

Powerlink Queensland

Powerlink Submission to AER on Draft Electricity Transmission Service Target Performance Incentive Scheme (STPIS) Version 5

30 July 2015



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Introduction

Powerlink appreciates the opportunity to provide a submission on the Australian Energy Regulator's (AER's) draft Version 5 Electricity Transmission Service Target Performance Incentive Scheme (STPIS)¹ and accompanying Explanatory Statement².

Powerlink is a Queensland Government Owned Corporation, which owns, develops, operates and maintains the high voltage electricity transmission network in Queensland, which extends 1700km from north of Cairns to the New South Wales border.

Powerlink's primary role is to provide a safe, cost effective and reliable network to transport high voltage electricity from generators to electricity distribution networks owned by Energex, Ergon Energy and Essential Energy which then supply more than two million customers. Powerlink also transports electricity directly to large Queensland customers, such as aluminium smelters and to customers in New South Wales via the Queensland/NSW Interconnector.

¹ AER, Draft Version 5 Electricity Transmission Service Target Performance Incentive Scheme, June 2015.

² AER, Explanatory Statement for Draft Electricity Transmission Network Service Providers Service Target Performance Incentive Scheme, June 2015.

Section 1 Application of STPIS Schemes

For clarification, Powerlink is currently subject to Version 3 of the AER's electricity transmission STPIS and will continue to be so for the remainder of its current regulatory period (2012/13 to 2016/17). Version 3 comprises two components only, namely, the service component and market impact component.

For the purposes of reporting quality of service information to the AER as part of its annual Economic Benchmarking Regulatory Information Notice (RIN) information, the AER requires that TNSPs report on the basis of Version 4.1, which was finalised in September 2014.

In its Final Framework and Approach paper³, the AER has flagged its intention to apply Version 4.1 of the STPIS to Powerlink in its next regulatory period (2017/18 to 2021/22), as amended by any changes from its current draft Version 5 review. As a result, Powerlink will prepare its Revenue Proposal for the forthcoming regulatory period on this basis, which is due to be lodged with the AER in January 2016.

Amendment of the Scheme

Powerlink notes that the AER references clause 6A.7.4(f) of the Rules in its Explanatory Statement in the context of allowing the AER to *amend or replace* a service target performance incentive scheme from time to time. Powerlink understands that this sub-clause was removed by the AEMC in late 2012. As a result, it is recommended that any such references to 6A.7.4(f) be removed from the AER's documents in the context of providing the AER with the ability to amend or replace the scheme, given that the Rules currently refer to the AER's ability to *develop and publish* a STPIS in accordance with the transmission consultation procedures.

³ AER, Final Framework and Approach for Powerlink for the regulatory control period commencing 2017, June 2015.

Section 2 Response to Specific Items in Draft Version 5 STPIS

The sections below provide Powerlink’s response to a number of specific items raised in the AER’s draft Version 5 STPIS consultation documents. Feedback on a number of other matters is provided in Appendix A.

2.1 Service Component

2.1.1 Weightings Allocation to the Forced Outage sub-parameters

In Version 4 of the STPIS, the forced and fault outage sub-parameters have a total weighting of zero and 0.5%, respectively. The draft Version 5 STPIS assigns an additional 0.25% weighting to the combined forced outage sub-parameters. In total, the revenue at risk in draft Version 5 for the Service Component is proposed to increase to $\pm 1.25\%$ of the maximum allowable revenue (MAR).

Powerlink supports the AER’s proposal to assign positive weightings to the forced outage sub-parameters and considers it will further incentivise transmission network service providers (TNSPs) to improve customer notification timeframes. However, it is not clear why the AER has assigned greater weightings to fault outages over forced outages. If anything, greater weight should be assigned to forced rather than fault outages, given that unplanned forced outages provide some opportunity (albeit small, perhaps several hours or a day) to reprioritise resources and/or works to minimise the potential impact on customers.

