ElectraNet SA

ACCC Service Standards Guidelines

Submission – 18 July 2003

ElectraNet SA
electricity transmission network

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1. Introduction

On 28 May 2003, the Australian Competition and Consumer Commission (ACCC) released a draft decision in relation to draft Service Standard Guidelines as part of its ongoing development of the Statement of Principles for the Regulation of Transmission Revenues (DRP).

The draft guideline proposes a performance incentive scheme for Transmission Network Service Providers (TNSPs) that has been developed based on recommendations by Sinclair Knight Merz (SKM) and consultation with TNSPs and other interested parties.

On 15 July 2003, the ACCC held a public forum providing the opportunity for interested parties to comment on the draft guidelines.

ElectraNet comments in this submission on the draft guidelines and the proposals made by interested parties at the public forum.

In December 2002, the ACCC released revenue cap decisions for the transmission networks of South Australia (ElectraNet) and Victoria (SPI PowerNet and VENCorp). The performance incentives included in these decisions are consistent with the approach of the ACCC's draft guidelines.

2. Performance Incentive Scheme

The objective for developing the ACCC's performance incentive scheme was to provide incentives for TNSPs to minimise the customer reliability impacts and market impacts of transmission outages. The scheme was intended to drive the TNSPs operating decisions and not its capital decisions. In other words, the scheme was not intended to provide incentives for augmenting the network to achieve performance targets.

ElectraNet generally supports the ACCC's performance incentive scheme as an important step towards achieving this objective, and in particular the following aspects of the scheme:

- The definition of the availability, loss of supply frequency index and average outage duration performance measures defined in ElectraNet's revenue cap decision;
- Applying standard definitions of performances measures to TNSPs in a flexible manner to ensure that measured performance is consistent with the availability of historical performance data and is, therefore, consistent over time;
- Excluding events that are outside of the control of the TNSP;
- Capping the financial incentives available to avoid excessive risk and uncertainty for both TNSPS and customers;
- Placing a greater weighting on the value of rewards compared to penalties; and
- Setting performance targets based on each TNSPs historical performance rather than industry benchmarks in recognition of the unique and complex individual operating environments that may distort industry benchmarks.

However, setting performance targets based on historical performance gives rise to the following concerns:

- Performance targets set in this way do not take into account a TNSP's allowed capital program. For example, ElectraNet's capital program during the current regulatory period is forecast to increase twofold compared to the period used to set performance targets. More plant outages will be required to accommodate the larger capital works program adversely affecting the availability performance measure. Higher levels of construction will also increase the likelihood of inadvertent plant outages potentially adversely affecting all performance measures.

- If performance targets are already at or near best practice then further improvements are much more difficult to achieve compared to a potential decline in performance.

These factors create an imbalance in the incentive properties of the scheme and should be taken into account in developing performance incentives and setting performance targets. The ACCC performance incentive scheme for ElectraNet does not appear to adequately consider these factors.

3. Market Impact Performance Measures

ElectraNet understands the need to minimise the market impact of its transmission operations and schedules network outages to achieve this objective. The degree to which TNSPs currently seek to minimise the market impact of outages is probably not well understood.

Nevertheless, stronger financial incentives for TNSPs have been proposed in the expectation that this will lead to significant further benefits to the market.

The ACCC has proposed transmission constraint measures that are directly linked to the market impact caused by TNSP action or inaction. These measures include binding constraints that cause price divergence and require "out-of-merit-order" scheduling of generation, but at present, these measures do not include the magnitude of market impact. No financial incentives have been attached to these performance measures in TNSP revenue cap decisions.

ElectraNet agrees with the ACCC's conclusion that more work is required to develop market impact measures before any financial incentive can be attached. In particular, the following impediments must be overcome:

- A lack of data identifying the cause of binding constraints and demonstrating any link with TNSP behaviour; and

- Finding an appropriate and practical way of assessing the market impact of any binding constraints caused by TNSP behaviour.

