

17 July 2003

Mr Sebastian Roberts
General Manager
Regulatory Affairs – Electricity
Australian Competition and Consumer Commission
PO Box 1199
Dickson ACT 2602

Dear Mr Roberts

Services Standards for Transmission Network Service Providers

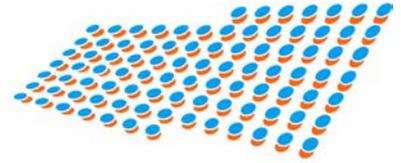
EnergyAustralia operates a transmission network that operates in support of TransGrid's transmission network in NSW. We support the ACCC's Draft Decision relating to Guidelines for Service Standards. However, EnergyAustralia has a number of concerns with the proposal in the draft decision.

The attached submission outlines EnergyAustralia's concerns with the ACCC's draft decision, particularly in relation to establishing appropriate measures that take into account the unique operating conditions that apply to EnergyAustralia's transmission network. Furthermore, EnergyAustralia is concerned that the targets be set using a sufficient base of data to ensure that they are sound.

We would be happy to discuss any aspect of the attached submission with ACCC staff. Please contact Terry Fagan in the first instance on (02) 9269 4661.

Yours sincerely,

(GEORGE MALTABAROW)
General Manager Network



EnergyAustralia[™]

ACCC Draft Decision

Statement of Principles for the regulation of Transmission Revenues

Service Standard Guidelines

EnergyAustralia Comments

July 2003

Introduction

This submission is in response to the ACCC Draft Decision “Statement of Principles for the Regulation of Transmission Revenues – Service Standard Guidelines” dated May 2003.

EnergyAustralia supports the objectives of the ACCC Service Standard review and appreciates the need to provide a mechanism to ensure that service standards are maintained and to provide incentives to improve service standards.

EnergyAustralia believes that TNSPs should be rewarded for improving service standards and should be penalised only if performance falls below acceptable standards.

Given the substantial differences between the networks of the different TNSPs and the diversity and complexity of their operating environments EnergyAustralia believes that performance targets should be set by the use of actual, performance outcomes relating to individual service providers. The use of industry benchmarks would be inappropriate for EnergyAustralia, given the substantial differences between its network and other industry participants.

The design of the incentive scheme should provide symmetric financial consequences. That is:

$$(Upside\ probability) * (Upside\ reward) \cong (Downside\ probability) * (Downside\ penalty)$$

If this relationship were not to hold true, the incentive mechanism would lead to a systematic under or over compensation and distortion of the Determination. Given the asymmetry between the upside and downside probabilities, (a decrease in performance is much easier to achieve than an improvement in performance), the design of the scheme should provide for asymmetric caps , collars and ramping factors.

For the incentive mechanism to induce appropriate changes to business activity:

$$(Upside\ probability) * (Upside\ reward) \geq Operational\ cost\ to\ improve\ performance$$

and

$$(Downside\ probability) * (Downside\ penalty) \geq Operational\ saving\ by\ reduced\ performance$$

The present 1% level of incentive/penalty is sufficient to influence operating decisions. However it is not at a level where it would influence decisions on capital expenditure. It should be noted that the selection of appropriate caps and collars are of equal importance to the target measures. Use of an appropriate dead-band is also considered necessary.

It is apparent that historical performance data is not available and studies of internal processes have not been used to inform the choice of the incentive structure. In the absence of such analysis, it is appropriate for the ACCC to exercise prudence in limiting the impact of the incentive scheme, until greater experience is obtained.

Proposed Performance Measures for EnergyAustralia’s Transmission Network

The nature of EnergyAustralia’s system means that many of the measures (such as Transmission constraints) applied to other TNSPs are inappropriate. Whilst EnergyAustralia’s network predominantly delivers energy to its customers, its operation in parallel with the transmission network results in it conveying a portion of the “through” flow between generators and other distributors. The nature and magnitude of the through flows are such that EnergyAustralia’s network does not constrain market operations. EnergyAustralia thus strongly supports the draft decision that the loss of supply frequency index and transmission constraints are not appropriate for EnergyAustralia.

There are still some issues with respect to the immediate implementation of incentives linked to the two measures (Transmission Circuit Availability and Average Outage Duration) which have been identified as being applicable to EnergyAustralia.

SKM indicated in their discussion paper that existing performance measures were not considered suitable for implementation of service standards due to the lack of appropriate data. They suggested collection of a consistent set of data for a 3-5 years period was appropriate to establish performance objectives. Appendix B of the draft decision indicates that the application of the availability measure to EnergyAustralia should be phased in because of the lack of historical data. This recommendation does not appear to be consistent with Appendix A, which proposes a circuit availability target of 95.5 minutes from Year 1.

