



Final decision

**Priorities and objectives of electricity
transmission network service provider
performance reports**

March 2009

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Shortened forms

AER	Australian Energy Regulator
DMIS	Demand management incentive scheme
EBSS	Efficiency benefit sharing scheme
ENA	Energy Networks Association
EUAA	Energy Users Association of Australia
MCE	The Ministerial Council on Energy
NEL	National electricity law
NEM	National electricity market
NER	National electricity rules
STPIS	Service target performance incentive scheme
TEC	Total environment centre
TNSP	Transmission network service provider

Introduction

The Australian Energy Regulator (AER) is the economic regulator of the non-contestable elements of electricity transmission services provided by transmission network service providers (TNSPs) in the national electricity market (NEM).

This paper sets out the AER's statement of approach to the priorities and objectives of TNSP performance reporting. In December 2008, the AER released a discussion paper for public consultation outlining a proposed set of priorities and objectives of TNSP performance reporting. In developing this final statement of approach, consideration has been given to the objectives of the national electricity law (NEL) and the national electricity rules (NER), and submissions received.

The AER received five submissions on its discussion paper. Issues raised in submissions have been taken into account in this final statement of approach.

1 Purpose and objective of statement of approach

The role of this statement of approach is to set out the AER's priorities and objectives for TNSP performance reports. The AER is responsible for the economic regulation of TNSPs in the NEM. Under the NEL and the NER, the AER carries out a wide range of economic regulatory functions, including performance reporting. Section 28V of the NEL, and clause 8.7.4 of the NER, require the AER, to determine appropriate priorities and objectives to be addressed through the preparation of network service provider performance reports.

The priorities and objectives of TNSP performance reporting outlined in this paper, will be reflected in the AER's future TNSP performance reports. The AER considers performance reporting a vital part of its overall functions and powers. Performance reporting is essential to the transparency and accountability necessary to underpin efficiency based regulation. Reporting the performance of regulated entities reduces the asymmetry of information between regulated networks and other stakeholders. Performance reporting also provides an incentive for regulated businesses to improve their performance.

Reporting on the performance of regulated businesses is part of the regulatory cycle and should be viewed as an input into the revenue determination process. The reporting and explanation of information that will be used in revenue resets will assist in making those processes more transparent and accessible to customers and other market participants.

In establishing appropriate priorities and objectives of TNSP performance reporting, the AER has considered the relevant provisions of the NEL and NER which provide the regulatory framework governing these matters.

Section 28V of the NEL provides a specific function for the AER to report on service and other performance standards, network profitability and other performance matters considered appropriate by the AER.

The national electricity objective as set out in section 7 of the NEL emphasises the promotion of efficient investment, operation and use of electricity services. Clauses 6A.6.6(e)(4) and 6A.6.7(e)(4) of the NER require the AER to have regard to the benchmark operating and capital expenditure, that would be incurred by an efficient TNSP over the regulatory control period. The public reporting of the comparative performance of TNSPs allows stakeholders to make informed assessments, thereby encouraging greater participation in the regulatory process. The national electricity objective is framed with the long term interests of consumers of electricity in mind.

The national electricity objective promotes efficient investment, operation and use of electricity services. This encourages yardstick comparisons between TNSPs. Such comparisons are enabled by performance reports where actual expenditure and financial performance is made publicly available, as well as the outcomes against the incentive schemes such as the service target performance incentive scheme (STPIS), and the efficiency benefit sharing scheme (EBSS). The preparation of such reports by the AER will contribute to the achievement of the national electricity objective.

Clauses 6A.6.6(c) and 6A.6.7(c) require an assessment by the AER of whether the forecast operating and capital expenditure reasonably reflect the efficient costs of achieving the operating and capital expenditure objectives. Once a revenue determination has been made by the AER on the forecast capital and operating expenditure for each year of the regulatory period covered by the determination, it is then necessary to monitor actual outcomes. In this case, performance reports can detail actual expenditure against forecast expenditure, allowing TNSPs an opportunity to provide explanations for any variances between the two.

2 Issues raised in submissions and AER response

2.1 Opportunity for TNSPs to provide comments prior to the publication of the performance report

2.1.1 Stakeholder submissions

Grid Australia and Energy Networks Association (ENA) submitted that TNSPs should have the continued opportunity to comment prior to the publication of the AER's reports, with a broader scope than for only factual errors.¹

2.1.2 AER response

The AER encourages businesses to provide comments prior to the publication of the AER's TNSP performance report. TNSPs are encouraged to comment on any factual errors in the reports, and are also able to provide the AER with reasons for any variances between actual expenditure against forecast expenditure.

2.2 Opportunity for TNSPs to respond to proposals put forward by the public

2.2.1 Stakeholder submissions

Grid Australia submitted that TNSPs should be given full scope to participate in any of the consultation processes involving the public and the AER, and full scope to respond to any proposals from the public under the NEL and NER.² ENA stated that the AER should offer a clear mechanism for allowing this process to take place.³

2.2.2 AER response

The AER is the economic regulator for TNSPs in the NEM, and must undertake its regulatory functions in accordance with the NEL and NER.

