

# **Transend response to ACCC Draft Decision: 2004 to 2009 Revenue Cap - Service Standards and PI Scheme**

**APPROVED**

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**REVIEW DATE**

*This document does not have a periodic review date, but will be updated to reflect changes as Performance Improvement Department is made aware of such changes.*

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**AUDITS**

*There are no audits associated with the contents of the document.*

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## 1. PURPOSE

This report has been prepared in response to the Service Standards and Performance Incentive Scheme information contained in the Australian Competition and Consumer Commission's (ACCC's) draft determination on Transend's Revenue Cap Application for the period January 2004-June 2009.

The report provides more detailed comments, to complement issues raised in Transend's 24 October 2003 submission to the ACCC. This submission has been prepared after discussions with the ACCC at officer level.

## 2. SCOPE

This document discusses aspects relating to Service Standards and Performance Incentive Scheme as laid out in Chapter 8 of ACCC's draft determination in response to Transend's Revenue Cap Application for period January 2004-June 2009.

The service standard issues outside the revenue cap Performance Incentive (PI) scheme for the forthcoming regulatory period are not addressed in detail in this document. Transend notes that its comments made to the ACCC and their consultants SKM, with regard to the preparation of the Draft Determination on Service Standards, are yet to be satisfactorily addressed. Transend will continue to work with the ACCC, to progress these unresolved issues.

## 3. COMMENTS ON ACCC DRAFT DECISION

	<b>Reference Clause (ACCC Draft Determination)</b>	<b>Issues / Comments</b>
1.	Clause 8.2, last line states "However OTTER's July 2003 submission...showed Transend's performance since 1996."	<p>Pre-July 1998 data is not relevant, and this clause does not add any value to the ACCC's draft decision.</p> <p>Transend was formed on 1 July 1998. Prior to this time performance figures are not accurate enough to form the basis of a performance incentive scheme.</p> <p>In particular, prior to disaggregation segmentation between performance of transmission assets was not as accurate as the segmentation after disaggregation, when the relevant TNSP assets were defined.</p>
2.	Clause 8.3 Analysis of historical performance, para 1 "the number of rewards would exceed the number of penalties..."	<p>Transend observes that the relevant issue is not the "number of rewards or penalties" against each individual service standard element, but rather:</p> <ul style="list-style-type: none"> <li>• the size of reward and penalty against each element under the scheme and</li> <li>• the weighting of each element</li> <li>• the consequent overall PI scheme performance.</li> </ul>

	<b>Reference Clause (ACCC Draft Determination)</b>	<b>Issues / Comments</b>
		<p>Because each service standard element has a different weighting, it is not sufficient to only look at the number of times each performance measure is outside the deadband.</p>
3.	Table 8.3 and Table 8.5	<p>Table 8.5 in the draft determination is incorrect (Loss of supply events &gt;0.1 minutes for 2001-2002 would result in a <i>penalty</i> under GHD’s scheme).</p> <p>Further additions have been made to tables 8.3 and 8.5 to indicate the overall PI scheme performance. Please refer to the updated Tables 8.3 and 8.5, which appear as tables 3.1 and 3.2 at the end of this section. As mentioned above, it is overall performance that is relevant is setting the PI scheme.</p> <p>Based on Transend’s analysis (using annual revenues), GHD’s proposal would have resulted into a loss of approx. \$224K, whereas Transend’s proposal would have led to a bonus totalling \$40K over the four year period. We believe Transend’s proposal is therefore ‘more’ revenue neutral (see ACCC Draft Determination reference clause 8.1 third para. “...expected value of zero”).</p> <p>Transend’s proposal is fully aligned with SKM’s report to ACCC.</p>
4.	Clause 8.3.3, first para “GHD found that.... Transend did not appear to be that challenging when compared with past performance.”	<p>This statement is in conflict with ACCC’s statement in Clause 8.1 of the Draft Decision, “Overall the scheme is designed to have an expected value of zero”.</p>
5.	Clause 8.3.3, first para “It recommended that alternative targets be adopted, based on some allowance for reasonable improvements in performance due to current and planned capex and improved work practices (eg. Performance of in-service maintenance)”.	<p>This assertion is completely out of step with the actual measures of system performance:</p> <p>Availability</p> <ul style="list-style-type: none"> <li>• Availability is dependent on the work done on the system and plant outages taken.</li> <li>• The major contributor to unavailability is capital works.</li> <li>• Transend’s capital program over the forthcoming regulatory period will</li> </ul>

