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24 January 2003

Mr Sebastian Roberts
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Dear Mr Roberts

Service Standards – SKM Final Report

NRG Flinders offers the following comments on the final SKM report "Transmission Network Service Provider (TNSP) Service Standards" released by the ACCC for comment in December 2002.

Measures 1 & 2: Circuit availability and Loss of Supply Event Frequency Index

The use of critical and non-critical circuits and peak and off-peak periods as sub measures should assist to tailor these traditional technical measures into more meaningful measures of transmission service performance. The aim should be to encourage minimisation of outages during peak periods and thereby improve network performance when it is of greatest value to the market.

However, it is noted that the peak/off peak sub measures are not proposed to be introduced across all TNSPs, even on a progressive basis. NRG Flinders would suggest that the initial unavailability of adequate historical performance data should not prevent the introduction of broadly consistent sub measures across all TNSPs over time.

Measure 3: Average Outage Duration

In applying this and other measures, care needs to be taken to avoid any potential anomalies or loopholes considering the coverage of the recommended measures, the interaction between them, and the proposal to discard any aggregate measure of minutes of lost supply.

For example, it appears that an increase in the number of momentary interruptions (<1 min) affecting connection assets would not be captured by any of the proposed measures, and may in fact improve measured performance under Measure 3 if these interruptions took the place of system outages.

Measure 4: Intra-regional Constraints

This measure would record hours of constraint on inter-regional assets, excluding periods of constraint at or near capacity as measured by the relevant constraint equation.

However, by excluding constraints at or near capacity, this measure only records the impacts of operational performance and fails to record the impacts of planning performance (or failure) for which TNSPs are responsible and should be held to account by the ACCC.

Inadequate transmission planning might be expected to lead to frequent intra-regional constraints at the rated capacity of the relevant assets, which should not be excluded from this measure. Therefore, the focus should arguably be placed not only on availability, but also on the adequacy of the inter-regional assets in question, given that responsibility for such planning rests with the TNSP.

Measure 5: Inter-regional Constraints

To provide meaningful performance incentives it is essential to maintain as close a link as possible between the regulatory incentives applied to TNSPs and market incentives. Price separation, and therefore market impact, might be regarded as the key variable in measuring the impact of an inter-regional constraint rather than duration.

However, the Report notes that to date NEMMCO has been able to offer no reliable method of analysis to isolate the market impact of transmission constraints.

In order to provide a meaningful measure in the interim, the measure should therefore be linked to the level of inter-regional price separation that coincides with binding constraints at reduced levels of capacity. This would provide the most reasonable approximation of the market impact of transmission de-ratings and outages, until a more sophisticated measure can be introduced. In this way, the incentive to maintain interconnect availability is directly proportional to the financial consequences of line outage or derating.

This measure is defined to exclude hours of binding constraints that occur at or near rated capacity, as determined by the constraint equation applying to the assets in question. Care therefore needs to be taken in applying this definition to ensure that the impacts of TNSP behaviour (such as de-ratings, outages, and unavailability of interconnector support assets) that may be captured by the relevant constraint equation are not inadvertently excluded from the measure.

Other Issues

It remains unclear why sufficient data should not be available from NEMMCO (at least since market start) to enable immediate application of intra- and inter-regional constraint performance measures. It is understood NEMMCO maintains detailed constraint data for system monitoring purposes, and is also required to undertake detailed regional boundary analysis annually under the Code, specifically considering the nature and duration of intra- and inter-regional constraints.

ESCOSA has previously signalled its intention to consider the use of an interconnect Available Capacity Factor (ACF) as a measure of the aggregate availability of the SA-Vic interconnect, in the event that an equivalent measure is not introduced by the ACCC. While proposed Measure 5 would record hours of binding constraint across the interconnect, it would not necessarily record the aggregate availability of the line.

It would clearly be preferable to avoid regulatory duplication and overlap brought about by the application of competing performance measures by different regulatory authorities. The ACCC should therefore be encouraged to consider the adoption of an aggregate interconnect availability measure such as the ACF in conjunction with the suite of measures proposed.

More broadly, it is noted that the recent Final Report of the CoAG Energy Market Review has recommended significant changes to the roles and responsibilities for transmission planning in the NEM, including the issuing of firm Financial Transmission Rights (FTRs) by NEMMCO, which would also provide a trigger for inter-regional transmission augmentation.

This model places increased importance on the availability of inter-regional transmission assets and needs to be supported by clear financial performance incentives applied to the regulated assets of TNSPs. In this regard, it must be questioned whether a maximum exposure level of 1% of regulated revenue to the financial incentives proposed would provide an adequate signal for maximised performance.

Should you have any queries in relation to this submission, please contact Simon Appleby on (08) 8372 8706.

Yours sincerely

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