The AER notes that chapter 8 of the NER specifies robust consultation procedures for the preparation of performance reports, which TNSPs and other interested parties may participate in. The AER will follow the consultation procedures as set out in the NER, and will ensure that all parties are given the opportunity to provide comments and discuss any relevant issues relating to the performance reports with the AER.

¹ Grid Australia, *Discussion paper: Priorities and objectives of electricity transmission network service provider performance reports* (December 2008), submission to the AER, p. 1.

ENA, *Discussion paper – priorities and objectives of electricity transmission network service provider performance reports*, submission to the AER, p.1.

² Grid Australia, op.cit, p. 1.

³ ENA, op.cit, p. 1.

2.3 Reporting on the profitability of a TNSP

2.3.1 Stakeholder submissions

Grid Australia questioned how the reporting of the profitability of TNSPs, which the AER outlined as a priority of TNSP performance reporting in its discussion paper, achieved the stated objectives of transparency and accountability. Grid Australia stated that at a minimum, reporting of any measure of profitability should be limited to those related to the provision of prescribed transmission services.⁴

2.3.2 AER response

Section 28V(2)(iii) of the NEL specifies that an AER performance report may report on the profitability of network service providers in providing electricity network services. The reporting of the provision of electricity network services includes the reporting of services provided by means of, or in connection with, a transmission system and may include prescribed services, negotiated and non-regulated services. The AER does not consider that the reporting of a TNSP's profitability should be limited to the provision of prescribed transmission services. As the performance report aims to provide relevant information to customers regarding the performance of the TNSP, the AER considers that a TNSP's profitability is an important indicator of its performance and should be included in the reports. The reporting of the profitability of TNSPs achieves the AER's stated objectives of transparency and accountability as it provides stakeholders and other interested parties with vital information regarding the financial stability of TNSPs. The public reporting of such information will also make TNSPs more accountable for their performance, helping to ensure that the goals of network businesses are in line with the national electricity objective.

2.4 Continued recognition of safeguards and entitlements under the NER

2.4.1 Stakeholder submissions

Grid Australia and ENA both submitted that the AER continue to recognise the safeguards and entitlements that TNSPs currently have under the NER in relation to the provision of information.⁵

2.4.2 AER response

The AER's functions and powers are specified in the NEL and NER. The AER will recognise all requirements relating to the provision of information as outlined in the NER and NEL.

⁴ Grid Australia, op.cit, p. 1.

⁵ Grid Australia, op.cit, p. 2, ENA, op.cit, p. 2.

2.5 Inclusion of connection application information and other service performance information in TNSP performance reports

2.5.1 Stakeholder submissions

TRUenergy submitted that the performance standards that TNSPs report against in the annual performance reports should be broadened to better inform the market and participants. As the NER set timeframes for TNSPs to respond to connection applications from customers, the AER performance report should include information related to the efficiency of the connection application process such as connection inquiry, responses to connection inquiry, and negotiated access standards.⁶ The performance reports should also include compliance regarding the efficiency and timeliness in implementing access arrangements, and the reporting of outages, rating charges, and non network service opportunities.⁷

Energy Users Association of Australia (EUAA) submitted that allowing TNSPs a lower performance benchmark due to its asset replacement or maintenance programme unduly rewards them under the performance incentive scheme with a generally lower performance standard for which customers do not get any compensation.⁸ EUAA stated that the AER's performance report should require TNSPs to report separately the impact of asset replacement and maintenance where penalties will be imposed for not reaching the required standard, and where the impact of asset replacement and maintenance on outages have been removed. TNSPs should then only be rewarded for exceeding the standard set for normal operating conditions.⁹ EUAA also suggested that the AER could use opex as a function of the number of terminal stations, and cost categories based on asset classes as benchmark comparisons.¹⁰ EUAA also submitted that the AER require annual reporting on individual feeder performance.¹¹

2.5.2 AER response

The AER accepts that the reporting of connection applications, compliance regarding the efficiency and timeliness in implementing access arrangements, and the reporting of outages, rating charges, and non network service opportunities may be of interest and benefit to customers and other market participants. The AER also accepts that the service performance information suggested by EUAA would also be of interest to customers.

The AER's transmission information guidelines set out the information that must be provided by a TNSP to the AER. These information guidelines provide the AER with the information used in its TNSP performance reports. The information guidelines currently do not require the information requested by TRUenergy and EUAA. Any amendments or further additions to TNSP reporting standards require a change to

⁶ TRUenergy, *Priorities and objectives of electricity transmission network service provider performance reports*, submission to the AER, p. 2

⁷ *ibid.*, p. 2-3.

⁸ EUAA, *Priorities and objectives of performance reports*, submission to the AER, p. 2

⁹ *ibid.*

¹⁰ *ibid.*

¹¹ *ibid.*, p. 3-4.

these information guidelines. To enact such changes, the AER is required to undertake public consultation in accordance with cl 6A.20 of the NER. The AER will consider and investigate the information suggested in TRUenergy's and EUAA's submissions for inclusion in future performance reports, in any subsequent review of TNSP reporting guidelines through the public consultation process.