Availability Measure

EnergyAustralia has only collected availability performance data since 2000/01 using a manual process. The data available relates to transmission feeders only and does not include statistics for other transmission equipment such as transformers and reactive plant. The recommended target of 95.5 minutes in the draft decision was based on a single year's data (2000/01) and includes only transmission feeders. Future Transmission Availability performance is expected to differ from the 2000/01 data due to:

- the inclusion of transformers and reactive plant, in accordance with the proposed standard definition and
- the inclusion of significant lengths of new 132kV lines and other equipment, resulting from the re-classification of some assets from distribution to transmission during the period of the current determination.

EnergyAustralia considers that proposed changes to both the extent of the transmission system and the definition of availability will make the proposed performance target of 95.5 minutes invalid.

It is proposed that at least three years data using the standard definition of availability should be collected before availability targets are established. EnergyAustralia would propose that availability targets be negotiated no sooner than the second half of the forthcoming determination period (2004-9), following the collection of at least three years of pertinent data.

Significant volatility in availability performance is expected in 2003/04 as a result of an increase in the number and duration of planned outages required to carry out EnergyAustralia's capital program. Further volatility in future years is also likely as a result of the extended repair times required for underground cables, which comprise a significant proportion of EnergyAustralia's transmission assets. Whilst it is proposed to address the issue of extended repair times by capping the impact of a single event, it may also be necessary to establish an appropriate deadband for availability. The extent of this deadband could only be assessed once several years of consistent performance data is collected.

Outage Duration Measure

EnergyAustralia's second performance measure is outage duration. It is noted that no target for this measure has been set in the draft decision, but rather it has been noted in Appendix B that this measure has not been applied due to the volatility of data and the limited control possible.

EnergyAustralia appreciates the need to consider more than one performance measure, however we are concerned that the average restoration time is not a particularly appropriate performance measure for the following reasons:

- The restoration time for equipment will generally not impact on customer outcomes, due to the inherent high level of security in the design of the system.

- The inherent repair times of EnergyAustralia equipment, particularly underground oil and gas pressure cables, is significant (weeks or months) and may vary significantly between cable types. Cable repair times are much more significant to EnergyAustralia than other TNSP's due to the large amount of cable in EnergyAustralia's system. As indicated in Appendix B, there is limited scope to control or reduce repair times through operational measures. Rather, a noticeable decrease in the repair times on such cable systems could only be effected by changing from pressure type to solid dielectric cables. This would require large capital investments which are not the objective of the present incentive mechanism.
- The long repair times associated with some cable types may potentially result in a single failure resulting in a significant variation in the Outage Duration Measure. (indicated in Appendix B)

Given the above factors, it is proposed that Outage Duration should not be adopted as a performance measure for EnergyAustralia during the next determination period.

Should the ACCC wish to further investigate the use of outage duration as a performance measure for EnergyAustralia, it is suggested that data be collected and analysed over the next five years to allow an informed investigation of whether and how this measure could be equitably applied to EnergyAustralia.

Application of measures

EnergyAustralia propose to adopt the following processes and definitions to compile future performance measures.

It is proposed that infrastructure reported in the performance measures should comprise:

- transmission lines (including both cables and overhead lines); and
- transformers and reactive plant at transmission exit points with primary voltages of 66kV or above

Primary equipment included within this definition includes substantial quantities of self contained pressure cables. Jointing and repair times for these circuits may be weeks or even months. Consequently, an extended outage of a single circuit could significantly impact the overall availability measure and result in significant volatility from year to year. To reduce such distortions, it is proposed that the maximum impact of any single event be capped at 7 days.

EnergyAustralia considers that cable damage resulting from actions of a third party in circumstances where cable locations are accurately recorded should be considered a force majeure event and excluded from the recorded measures. It would be inequitable to penalise EnergyAustralia for actions of a third party who may negligently damage cables.

It is also proposed to exclude both planned and unplanned outages initiated by third parties, including EnergyAustralia, in fulfilling its role as a DNSP.

General Comments

Definition of Force Majeure

The present definition of circuit availability includes "extreme" events but excludes force majeure. This is somewhat contradictory. The proposed definition of force majeure will enable a year to year comparison of performance within a TNSP, provided the reporting TNSP adopts a consistent approach. The present definition of force majeure is not sufficiently clear to ensure consistency of reporting between TNSPs. A more precise definition would be required before benchmarking could be applied between organisations.

Random Variations in Performance

EnergyAustralia would expect that there will be significant variation of its performance from year to year. Such variations could occur as a result of random variations in weather or operational issues such as the need for extended outages for repairs or to facilitate capital works. Such volatility is also likely to impact on other TNSPs.

The need for a mechanism to account for such factors was recognised in the proposed methodology through a deadband of appropriate width. Other strategies such as the use of a rolling average of results over several years would be an alternative means of reducing the influence of random events.

Further performance data, to inform the application and setting of deadbands is necessary before the implications of the proposed targets can be fully assessed.