Response to ACCC's Draft Decision on Service Standards Guidelines

1 Introduction

Powerlink makes this submission in response to the ACCC's draft service standards guidelines and draft decision in relation to these guidelines dated 28 May 2003.

In December 2001, the ACCC initiated a project to develop an incentive scheme that links financial rewards and penalties to the performance of TNSPs. The ACCC and its consultants Sinclair Knight Merz (SKM) have conducted a number of public forums and they have sought views from interested parties on a number of occasions. Powerlink has been an active participant throughout this exercise.

The ACCC released SKM's draft final recommendations in November 2002 upon which these draft guidelines are based. Powerlink submitted comments to that report which still apply.

A public forum was held on 15 July 2003. This submission also addresses some issues that were presented at that forum.

2 Powerlink's Position

The comments that Powerlink submitted with respect to the SKM report are still relevant for the draft guidelines. Hence, these earlier submissions should be considered together with this document to represent Powerlink's response to the draft guidelines. In summary, Powerlink's position with respect to the draft guidelines and associated draft decision can be summarised as follows:

1. Powerlink is 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.

2. Powerlink considers the draft guidelines to be generally a good 'starting' position that provide a pragmatic way forward. Powerlink supports its structure (with some initial modifications needed to make the scheme consistent with other requirements) within the context of a low risk reward framework.

3. Powerlink notes that the definition of the 'outage duration' measure (measure 3) does not do as intended and a modification to this definition is proposed.

4. Powerlink supports the adoption of a scheme that is generally consistent across all TNSPs in the NEM with measures that are generally the same for all TNSPs.

5. However, Powerlink strongly supports the flexibility demonstrated in the draft guidelines for minor definitional variations to account for differences in operating conditions, existing electricity network and specific TNSP obligations.

6. Powerlink supports benchmark targets that are TNSP specific.

7. Powerlink supports the formation of a working group with other market participants to identify possible market impact measures to be added to the performance incentive scheme in the future.

8. 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'.

9. Powerlink acknowledges that the ACCC will address the force majeure definition in the next revenue reset process.

10. Ultimately, the performance incentive scheme must be considered in context with the full provisions of a revenue cap framework. As such, Powerlink reserves its position with respect to the applicability of the performance incentive scheme to Powerlink until the financial aspects of the scheme are

specified and they are seen to fit within the risk profile assumed in the revenue cap arrangements.

3 Further refinements to definitions

The recommended framework contains a number of inconsistencies with other Code provisions. It is **essential** that the ACCC address these inconsistencies if it is to provide clear signals to TNSPs on the behaviour that the performance scheme is supposed to be incentivising.

The following exclusions are required to be added to the definitions. Further details were given in our comments to SKM's final report.

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

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

4 Specific comments to issues arising in public forum of 15 July 2003

Presentations made during the public forum of 15 July 2003 included a number of suggestions by interested market participants. Specifically, Powerlink agrees with a number of issues, including:

- Market measures need to be weighted by the impact
- Defining market impact measures is complex
- More work should be done to come up with possible market impact measures
- Recording and reporting market impact measures should precede the decision on their appropriateness for financial bonus / penalty arrangements.

However, Powerlink does not agree with a number of messages brought up in the public forum and this section addresses these. In particular:

- the suggestion for a 'one size fits all' scheme, and
- the use of nominal capacity in market impact measures.

4.1 'One size fits all' arrangements are not appropriate

It has been suggested as recently as during the last public forum on 15 July 2003, that:

- all measures should be applied all TNSPs
- the same measures should be applied to all TNSPs
- the levels should be the same

Powerlink strongly rejects these claims in relation to a performance scheme. The ACCC recognised the advantages of maintaining flexibility with the definitions and on using TNSP specific targets based largely on the TNSP's own historical performance. The draft report outlines these reasons in pages 5 and 6.

This section provides further information on the reasons why Powerlink rejects the 'one size fits all' model.

4.1.1 TNSP specific targets

TNSPs all operate under different environmental conditions. It has been suggested that this has already been taken into account in the capex (eg. the use of cyclonic structures). However, this is not the complete story. There are differences in the base level of performance that can be asked of any network. This base level of performance depends on, among other things:

- the current structure of the network (geographically dispersed, long and skinny versus compact and meshed),
- the nature of the load to be met (sustained loads versus 'peaky' load curves),

- the amount of capital works (more capital works implies more outages for construction),

These are explained more fully below.

Existing network

It is not the same to transport power a few kilometres over a heavily meshed system that has many paths between sender and receiver as it is to transport power many hundreds of kilometres over a long 'skinny' system. The two cannot be expected to perform the same. Powerlink owns and operates one of the longest (and 'skinniest') high voltage transmission grids in the world, stretching more than 1700 km from Cairns in the Far North to the New South Wales border in the south.

As an analogy. running a 100 m sprint is a different sport to running a marathon and one cannot expect the same speed from both athletes. In the same way, one cannot expect the same reliability from a long, skinny transmission network as from a geographically compact and meshed network.

In less extreme cases, one network could be 'made to' look like another by capital investment. However, it is unlikely that even huge amounts of capital investment would make the Queensland network look like, for example, the geographically compact and meshed network of Victoria.

Load characteristics

The shape of the load curve has a very significant effect on the availability of outage opportunities. It is much more difficult to schedule outages where the load is sustained at high values than it is if the load curve is peaky and the highest value only occurs for a relatively short duration.

Some outages are inevitable to maintain equipment and for construction (see below). It is a riskier exercise to have outages under sustained high demands where any further outage has a higher risk of load shedding.

Construction works

Construction works are essential to maintain the required level of reliability in order to meet load growth and respond to changing market conditions (eg. changes in power flows due to new sources of generation).

The load growth in Queensland is very high with long term summer peak demand growth expected at around 3.6% pa average over the next ten years. It is much higher still in the main load centre of south east Queensland where the expected growth in summer peak demand is around 6% pa for the next three years. This amount of growth can only be met through a substantial construction works program.

With construction works come outages (eg. to cut into the network or to cross over existing lines).

A rapidly developing network must be expected to have a higher number of outages than one with a lower level of load growth.

4.2 Use of 'nominal capacity'

Nominal capacity is meaningless in assessing that interconnectors are under-performing by comparing with 'actual capacity' (ie. capacity at which the interconnector bound).

Nominal capacity is a single number that is often quoted. For example, the nominal capacity of QNI is 500 MW north and 1000 MW south. However, QNI is not yet 'allowed' to go above 950 MW.

Additionally, TNSPs use limit equations to maximise the capacity of the network. If we were to use a single number, it would have to be conservative as it needs to survive the worst conditions. Under many other conditions, however, the network may be able to sustain higher flows than the single number would allow. By defining these conditions into an equation, the limit is allowed to vary dynamically with real-time conditions thereby maximising the available capability.

This is good for the market. However, the downside is that it is complex and it makes it difficult to assess when the interconnector is reduced due to TNSP

outages or because of ‘normal variations’ in the dynamic limit equation due to non-TNSP action (eg. generator dispatch).