Powerlink recommends that the AER apply at least equal weighting to both fault and forced outage sub-parameters and adopt the proposed 0.75% total weighting in [Table 1](#) below:

Table 1 Powerlink Proposed Weightings

Weightings	V4	Draft V5	Powerlink Proposal
Fault Outages			
Lines	0.2	0.2	0.15
Transformers	0.2	0.2	0.15
Reactive plant	0.1	0.1	0.075
Forced Outages			
Lines	0	0.1	0.15
Transformers	0	0.1	0.15
Reactive plant	0	0.05	0.075
TOTAL	0.5%	0.75%	0.75%

2.1.2 Loss of Supply Event Frequency Thresholds

In relation to Parameter 2 - Loss of supply event frequency, Appendix A of the draft Version 5 STPIS provides that the x and y system minute thresholds for Powerlink are as follows:

$$\begin{aligned} x \text{ system minute} &= 0.10 \\ y \text{ system minute} &= 0.75 \end{aligned}$$

Powerlink has actively sought to minimise the impact of loss of supply events on its network and these behaviours have continued in recent years. For example, by way of auto reclose

schemes and growth in the maturity of Powerlink's incident event management processes. This management-induced effort to minimise customer impacts has resulted in improved network performance against Powerlink's x and y system minute thresholds above.

While Powerlink notes that the AER has not proposed any adjustment to its existing loss of supply thresholds under draft Version 5, Powerlink has reviewed its recent network performance and considers that consistent with the principles of the scheme, it would be appropriate for the AER to apply incrementally lower thresholds to Powerlink in its next regulatory period as set out below:

x system minute = 0.05

y system minute = 0.65

Powerlink considers that these thresholds represent a progressive strengthening of the thresholds from one regulatory period to the next in a manner that provides statistically valid targets.

2.2 Market Impact Component

2.2.1 Reduced Revenue at Risk and Change to a Symmetrical Scheme

Under draft Version 5 of the STPIS, the AER proposes to amend the Market Impact Component (MIC) from the current bonus only scheme of +2% MAR, to a symmetrical bonus/penalty scheme with an incentive of $\pm 1\%$ MAR.

Powerlink acknowledges that the demand and expected network congestion context is different compared to when the MIC was first introduced and that this may have some bearing on whether the scale of the incentive remains appropriate. The proposal to reduce the size of the incentive by 50% is itself a material change. However, Powerlink is also concerned with the AER's proposal to take a further step to make the scheme symmetrical at this time.

As identified earlier, Powerlink is currently subject to Version 3 of the scheme until end 2016/17. Since making its Final Transmission Determination for Powerlink in April 2012, the AER has engaged in three STPIS reviews in almost as many years:

- following what the AER itself considers to be a comprehensive review, the first resulted in Version 4 in December 2012;
- the second resulted in Version 4.1 in September 2014; and
- the current review, which is expected to result in Version 5.

In relation to the MIC, Version 4 materially changed the basis upon which targets were set and performance was measured, compared to Version 3. Specifically, targets are based on a 3-year rolling average (compared to a 5-year fixed average under Version 3) and performance is based on a 2-year rolling average (compared to actual performance in the year in question under Version 3).

Powerlink's primary issue is that the AER has not afforded Powerlink the opportunity to test and respond to the strengthened framework resulting from the fundamental changes established under Version 4, prior to the introduction of further fundamental change with a symmetrical scheme proposed under draft Version 5. This also comes at a time when Powerlink will commence the network capability component of the scheme.

Powerlink is also concerned with a Consumer Challenge Panel member's claim that it achieved the outcomes it has under the MIC with minimal effort⁴. In the absence of any real evidence in relation to Powerlink's practices in responding to the MIC, this amounts to nothing more than an unsubstantiated assertion. Powerlink considers that there is an onus on the AER to ensure that claims from even its own advisory panellists should be appropriately qualified or dismissed where they do not have foundation.

To date, Powerlink's performance under the MIC has been a direct result of concerted effort within the organisation to adapt the manner in which outages are implemented to minimise the market impact of its network activities. For example, Powerlink has amended the timing of major network outages to undertake capital, operational or maintenance works. Further, where shorter works had commenced and were subsequently identified as having a market impact, these were quickly rescheduled where possible. These behavioural responses are precisely what the incentive scheme is designed to encourage. In terms of the financial rewards achieved under the scheme, these reflect Powerlink's MAR and the incentive available under the scheme for good performance.

In addition, it is not clear that the AER's proposed methodology to set floors and caps is truly symmetrical. If the AER continues to proceed down this path, careful analysis and consideration needs to be made to ensure that the methodology is statistically valid and provides appropriate outcomes in the context of the TNSPs' dataset.

2.2.2 Definition of a MIC Event

In relation to the Market impact component – parameter definition and application information outlined in Appendix C of the draft V5 STPIS, the AER introduced the terminology "event" for MIC.

