



AER Draft Decision

Electricity transmission network service providers

Service Target Performance Incentive Scheme

Explanatory Statement

May 2014

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AER reference: 54673 - D14/64825, D14/64830

Amendment record

Version	Date	Pages
01	31 August 2007	43
02	7 March 2008	51
03	31 March 2011	54
04	20 December 2012	37
4.1	28 May 2014	8

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1 Amendment to Service Target Performance Incentive Scheme for Directlink

The AER's electricity transmission Service Target Performance Incentive Scheme (STPIS) is designed to provide incentives for each transmission network service provider (TNSP) to maintain or improve the reliability of transmission network services.

We are proposing a limited amendment to the STPIS which wholly relates to Directlink. In August 2012, Directlink's equipment associated with one of the three DC systems that comprise the DC interconnector transmission asset was damaged by a fire at its Mullumbimby site. Directlink took the relevant system out of service to repair the damage caused by the fire. Subsequent outages occurred on other systems to minimise the likelihood of further damage. The System 1 outage continues today and will continue until mid-2015. As a result the DC interconnector will be operated at substantially lower capacity for around three years in total.

In our Framework and Approach paper we advised of our intention to apply the Market Impact component (MIC) in version 4 of the STPIS (version 4 of the STPIS was introduced in December 2012). The MIC component has not previously applied to Directlink. The rolling target for MIC ensures the benchmark for setting performance targets is relevant to the TNSP's current maintenance and construction activities. However, given that Directlink has partly been out of service due to the fire, Directlink's current maintenance and construction activities during the period are not 'business as usual' but rather the result of damage caused by the fire. Thus the use of the last three years average performance will not reflect an appropriate benchmark for setting its performance targets. In particular, we are likely to set the target which may distort the quality and reliability incentives for Directlink for the next regulatory control period, which is not in the long term interests of customers.

We are seeking submissions on the draft amended (STPIS version 4.1). We will consider the submissions and publish a final decision (version 4.1) in July 2014. Version 4.1 will apply to Directlink in our draft and final decisions for the 2015–20 revenue reset period.

1.1 Background

The Directlink interconnector owned by the APA group is a 59 km, 180 MW High Voltage Direct Current (HVDC) interconnect connecting the NSW and Qld markets. It comprises six AC/DC convertor stations (three at each end) and the six cables (three pairs) that link them, making up three circuits of 60 MW each (total of 180MW). It is made up of both primary equipment (the major components operating at high voltage) and secondary equipment (necessary for the operation of the primary equipment).

Directlink has been in service for almost 14 years; it first came into operation on 25 July 2000 as an unregulated Market Network Service Provider, earning revenue from the National Electricity Market by providing a market network service between the NSW and Queensland power grids. In March 2006, Directlink converted to a regulated interconnector (i.e. a prescribed service) following application for conversion and an AER determination allowing conversion of Directlink to a regulated interconnector.

Under version 4 of the STPIS scheme (December 2012), Directlink will be subject to the Service Component and the MIC, from 1 July 2015. This is the first time Directlink will be assessed under the STPIS scheme, as it is currently assessed under the ACCC service standards guidelines for the current regulatory period 2006–2015.

1.1.1 Service component

The service component parameter that will be applied to Directlink from 1 July 2015 is worth up to +/-1 per cent of MAR. It has a sub-parameter for 'average circuit outage rate' which differs from the way Directlink was assessed prior to 1 July 2015. Previously, the equivalent metric was a time based measure, in which extended periods of outages have a large impact. Directlink's performance in 2012 and 2013 under the service component reflected this and it received financial penalties for these periods. The measure for average circuit outage rate in STPIS version 4 is the 'number of events'. The fire and the consequential faults would thus have a lower impact than if it was time based, which will reduce the impact of the event on the performance target for the coming regulatory control period for this metric. We do not propose any changes to STPIS version 4 relating to the service component.

1.1.2 Market impact component

The MIC provides financial rewards to TNSPs for improvements in their performance measured against a performance target. A TNSP may earn an additional revenue increment of up to 2 per cent of its maximum allowed revenue. Unlike the service component, the MIC has no financial penalty.

The MIC provides an incentive to TNSPs to minimise the impact of transmission outages that can affect NEM wholesale market outcomes. It measures performance against the market impact parameter, which is the number of dispatch intervals where an outage on the TNSP's network results in a network outage constraint with a marginal value greater than \$10/MWh.

In STPIS version 4, the MIC annual performance target is the rolling average of performance history over the three previous calendar years. The annual performance target is adjusted each year based on the most recent three years of performance. The annual performance measure is the rolling average of the two most recent calendar years. The performance measure is compared to the performance target to determine whether an incentive payment is made

Ordinarily, the rolling target ensures the benchmark for setting performance targets is relevant to the TNSP's current maintenance and construction activities. However, these particular circumstances are atypical for three reasons:

- a. Directlink's current maintenance and construction activities during the period are not 'business as usual' maintenance but rather the result of damage caused by the fire. Thus its past performance may not reflect an appropriate benchmark for setting its performance targets.
- b. Directlink has only one major asset to operate and maintain. This differs markedly from the other TNSPs within the scheme, who own hundreds of assets that can impact market outcomes.¹ This results in an averaging of overall performance for other TNSPs that reduces the impact of single unusually severe outages.
- c. By 1 July 2014, the MIC will apply to every other TNSP. When the performance target was set for these TNSPs, the historical performance was typical. If in the future another TNSP had an unusual extended outage on an asset that caused market impacts they would initially receive a very low incentive payment, but this would be balanced by an increase in the performance target going forward that would be easier to achieve.