The development of meaningful market impact measures requires market participants to be clear on whether they are seeking to minimise market impact by having a level of certainty regarding transmission outages (so that participants can hedge their positions in the market) or alternatively responsiveness to reschedule outages at short notice in response to an appropriate market impact signal.

ElectraNet has raised this question a number of times in previous submissions and discussions with the ACCC and interested parties. We note that the National Generators Forum (NGF) and Energy Retailers Association of Australia (ESAA) indicated a leaning towards responsiveness at the recent public forum.

ElectraNet supports the proposal of the NGF/ ESAA for all parties to work together to better understand the nature, cause and impact of binding constraints on the market.

Constraint (or limit) equations can be complex in nature and include many factors that are unrelated to TNSP behaviour (for example system load and generation dispatch). Education of market participants will increase understanding of what improvements may be feasible by placing stronger incentives on TNSPs.

ElectraNet is of the view that market participants currently have unrealistic expectations in this regard. For example, we note that the majority of binding constraints on the Heywood interconnector between South Australia and Victoria are unrelated to TNSP behaviour and are outside of ElectraNet's control.

4. Public Forum Proposals

The following comments are in relation to the joint proposals made by the NGF/ ERAA at the public forum on 15 July 2003.

4.1 Peak Weighting of Standards

The NGF/ ERAA presentations argue that performance standards should be weighted towards critical times when the system is under stress in recognition of the fact that for much of the time most transmission outages would have no impact on the market.

The presentations note that simple time and seasonal definitions are not good enough and propose that system demand may be a good, simple and objective surrogate for "system stress". Further, it was proposed that performance should only be measured on say the top 10 or 20 peak demand days of the year.

ElectraNet makes the following observations in response to these proposals:

- Experience has shown that constraints applied to the Heywood interconnector are not necessarily correlated with times of peak demand. Another important factor is the amount of generation reserve available in South Australia.

- In ElectraNet's case, the Average Outage Duration measure is defined only in relation to interruptions to customer supply. This definition avoids the concerns raised about providing incentives to return plant to service where this has minimal market benefit.

4.2 Publication of "Ratings Philosophy"

The NGF/ ERAA propose that TNSPs publish their "ratings philosophy" to provide greater transparency in relation to the setting of transmission capacity limits and the development of constraint equations.

ElectraNet supports transparency and education of market participants on the development of constraint equations and notes:

- Arrangements put in place by NEMMCO and the TNSPs to publish forecast transmission outages and the projected market impact of these outages (including a plain English description of the relevant constraint equations), in response to the recent Network and Distributed Resources Code changes;

- The description of factors impacting on transmission network ratings already published in Section 6.3 of ElectraNet's Annual Planning Review (www.electranet.com.au); and

- The South Australian Electricity Transmission Code requirement for a TNSP to provide ESCOSA with details of how it determines the rated capacity of its transmission lines and transformers.

4.3 Publication of Market Impact Event Report

The NGF/ ERAA presentations propose that TNSPs publish a quarterly market impact events report that would include binding constraints that exceed a minimum threshold of market impact together with an explanation of the cause of the event. The presentations correctly acknowledge that constraints may not be under the control of the TNSP.

As discussed earlier in Section 3, ElectraNet supports the proposal for all parties to work together to better understand the nature, cause and impact of binding constraints on the market.

We propose that consideration of the NGF/ ERAA proposal be included in this further work to develop suitable market impact measures.

5. Conclusion

ElectraNet generally supports the ACCC's performance incentive scheme as an important step towards achieving the objective of providing stronger incentives for TNSPs to minimise the customer reliability impacts and market impacts of transmission outages.

ElectraNet understands the need to minimise the market impact of its transmission operations, but agrees with the ACCC that more work is required to develop suitable market impact measures before any financial incentive can be attached to these.

ElectraNet supports the proposal for all parties to work together to better understand the nature, cause and impact of binding constraints on the market. Education of market participants will increase understanding of what improvements are feasible by placing stronger incentives on TNSPs.

ElectraNet would be happy to discuss any of the matters raised in this submission in more detail with the ACCC and to participate in the future development of market impact measures.