2.6 Inclusion of demand management reporting in TNSP performance reports

2.6.1 Stakeholder submissions

The Total Environment Centre (TEC) advocated the inclusion of demand management reporting in TNSP performance reports. The TEC stated that under the AER's demand management incentive scheme (DMIS) for DNSPs, the AER will receive annual reports on the demand management activities of DNSPs. The TEC stated that despite the absence of a DMIS for TNSPs, the AER should require and publish similar reports on demand management for TNSPs as those for DNSPs.¹² Features that should be included in the performance report were:¹³

- expenditure on investigation and implementation of demand management;
- peak demand and energy consumption reductions;
- value of electricity sales foregone;
- value of capital and operating expenditure avoided or deferred; and
- efforts to identify and procure cost effective demand management.

2.6.2 AER response

The AER recognises the benefits of providing incentives for demand management, by facilitating investigation into efficient and viable demand management strategies, and the reporting of demand management initiatives so that network service providers can improve their demand management capabilities in the longer term.

The Ministerial Council on Energy (MCE) is currently developing a national framework for the reporting of network planning, which will include demand management. The AER will defer consideration of the reporting of demand management requirements for TNSPs until the MCE has finalised its consultation process. The AER will monitor the development of related policy initiatives and will consider the extent of any changes to its performance reporting framework, once MCE changes are known.

¹² Total Environment Centre, *Priorities and objectives of electricity TNSP performance reports – AER discussion paper*, submission to the AER, p. 2.

¹³ *ibid.*

3 NEL and NER requirements

3.1 Preparation of network service provider performance reports

Section 28V(1) of the NEL allows the AER to prepare and publish reports on the financial and operational performance of network service providers in providing electricity network services, if the preparation of this report will or is likely to contribute to the achievement of the national electricity objective. Section 16 of the NEL states that the AER must exercise its economic regulatory function and powers in a manner that will or is likely to contribute to the achievement of the national electricity objective, which is to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to:

- price, quality, safety, reliability and security of supply of electricity; and
- the reliability, safety and security of the national electricity system.

Section 28V(2) of the NEL states that the performance report

- (a) may deal with the financial or operational performance of the network service provider in relation to:
 - (i) complying with (as the case requires) distribution service standards or transmission service standards;
 - (ii) standards relating to the provision of electricity network services to network service users or end users; and
 - (iii) the profitability of network service providers in providing electricity network services; and
- (b) if the AER considers it appropriate, deal with the performance of the network service provider in relation to other matters or things if that performance is directly related to the performance or exercise by the AER of an AER economic regulatory function or power.

Clause 6A.17.1(d) states that the certified annual statements and additional information provided by a TNSP to the AER under this may be used by the AER only for the following purposes:

- (1) to monitor, report on and enforce the compliance of the provider with the total revenue cap for the provider for a regulatory control period, the maximum allowed revenue for the provider for each regulatory year, and any requirements that are imposed on the provider under a transmission determination;
- (2) to monitor, report on and enforce compliance with the provider's Cost Allocation Methodology;

- (3) as an input regarding the financial, economic and operational performance of the provider, to inform the AER's decision-making for the making of revenue determinations or other regulatory controls to apply in future regulatory control periods; and
- (4) to monitor and report on the performance of the provider under any service target performance incentive scheme that applies to it;
- (5) for the preparation of a network service provider performance report.

3.2 Consultation requirements for the making of performance reports

Clause 8.7.4(a) of the NER, requires the AER, before embarking on the preparation of network service provider performance reports to consult with:

- (1) network service providers; and
- (2) bodies representative of the network service providers and network service users; and
- (3) the public generally;

in order to determine appropriate priorities and objectives to be addressed through the preparation of network service provider performance reports.

Clause 8.7.4(b) of the NER requires that in the course of preparing a network service provider performance report, the AER:

- (1) must consult with the network service provider or network service providers to which the report is to relate; and
- (2) must consult with the authority responsible for the administration of relevant jurisdictional electricity legislation about relevant safety and technical obligations; and
- (3) may consult with any other persons who have, in the AER's opinion, a proper interest in the subject matter of the report; and
- (4) may consult with the public.

Clause 8.7.4(c) a network service provider to which the report is to relate:

- (1) must be allowed an opportunity, at least 30 business days before publication of the report, to submit information and to make submissions relevant to the subject matter of the proposed report; and
- (2) must be allowed an opportunity to comment on material of a factual nature to be included in the report.

Appendix A – Submissions received

The following parties provided submissions on the discussion paper:

- Energy Networks Australia
- Energy Users Association of Australia
- Grid Australia
- Total Environment Centre
- TRUenergy

Copies of these submissions are available on the AER's website at www.aer.gov.au.

Appendix B - Priorities and objectives of TNSP performance reporting