¹ The exception to this is the Murraylink interconnector that is also a single asset business. However when the performance target was set for Murraylink the historical performance was typical.

To apply the current STPIS to Directlink's recent historical performance may distort the quality and reliability incentives for Directlink for the next regulatory control period.

We consider an amendment of the STPIS is appropriate before the commencement of the next regulatory control period in order to ensure that the NEO is promoted by the application of the scheme. The amendment is specific to Directlink's circumstances. NER Clause 6A.7.4(c) also provides that the parameters may be different as between TNSPs and over time. However, the proposed amendment is in the body of the MIC section of the STIPS and the same parameter applies to Directlink and other TNSPs.

1.2 Relevant Law and Rules

- NER clause 6A.7.4 Service target performance incentive scheme
- NER Clause 6A.20 Transmission consultation procedures

1.3 Additional sub-clauses added to section 4.2

We have extended the definition of MIC at section 4.2 in version 4, with the addition of clauses 4.2 (e)–(i):

- (a) Each TNSP subject to this market impact component is required to submit, in its revenue proposal, data in accordance with Appendix C for the preceding two calendar years.
- (b) Each TNSP subject to this market impact component is required to submit data annually in accordance with Appendix C for each subsequent calendar year.
- (c) Data used to calculate the market impact component must be accurate and reliable and must be consistently recorded based on the parameter definition in Appendix C.
- (d) Subject to clauses 4.2(e)-(i), the performance target for the market impact parameter is equal to the TNSP's average performance history over the preceding three calendar years of the performance measure as calculated in accordance with Appendix F of this scheme.
- (e) The AER will exclude Directlink's performance against the market impact parameter for the period of time from the beginning of the day of the fire at Directlink's Mullumbimby site on 12 August 2012 (the fire) to the date when Directlink returned to normal service. This period of time is the Directlink fire excluded period.
- (f) The date that Directlink returns to normal service is the date set by the AER that it considers Directlink is reasonably capable of sustaining reliability performance similar to or better than the reliability performance exhibited prior to the fire, which will be no later than 31 December 2015.
- (g) The performance target for the market impact parameter for Directlink is equal to the average performance history over the measurement period, being the preceding three calendar years excluding the Directlink fire excluded period. If the measurement period is less than three years the measured performance for the period immediately prior to the Directlink fire excluded period is included to make up three years of performance measure.
- (h) In a calendar year, Directlink's calendar year performance against the market impact parameter for any calendar years that include periods in the Directlink fire excluded period

shall be calculated by adding in the measured performance for the period immediately prior to the Directlink fire excluded period to make up a full year of performance.

- (i) No financial incentive payment will apply to Directlink during the Directlink fire excluded period.

Note: An example of how the performance would be calculated for a calendar year is in Appendix F.

1.4 Additional example to Appendix F

F2. Worked example of the application of clause 4.2 (e)–(i) where Directlink returns to service in 2015

This example assumes that the Directlink fire excluded period is from 12 August 2012 to X in 2015, where X is a day within 2015. This example shows the date range that is the basis for the target and the performance measure.

Period of assessment [N]	Basis for target Average [N-3, N-2, N-1]	Basis for performance measure Average [N, N-1]
2015 performance (assessed in 2016)	12 August 2009 to 12 August 2012 (3 years)	(a) (365-X) days in 2015 (b) However many consecutive days prior to 12/8/12 such that the total of a+b is 2 years
2016 performance (assessed in 2017)	(a) (365-X) days in 2015 (b) However many consecutive days prior to 12/8/12 such that the total of a+b is 3 years	(a) Calendar year 2016 (b) (365-X) days in 2015 (c) However many consecutive days prior to 12/8/12 such that the total of a+b+c is 2 years
2017 performance (assessed in 2018)	(a) Calendar year 2016 (b) (365-X) days in 2015 (c) However many consecutive days prior to 12/8/12 such that the total of a+b+c is 3 years	Calendar year 2017 Calendar year 2016
2018 performance (assessed in 2019)	(a) Calendar year 2017 (b) Calendar year 2016 (c) (365-X) days in 2015 (d) However many consecutive days prior to 12/8/12 are required such that a+b+c+d is 3 years	Calendar year 2018 Calendar year 2017
2019 performance (assessed in 2020)	Calendar year 2018 Calendar year 2017 Calendar year 2016	Calendar year 2019 Calendar year 2018

1.5 Key milestones

We are required by NER 6A.20 to provide 30 business days consultation period for submission. The key dates in this process are:

- Draft decision, explanatory statement, and invitations for submission published on 28 May 2014
- Directlink to submit its revenue proposal, including STPIS data, on 2 June 2014
- Submissions on STPIS version 5 close Thursday 10 July (30 business days)
- Final Decision made by AER Board in July-August 2014
- Version 4.1 STPIS begins for Directlink on 1 July 2015