



Powerlink response to SKM's November 2002 Service Standards Report

1 Introduction

Powerlink makes this submission in response to the performance incentive framework recommended by Sinclair Knight Merz (SKM) in their report dated 'November 2002'.

Powerlink remains committed to the development of a performance incentive scheme based on measures that TNSPs control and / or manage and that rewards TNSPs for above benchmark performance whilst providing penalties for performance that is below an 'acceptable' level.

Powerlink's position with respect to the SKM report can be summarised as follows:

1. the recommended scheme provides a pragmatic way forward and Powerlink supports its structure (with some needed modifications) within the context of a low risk reward framework.
2. Powerlink reserves its position with respect to its applicability to Powerlink until the financial aspects of the scheme are specified and they are seen to fit within the risk profile assumed in the current revenue cap arrangements.
3. the recommended scheme should be allowed to run for a few years and then reviewed to assess the appropriateness and effectiveness of the measures and to include new developments in the assessment of 'market and customer impacts'.

2 Support for pragmatic approach

Powerlink supports the introduction of a performance incentive (PI) scheme and recognises that the SKM recommended scheme represents a pragmatic way forward.

It has been noted numerous times throughout the consultation process that the recommended measures are 'not perfect' but that these represent an 'initial suite'.

In section 2.1 below, we propose some modifications to the definitions that are needed to address some inconsistencies with other Code requirements. The need for these changes has become apparent during the detailed work that is being conducted currently by Powerlink to update its systems to record performance against the SKM definitions.

Subject to these changes being made, Powerlink supports the structure of the PI scheme recommended by SKM.

However, Powerlink will reserve its comments on the applicability of the scheme to Powerlink until the full context of the financial impacts are discussed and how they fit with the current revenue cap arrangements.

2.1 Further refinements to definitions

A number of inconsistencies have become apparent during the considerable effort that is being made by Powerlink to update its systems and establish processes to record performance consistent with the SKM recommended framework.

Powerlink proposes the following changes to the definitions:

1. Exclude events where there is an agreed tripping or interruptibility scheme with the customer (from measures 1, 2 and 3).

Such schemes can arise as part of negotiating the level of service with customers. They are also a legitimate solution to a network limitation. In fact,

the ACCC's regulatory test encourages TNSPs to seek and compare non-network solutions against network augmentation.

Powerlink has a variety of interruptibility arrangements in place to allow deferral of transmission augmentation or increase transfer capabilities during unusual circumstances such as extreme weather or market conditions where local generation does not operate coincident with a major fault.

The activation of the tripping scheme should therefore be seen as normal operating practice and does not represent a lower level of service. The TNSP should not suffer any financial penalty as a result of it.

2. Exclude loss of supply events where the customer has agreed on a lower standard of reliability of supply.

Powerlink normally adopts an 'N-1' reliability of supply criteria for all connection points. At some locations in Queensland, the connected party has agreed to a lower reliability of supply at their connection point. This could be directly associated with regulated connection assets or the shared grid.

Such agreement to a lower level of service should therefore be seen as normal operating practice and the TNSP should not suffer any financial penalty as a result of it.

2.2 Force Majeure

On the subject of force majeure, SKM contend that the proposed definition does not exclude all events of the type described but that the intent of the words "*beyond the reasonable control of the party affected by such an event*" is only to exclude events of such severity that it is unreasonable for the TNSP to plan and design the transmission system to protect against.

SKM appear convinced that the proposed definition provides sufficient clarity as to its application.

Since the release of SKM's service standards report, the ACCC has issued revenue decisions that include an updated definition of force majeure (to ElectraNet SA and SPI PowerNet).

Powerlink supports the use of a definition (such as in SPI PowerNet's final revenue decision) that provides more explicit guidelines for the application of Force Majeure.

As such guidelines give clarity as to what events a TNSP "*cannot reasonably be expected to cater for*"¹, the actual guidelines can be expected to be different for different TNSPs with different levels of system spares, etc. For its scheme, Powerlink proposes the definition included in the attachment.

3 Review of scheme

There are a number of limitations contained in the framework provided by SKM in their final report. These have been debated throughout the course of this consultation process and many of these are included in the TNSP submissions in the Appendices of SKM's report.