	Reference Clause (ACCC Draft Determination)	Issues / Comments
		<p>reach higher levels than in past years.</p> <ul style="list-style-type: none"> <li>• All else being equal, there will be a negative impact on availability over the forthcoming regulatory period.</li> </ul> <p>System Minute events</p> <ul style="list-style-type: none"> <li>• The volume of work undertaken on assets is increasing.</li> <li>• This increases the risk exposure to design and human errors, and to equipment failure (known as the ‘bath-tub’ effect, where new assets are equally prone to failure in their early years as they are in the later part of their life cycle).</li> <li>• All else being equal, there will be a negative impact on system minute events over the forthcoming regulatory period.</li> </ul> <p>In summary, looking at Transend’s forecasted works plans there is an increased risk to transmission system performance. Transend has already recommended strict targets for its service standards and PI scheme.</p> <p>Transend is aiming to maintain present service levels to customers, and improve service over the longer term, however the reality is that implementing the capital program over the forthcoming regulatory period is likely to reduce service performance in that regulatory period, rather than improve it.</p> <p>Transend notes that the improved work practices mentioned by the ACCC are not always practical, and thus it should not be assumed that the improvement in work practice is always deliverable.</p> <ul style="list-style-type: none"> <li>• eg. The transmission line design dictates whether you can or cannot undertake live line maintenance.</li> </ul> <p>Furthermore, the changes to work practices come at increased risk and increased operating costs.</p> <ul style="list-style-type: none"> <li>• eg Live line maintenance.</li> </ul>

	<b>Reference Clause (ACCC Draft Determination)</b>	<b>Issues / Comments</b>
		Neither of these aspects has been recognised by GHD or ACCC.
6.	Table 8.4 (revised Transmission Line Circuit availability targets)	Refer to comments as above with regards to impact of capital program on availability targets.
7.	Clause 8.3.3 (para below table 8.4) "Under GHD's scheme rewards and penalties are more evenly matched compared to those resulting from Transend's proposed targets."	Transend reiterates comment no.3 in this table, which clearly demonstrates that it is not 'number of rewards and penalties' for each individual measure that should be matched. It's the overall scheme performance that makes a difference.
8.	Clause 8.5.1	<p>This ACCC discussion fails to recognise that improvements in service are not evident the day a TNSP spends new capital. Statistics and many of years of experience have illustrated the 'bath tub' effect present in asset management. This effect recognises that phase-in and phase-out periods for new assets are high cost, low reliability.</p> <p>ACCC states that it is satisfied that there will be a net 'improvement' in service quality [over the forthcoming regulatory period]. Transend would like the ACCC to clarify how it has reached to this conclusion, while, in other parts of the decision, the ACCC observes that Transend's capital allowance will be higher than levels of the recent past.</p>
	Clause 8.5.1	Transend suggested the implementation of a Customer Service Charter to GHD and to the ACCC. It is recognised that development of such a charter is time-consuming and resource intensive, but would be of benefit to all stakeholders in the longer term. In the interim, Transend has a 'Service Plan' that details its performance monitoring regime and relevant measures and targets as agreed with its customers and the local energy regulator.
9	Clause 8.5.2 Intra regional constraints, second para	<p>ACCC discusses intra-regional constraints and then connection point performance.</p> <p>Transend believes the ACCC has mixed up issues concerning intra-regional constraints and connection point constraints.</p>

	Reference Clause (ACCC Draft Determination)	Issues / Comments
		<p>These two service measures are totally different concepts and are governed by different principles.</p> <ul style="list-style-type: none"> <li>eg Transmission network design is not governed by the same rules and systems as connection point design.</li> </ul>
10	Clause 8.5.2 Intra-regional constraints fourth paragraph.	<p>No consideration has been made to the issues raised by Transend in its report to ACCC, ref. Document TNM-SR-809-0020, Issue 1.0 (available on ACCC web site).</p> <p>Should the issues raised in Transend’s report be addressed, Transend is happy to discuss this measure further and monitor performance against this measure. This requires an open dialogue between Transend and ACCC in order to finalise the scope (depth, breadth and definition) of this measure.</p> <p>Note however , constraints on Basslink flows are not “intra-regional constraints”.</p> <p>In addition, to be able to implement this measure:</p> <ul style="list-style-type: none"> <li>due consideration needs to be made for the outage planning process of a TNSP and</li> <li>guidance needs to be provided as to whether <i>certainty</i> of outages is preferable to the ability to be <i>flexible</i> in re-scheduling outages, should market conditions change.</li> <li>eg if a TNSP has scheduled an outage in advance and the last minute change in power system causes a constraint to a particular generator then what responsibility/ accountability does a TNSP have for such constraints?</li> </ul>
	Clause 8.5.2 Average outage duration	<p>No consideration has been made to the issues raised by Transend in its report to ACCC, ref. Document TNM-SR-809-0020, Issue 1.0 (available on ACCC web site).</p> <p>Transend is still of the opinion that in its raw form this measure is not a true measure of performance (because the “average” can get distorted by size and number of events). This issue has been raised in Transend’s</p>



