.

Yours Sincerely

Transmission by e-mail

Deane Russell
Executive Director