However, once the scheme is agreed and put in place, it should be allowed to run for a number of years (say 5 years). Therefore Powerlink proposes that a date be set for a review of the measures after the evaluation period. This recognises that the scheme represents an 'initial suite of measures' and that some investigations are currently ongoing in the area of defining the market impact of transmission outages and exactly what behaviour the market expects from TNSPs.

Notwithstanding this formal review, Powerlink contends that **the details of the scheme (and particularly the financial aspects) need to be reassessed at revenue resets**. In their report, SKM recommend that "*the ACCC should assess the need to adopt other targets in each revenue cap decision*". The benchmark level as well as the financial incentives offered for each measure are related to the risk profile and other revenue building blocks and, as such, should be considered together.

¹ ElectraNet SA final revenue decision, p. 121.

3.1 'Market impact' measures

3.1.1 Use of measures 4 and 5

In the absence of more meaningful market impact performance measures, SKM have recommended that measures 4 and 5 be reported against as soon as data becomes available. Powerlink is committed to providing this information as soon as the relevant market data becomes available that can answer the definitions.

However, we stress that these measures have been chosen very much as an initial set and they only measure the 'hours' where transmission outages cause binding constraints and not the 'impact' of these constraints.

It is Powerlink's view that given the above, these measures are not appropriate to have financial impacts applied to them and we agree with SKM that *"more development work needs to be done to agree, define and record more specific "market impact" performance measures than those included in this initial suite of measures."*

3.1.2 Development work on alternative measures

SKM acknowledge the current investigations into defining the market impact of transmission outages. Powerlink is committed to continuing to work with other TNSPs and other relevant market participants in the development of meaningful measures that are measurable and that TNSPs can realistically control.

TNSPs have already had initial discussions with the National Generators Forum (NGF) and the National Retailers Forum (NRF) regarding possible measures for market impact. A consensus view was not reached and further work is required. Powerlink is committed to developing useful measures of those factors contributing to market impacts which are within the control of the TNSP. We would urge the ACCC to have continuing involvement in the development of these measures to ensure that they provide appropriate incentives to TNSPs to achieve overall efficient outcomes.

ATTACHEMENT

DEFINITION OF FORCE MAJEURE²

For the purposes of applying the service standards PI scheme to Powerlink Queensland, "Force Majeure events" means any event, act or circumstance or combination of events, acts and circumstances which (notwithstanding the observance of good electricity industry practice) is beyond the reasonable control of the party affected by any such event, which may include, without limitation, the following:

- ❖ Fire, lightning, explosion, flood, earthquake, storm, cyclone, action of the elements, riots, civil commotion, malicious damage, natural disaster, sabotage, act of a public enemy, act of God, war (declared or undeclared), blockage, revolution, radioactive contamination, toxic or dangerous chemical contamination or force of nature
- ❖ Action or inaction by a court, NEMMCO, Government agency (including denial, refusal or failure to grant any authorisation, despite timely best endeavour to obtain same)
- ❖ Strikes, lockouts, industrial and/or labour disputes and/or difficulties, work bans, blockades or picketing
- ❖ Acts or omissions (other than a failure to pay money) of a party other than the TNSP which party either is connected to or uses the high voltage grid or is directly connected to or uses a system for the supply of electricity which in turn is connected to the high voltage grid
- ❖ Where those acts or omissions affect the ability of the TNSP to perform its obligations under the service standard by virtue of that direct or indirect connection to or use of the high voltage grid.

To avoid doubt where such an event occurs, force majeure specifically includes the event when the outcome includes:

- ❖ The collapse of one or more transmission line towers
- ❖ The loss of or damage to two or more switch bays in a terminal station or substation
- ❖ The loss of or damage to two or more transformers and capacitors, either single or three phase, connected to a bus.
- ❖ The loss of or damage to a transformer, capacitor bank, reactor, static var compensator, or synchronous condenser, which loss of or damage is not repairable on site according to normal practices.

This is not intended to limit the definition of force majeure rather to provide guidance in its application.

² This definition of Force Majeure has been adapted from the one included in SPI PowerNet's final revenue decision (p. 133).