Powerlink seeks clarification from the AER clarify as to what constitutes a MIC outage event in the STPIS definition for the MIC. In particular, Powerlink notes that the current definition does not specifically stipulate whether a MIC event is a network event, an outage or a constraint event. It would also be useful to understand the relationship of constraint sets in this calculation, including by way of illustrative examples.

2.2.3 Exclusion of Third Party Outages

In the draft Version 5 STPIS, the AER proposes to exclude the MIC counts arising from planned third party outages.

Powerlink agrees with this approach as TNSPs have very little, if any, influence over the timing of planned third party outages.

2.2.4 Exclusion of Ramping Constraints and T-connection Agreements

In draft Version 5 STPIS, the AER proposes to explicitly list an exclusion for ramping constraints and T-connection agreements in the MIC.

Powerlink agrees with the AER's proposal to expressly exclude these matters as it provides clarity and consistency across TNSPs on the application of exclusions.

⁴ AER, Explanatory Statement for Draft Electricity Transmission Network Service Providers Service Target Performance Incentive Scheme, June 2015, p14.

2.3 Network Capability Component

2.3.1 Pro-rata the Incentive Allowance Scheme

In the draft Version 5 STPIS, the AER proposes that the network capability component (NCC) be adjusted on a pro-rata basis up to 1% MAR. Similarly, the AER proposes that the incentive allowance be pro-rated to 1.5 times the total cost of the priority projects (capped at 1.5% MAR).

Powerlink supports the AER's proposal to pro-rata both the total dollar value of the projects and the incentive amount. This allows TNSPs to focus on the identification and implementation of effective projects that are expected to deliver maximum material benefits to network users. However, it would be useful if the AER were to provide clarification on how the pro-rata arrangements would apply, particularly in relation to the incentive amount.

2.3.2 Consideration of Payback Period for Projects

An enhanced ability for the AER to accept or reject priority projects in the network capability incentive parameter action plan (NCIPAP) has been identified as one of the AER's key amendments in the draft Version 5 STPIS.

Powerlink understands that payback periods were raised by other TNSPs subject to the NCC incentive and that the AER has agreed to take a different approach for each. Given that Powerlink is in the early stages of its NCIPAP projects development and interactions, it is proposed that the AER agree to consider and assess payback periods on an individual TNSP basis.

2.3.3 Strengthened Ex-post Assessment of Priority Projects

The AER proposes to strengthen its ability to conduct an ex-post assessment of NCIPAP priority projects in the draft Version 5 STPIS. This would allow the AER to potentially penalise a TNSP where a priority project had been completed but benefits had been realised. The AER also proposed that the Australian Energy Market Operator (AEMO) could have a role in performing such an assessment.

With any incentive scheme it is important that the business subject to the scheme be aware of how the scheme will be applied up-front, including why and how any ex-post assessment is proposed to be undertaken. If TNSPs implement NCIPAP projects based on all reasonable information before them and in good faith, it would not be appropriate if those costs could not be recovered due to a material change in circumstances or factors outside the TNSP's control once the project had commenced. To do so would undermine the incentive properties of the scheme, which are designed to encourage TNSPs to seek and realise benefits for network users. Powerlink also understands that the AER's driver for the ex-post assessment is not to eliminate cost recovery.

Powerlink questions whether an ex-post assessment is warranted and whether it will reduce the strength of the incentive on businesses. However, in the event the AER remains of the view that it is necessary, further clarification and guidance from the AER would assist TNSPs' understanding of how such an assessment would occur as well as confirmation that the AER would retain its decision-making rights in this regard.

2.3.4 Amendment of Priority Projects

The draft V5 STPIS includes provision for a TNSP to propose one or more new priority projects with its annual STPIS compliance report.

Powerlink supports the AER's proposal to allow TNSPs to propose one or more additional priority projects as well as remove and/or replace priority projects as part of their annual STPIS compliance report. Such an approach should encourage TNSPs to look for opportunities to further improve the performance of their network on an ongoing basis.

2.3.5 Consultation with AEMO

The AER proposes in draft Version 5 of the STPIS that consultation with AEMO be extended to include details of the items that a TNSP must consult upon with AEMO. In addition, the NCC has been amended to clarify the information which TNSPs must provide to AEMO in the development and assessment of priority projects.

Powerlink has a number of concerns with the addition of the information to be provided to AEMO, specifically the item listed in the section 5.2 j.3 of the STPIS.

any other information (i.e. network fault and outage data) which may be reasonably necessary to understand the nature of the transmission circuit and injection point network limits, and the potential value to consumers of addressing those limits.