	<b>Reference Clause (ACCC Draft Determination)</b>	<b>Issues / Comments</b>
		report and needs to be addressed before any further progress can be made to monitoring performance against this measure.
	Clause 8.6 Conclusion	<p>We acknowledge ACCC’s intent to further develop performance measures and the need for more data gathering.</p> <p>Transend can assist in this exercise only if due provision is made in Transend’s operational expenditure allowance to be able to cater for the requirements of this work stream. ACCC’s determination, which relies on GHD’s recommendation, appears to have made no allowance for any additional costs of this nature.</p>
	Appendix I – Performance Measure Definition	<p>Transend is not in agreement with this proposed definition. Transend has proposed definitions in its report to ACCC and further refined in its application (Appendix 4). ACCC has not acknowledged this definition.</p> <p>Transend believes that the definitions need to be revised to align with Transend’s recommendation in its application.</p> <p>For measures that are not included in Transend’s PI scheme for the forthcoming regulatory period, but where measurement may commence, work needs to be done to agree to a definition.</p> <p>Furthermore, for all measures, ACCC needs to provide a mechanism to discuss individual events, to determine whether or not they are to be included in measuring performance (based on the principles of ACCC service standards as published by ACCC). This will need continued effort in the early years of scheme implementation, as the definitions are resolved.</p>

Further issues with the Performance Incentive Scheme and Service Standards makeup:

- a) The draft decision fails to acknowledge the impact of added risk exposure by introduction of a PI scheme.
- b) The draft decision does not acknowledge that Transend requested a PI scheme that measures performance on a financial year basis. This will align with Transend’s other service standard reporting obligations. The ACCC has not explained why it considers its calendar year scheme will deliver improved outcomes for customers.

- c) The draft determination fails to acknowledge the need for resources, efforts and tools to setup and maintain appropriate systems to be able to monitor and report performance. The draft determination appears not to have included any operating allowance for costs associated with measurement and reporting against the PI scheme, including participation in service standard audits (of which the ACCC have made mention in officer level discussions but have not outlined requirements). These costs will be greater if Transend is required to report on a calendar, rather than financial year.
- d) The draft decision does not acknowledge that the inter-regional constraint measure is not applicable to Transend, for the reasons stated in SKM's report.
- e) Additional comments on the PI scheme are included in Transend's submission to the ACCC of 24 October 2003.

**Table 3.1 Updated table 8.2: Rewards and penalties historically (Transend's targets)**

Measure	1998-99	1999-00	2000-01	2001-02
Circuit availability (transmission lines)	Reward	Reward	Penalty	Reward
Circuit availability (transformers)	Penalty	Penalty	Reward	Reward
Loss of supply frequency (>0.1 minute)	Reward	Indifferent	Indifferent	Indifferent
Loss of supply frequency (>2.0 minute)	Reward	Penalty	Indifferent	Reward
Overall Scheme Performance	Reward	Penalty	Penalty	Reward

**Table 3.5 Updated table 8.5: Rewards and penalties historically (GHD's targets)**

Measure	1998-99	1999-00	2000-01	2001-02
Circuit availability (transmission lines)	Indifferent	Indifferent	Penalty	Indifferent
Circuit availability (transformers)	Penalty	Penalty	Reward	Reward
Loss of supply frequency (>0.1 minute)	Indifferent	Indifferent	Indifferent	<b>Penalty</b>
Loss of supply frequency (>2.0 minute)	Reward	Penalty	Indifferent	Reward
Overall Scheme Performance	Reward	Penalty	Penalty	Reward

#### 4. CONCLUSION

Transend supports the introduction of a Performance Incentive scheme, to penalise Transend where service performance falls significantly below past levels and reward Transend where service performance rises significantly above past levels.

Only the two service standard measures included in the ACCC's Draft Decision are to form part of the performance incentive scheme over the forthcoming regulatory period. However, Transend believes that there are still a number of issues of detail to be addressed in finalising the Performance Incentive scheme to be applied to Transend's revenue cap for the period January 2004-June 2009. These include:

- finalising the definitions to apply to the two service measures that form the Performance Incentive scheme for the forthcoming regulatory period.
- finalising the time period for measurement of performance (calendar v financial year).

Transend also considers that the ACCC must address Transend's comments made as part of the broader Service Standards review, before any measurement of additional service measures can commence. Once measurement has commenced and sufficient data exists to statistically establish where bonuses or penalties should apply, these measures may be introduced to PI schemes for future regulatory periods.