

4 March 2009

Mr Owen Seadon  
Australian Energy Regulator  
Level 35, The Tower  
360 Elizabeth Street  
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Dear Mr Seadon

### *Priorities and objectives of performance reports*

The Energy Users Association of Australia (EUAA) appreciates the opportunity to provide a submission to the Australian Energy Regulator (AER) on the priorities the AER proposes to apply in its financial and operating performance reporting. The EUAA welcomes the AER's commitment to providing stakeholders with information on the performance of TNSPs. The EUAA is the national association of Australian energy users with over 100 members, including many of the nation's largest users of electricity. As such, the EUAA has a strong interest in the AER's proposals on these matters.

#### *Impact of asset replacement and maintenance of performance*

For customers, the main function of a performance report must be to allow us to form a view on the value for money of the services the TNSP provides. All too often, customers have great difficulty justifying the revenue requirements of TNSPs, especially the requested replacement capex, and operations and maintenance expenditure in terms of performance improvements.

In recent revenue reviews, the size of the requested replacement capex and opex has been increasing relative to the regulatory asset base. TNSPs claim that their assets are getting old and performance as a result is expected to deteriorate. To prevent this from occurring, these old assets have to be replaced or maintained more rigorously. As a result, the AER has provided TNSPs an allowance in terms of performance, accepting the TNSPs argument that, some assets may have to be taken out of service during asset replacement or maintenance.

The EUAA believes that the potential for lower performance due to the replacement of aged assets has been overstated. While there may be a theoretical possibility of an outage occurring during such works, the transmission system has significant redundancies built in to cope with equipment failure during peak periods and more so during off-peak seasonal periods when maintenance and upgrades are normally scheduled. Asset replacement and maintenance, however, would not be expected to occur during daily and seasonal peak periods. Any reasonable network operator will schedule these works during periods of lower demand. As a result, the level of redundancy can be expected to be much higher and

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thus be more than adequate to cope with any potential failure even with assets out of service due to the replacement works. Allowing TNSPs a lower performance benchmark due to its asset replacement or maintenance programme thus unduly rewards them under the performance incentive scheme with a generally lower performance standard for which customers do not get any compensation.

To better understand the outage impact of the asset replacement programme, the AER could require TNSPs to report such outages separately. Two standards could be used to assess performance, one including the impact of asset replacement and maintenance where penalties would be imposed for not reaching the required standard and another where the impact of asset replacement and maintenance on outages has been removed. TNSPs should then only be rewarded for exceeding the standard set for normal operating conditions.

The high spend on replacement capex should also lead to improvements in performance as the assets are renewed and become more reliable. This should be taken into account in setting the standards in the performance incentive scheme as it is the customers who are paying for these new assets. Setting performance benchmarks based on historical performance levels would reward TNSPs for performance improvements simply because the new assets are more reliable rather than any improvement in the TNSP's operations. This, in effect, allows TNSPs to "double dip" on the new assets that customer are already paying for and raise the cost to customers.

### ***Appropriate benchmarks***

In its *Transmission Network Service Providers Electricity Regulatory Report* for 2006/07 published in August 2008, the AER made a number of capex and opex benchmark comparisons including:

- Capex as a proportion of average RAB for 2006/07
- Capex/peak demand for 2006/07
- Opex as a proportion of average RAB for 2006/07
- Opex as a function of network length for 2006/07

Another benchmark that would be useful is Opex as a function of the number of terminal stations. This would show how efficiently each TNSP operates its assets which does not only comprise of network lines. These are useful benchmarks as they allow comparison across TNSPs. It could be made more useful by highlighting changes over time.

It may also be appropriate to benchmark costs categories based on asset classes. TNSPs with different asset profiles are likely to have different cost profiles and categorising costs based on asset classes may better inform stakeholders of the relative efficiency of the TNSPs. The asset classes may be based on

- type of asset, eg transformers, line and towers
- size, capacity or voltage levels
- age of assets.

### ***Customers' Priority***

Ultimately, however, customers are interested in the cost of the service and while it may be derived from the tables in the Report's Appendix A, charts showing opex per unit of energy and peak demand transmitted, and revenue per unit of energy and peak demand transmitted over time would allow customers to see how their TNSP's efficiency compares, or has improved or otherwise.

The current transmission performance indicators are simple to understand and easily implemented. They are aggregated across a TNSP's network and relate to:

- transmission circuit availability
- average outage duration
- frequency of 'off supply' events

While these aggregate service performance information may be interesting, this information needs to be meaningful to individual customers, especially customers where the power supply may be a critical input into their industrial processes. The reporting of a TNSP's performance at an aggregate level does not tell a customer the reliability of their supply at their site.

These indicators also do not provide incentives for the TNSP to focus resources on areas where they have most value to ensure continuity of supply to customers and impact production costs in the energy market. Currently, the network planning process and the planned level of redundancy is the primary mechanism to deliver higher reliability where it is justified, such as to central business districts and essential services.

From an electricity customer's perspective:

- Transmission circuit reliability often does not have a direct impact on customers because for most bulk supply points there is network redundancy. Outages within the meshed network often do not affect the access of low cost generation to the energy market and have no significant impact on energy prices or customer supplies.
- Similarly, the duration of an outage of a transmission element has no direct customer impact on continuity of supply unless other network elements are also out of service at the same time. Of course, many extended outages will eventually create a disconnection, but that is a risk rather than a deterministic eventuality.
- While a transmission outage may have an impact on spot prices, for most customers such an event has no immediate impact because they are fully contracted through a retailer. However, spot price impacts do affect investment and contract prices in the long term through the perception of risk and therefore constraints may increase customer costs if they cannot be readily managed through economic investment in generation, transmission or demand side capacity.

To achieve the NEM Objective, the performance reporting regime should encourage TNSPs to achieve an efficient level of performance of the transmission systems as part of an integrated Performance Incentive Scheme. The scheme will need to require TNSPs to minimise the total cost of the capital and operating investment in performance improvement plus the value that is created or lost through changes in the performance of the transmission system. Providing TNSPs can forecast the benefits they might receive from the new scheme and quantify the relationship between their business decisions and investments, then there is a prospect that having TNSP revenue vary with the impact of outages on the energy market would contribute to improving the efficiency and reliability of the transmission system.

Customers would also like to see the performance indicators of individual feeders especially those feeders that supply major industrial loads and the impact on customer load. This could be accomplished by a simple listing of the various feeder lines over a period of time without any need for any AER or TNSP commentary except for cases where significant events have occurred. These data could then be used by customers to build local network

reliability models and to assess the risks of interruption even when they not directly observable due to the low probability of interruption.

Annual reporting on individual feeder performance will also assist the AER in its revenue reviews by identifying poor performing assets on an ongoing basis rather than only during revenue resets. This will reduce the information asymmetry during the reviews and allow customers to better understand the need for any capital investments in replacing assets servicing poor performing feeders.

We appreciate the opportunity to provide these comments.

Yours sincerely

A handwritten signature in black ink, appearing to read "Roman Domanski". The signature is fluid and cursive, with a large initial "R" and "D".

Roman Domanski  
**Executive Director**