Powerlink considers that the reference to “any other information which may be reasonably necessary” is not only broad, but is unclear as to which organisation will deem whether the information is reasonably necessary for the AEMO to undertake its role in the NCC. Powerlink recommends that a limitation on the clause should be made to ensure that such information is only for the purposes of assessing NCIPAP projects and that the AER retain its decision-making rights.

2.3.6 Exploratory Projects as Priority Projects

The draft Version 5 STPIS states that exploratory projects (i.e. planning studies or research projects) can be included as priority projects if a TNSP can demonstrate that a planning study could reveal important information likely assisting in the development of a low cost project to alleviate a network constraint with a high annual market impact.

Powerlink supports the AER's proposal to allow exploratory projects such as planning studies or research projects to be included as priority projects.

Appendix A: Summary of Other Matters

Powerlink provides its response to a number of other matters in relation to the draft Version 5 STPIS and the Explanatory Statement in Table 2 below.

Table 2 Powerlink Response to Other Matters

Component	Draft V5 STPIS Amendments/Issues	Description	Powerlink Response
SC	Renaming of the SC Parameter 1	The "average circuit outage rate" in the SC has been renamed the "unplanned outage circuit event rate".	Powerlink supports the AER's proposal to rename the Parameter 1 from "average circuit outage rate" to "unplanned outage circuit event rate", as the revised name aligns better with the parameter's aim of becoming the lead indicator of system reliability.
MIC	Change to a symmetrical scheme – caps and floors	Explanatory statement page 1, the first dot point under the key amendments. <i>Caps and floors have also been introduced to moderate variations and provide protection for one-off unforeseeable events.</i>	Powerlink suggests that the following section in the AER's Explanatory Statement to be included in the STPIS Version 5 document, either under sections 4 or 6 (definition) for the MIC, as it considers that it forms part of the definition. AER, Explanatory statement draft V5 STPIS page 16 specifies that: <i>Performance measure of zero delivers a 1% reward (+1%) Double the performance target delivers a 1% penalty (-1%)</i>
MIC	Appendix F Market impact component – calculation of performance target (pp 43-44)	The formula for the <i>performance target</i> P_{t-1} is specified using " P_{t-2} ", " P_{t-3} " and " P_{t-4} ". whereas, F1. Worked example states that if $P_t = 2014$, the <i>performance target</i> will be based on 2011(P_{t-3}), 2012 (P_{t-2}), and 2013 (P_{t-1}).	Powerlink seeks the AER's clarification on the identification of years for the calculation of the <i>performance target</i> , as there seems to be different calculation in two of the formulae - either: " P_{t-2} ", " P_{t-3} " and " P_{t-4} " or " P_{t-1} ", " P_{t-2} " and " P_{t-3} "
General	Editorial revisions	Some editorial revisions have been made throughout the scheme for clarify and accuracy.	Powerlink notes the editorial revisions made throughout the scheme by the AER.

Component	Draft V5 STPIS Amendments/Issues	Description	Powerlink Response
General	Explanatory statement, 3.2.1 Stakeholder forum	On page 9 of the Explanatory Statement, 3.2.1 Stakeholder forum	<p>Powerlink notes that the following statement was incorrectly referenced in page 9 of the AER's Explanatory Statement under 3.2.1 Stakeholder forum.</p> <p><i>Powerlink and ElectraNet supported amalgamating the parameters; they considered that it would dilute the incentives under the average circuit outage rate parameter as the 0.5% weighting would have to be distributed across six sub-parameters instead of three.</i></p> <p>Powerlink did not support amalgamating the parameters, as it considered that it would dilute the incentive under the average circuit outage rate parameter. Powerlink requests that a correction be included in the final Version 5 STPIS explanatory statement.</p>

Glossary

AEMO – the Australian Energy Market Operator

AER – the Australian Energy Regulator

CCP - the AER Consumer Challenge Panel

MAR – Maximum Allowable Revenue

MIC – Market Impact Component of the Service Target Performance Incentive Scheme

NER - National Electricity

NCC – Network Capability Component of the Service Target Performance Incentive Scheme

NCIPAP - Network Capacity Incentive Parameter Action Plan

RIN - Regulatory Information Notice

RIT-T – Regulatory Investment Test for Transmission

SC – Service Component of the Service Target Performance Incentive Scheme

STPIS – Service Target Performance Incentive Scheme

TNSP – Transmission Network Service Provider