3 February 2025

Mr Scott Hall
Director Network Pricing Branch
Australian Energy Regulator
GPO Box 3131
Canberra, ACT, 2601

Email: TransmissionSTPISReview@aer.gov.au

Dear Scott,

AER Proposed Amendments to the Transmission Service Target Performance Incentives Scheme

Energy Networks Australia (ENA) welcomes the opportunity to make this submission in response to the Australian Energy Regulator's (AER) Proposed Amendments to the Transmission Service Target Performance Incentive Scheme (STPIS) Review.

ENA represents Australia's electricity transmission and distribution and gas distribution networks. Our members provide more than 16 million electricity and gas connections to almost every home and business across Australia.

ENA welcomes the AER's review of the STPIS and the consultative approach the AER has adopted, including the consideration of whether the scheme components remain fit for purpose in a rapidly changing National Electricity Market (NEM).

In summary,

- ENA highlights that the transition to a renewable energy dominated grid adds further complexity, and recommends a balanced, collaborative approach that integrates flexibility with certainty, ensuring the evolving energy system is managed efficiently while prioritising the interests of consumers.
- ENA agrees with the AER that the Market Impact Component (MIC) is not currently working and should be suspended as soon as possible and agrees that the alternate approaches that have been proposed to the MIC will not have the desired outcome.
- TNSPs appreciate the opportunity to work with the AER to develop appropriate reporting for high impact planned outages utilising data that is already collected by the TNSPs, with the first compliance year being calendar year 2026.
- ENA suggests that the reporting arrangements be allowed to operate for several years before informing the need for a rule on what a TNSP must consider in planning outages to ensure a reliable network.
- ENA supports the more flexible and proportionate approach the AER has proposed for the Network Capability Component (NCC).
- ENA recommends that the way the NCC reward and penalty is calculated should be consistent and based on the project forecast cost. The AER's Draft Guidelines propose to link the reward with the priority project forecast cost and the penalty to actual project cost.
- ENA supports the AER's proposal to remove the rounding used in the target setting and performance assessment of the Service Component and supports the TNSP having the option to apply for early adoption.

- ENA supports the AER's proposal to submit an expedited rule change to adopt an amended incentive schemes as changes are made from time to time. The proposed rule change would allow TNSPs to opt into incentive schemes that are amended during a regulatory period. Adoption of the new arrangements and treatment of any existing NCIPAP projects and revenue would need to be agreed with the AER on a bilateral basis.

ENA provides further detail on each of scheme components in the Attachment 1, including proposed rule drafting in Attachment 2.

ENA looks forward to working with the AER as it finalises the STPIS review and the development of the reporting arrangements and rule change request. In the meantime, if you would like to discuss this submission, please contact Verity Watson (vwatson@energynetworks.com.au) in the first instance.

Yours sincerely,

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Attachment 1

1. Market Impact Component

The Market Impact Component (MIC) of the STPIS was introduced to manage the cost to consumers of transmission congestion. It sought to optimise the cost of congestion caused when Transmission Network Service Providers take outages on their networks for maintenance or other reasons. The MIC was introduced as a means of encouraging TNSPs to take outages when this would have little impact on the wholesale price of electricity. Consistent with other incentive schemes, it did this by creating a trade-off between the cost of the relevant outages and the cost of avoiding or rescheduling them.

While this remains a worthy objective, the MIC is no longer capable of achieving it because it is based on a measure that has lost its usefulness.

When the MIC was developed the AER considered three possible measures and chose to use the Marginal Cost of Congestion (MCC). In doing so, it noted that "[i]n the case of intra-regional constraints the [MCC] may have little or no meaning." As has previously been discussed the growth in the number of generators since the MIC's inception means that intra-regional congestion is much more common now than it was, which makes the MCC much less informative.

The reality that the MCC is not providing meaningful information provides strong support for the AER's conclusion that the MIC should be suspended. Further, it suggests that any future version of the MIC must not be based on the MCC or similarly flawed metric.

This supports the AER's conclusion that it should now attempt to identify metrics that are capable of identifying outages that contribute to the cost consumers must pay for electricity – in simple terms, those which are likely to cause increases in the wholesale price of electricity. In doing this it is important that the AER remains focussed on the National Electricity Objective and does not seek to position the MIC as a means of preventing (re)distribution of revenue between competing generators. The purpose of the MIC should be to further the long-term interests of consumers rather than preventing distributive impacts between individual market participants.

Until the AER identifies a suitable replacement component, MIC should be suspended and replaced with a report-only measure that is not based on the MCC dataset.

ENA acknowledges the importance of collaboration between TNSPs, AEMO, and generators to manage outages effectively and minimise their impact on consumers. However, ENA is concerned that imposing an obligation on TNSPs to provide a minimum of four months' notice for all planned outages may not achieve the desired outcomes and could lead to unintended consequences.

With this said, ENA and its transmission members would be pleased to work with the AER to support its efforts to identify appropriate datasets and information to devise an alternative mechanism to ensure that TNSPs face appropriate incentives to consider the consumer impact of transmission congestion when scheduling outages, noting that outage planning is highly complex in the sector as we transition to net zero.

Flexibility vs. Certainty: Balancing Consumer and Generator Needs

The long-standing discussion between TNSPs and generators highlights the tension between the need for certainty in outage planning and the flexibility required to address the dynamic nature of the energy market. While advance notice of outages can help generators plan operations, rigidly enforcing a four-month notice period may hinder the ability of TNSPs to respond to changing circumstances in a timely and efficient manner. These include unforeseen operational needs, such as urgent maintenance to uphold network safety and reliability, as well as the flexibility required for hold point testing, which often depends on specific switched network conditions. Imposing a fixed notice

period could reduce TNSPs' ability to accommodate such requests, potentially leading to greater inefficiencies and higher costs for generators and consumers.

Challenges in Implementation

Requiring TNSPs to provide a fixed period notice for all planned outages does not account for the variability and complexity of outage planning. Factors influencing outage scheduling include:

- Real-time network conditions that can necessitate changes to planned outages to maintain network reliability;
- Coordinated planning with other market participants, such as AEMO and other TNSPs, to align with broader system requirements; and
- External dependencies such as third-party contractors, equipment availability, and unforeseen delays.

Rigid notice periods could undermine the ability to adapt to these factors, slowing critical works and resulting in inefficiencies, higher costs, and potential reliability risks.

Impact on Renewable Energy Integration

The transition to a renewable energy-dominated grid introduces additional complexities. Renewable generators, whose output is inherently weather-dependent, may request changes to outage schedules to optimise their generation. For example, TNSPs may adjust outage schedules to support after-hours network switching for solar farms, or scheduling generator hold point disturbance tests at short notice to accommodate the progress of hold point tests. A fixed notice period would constrain TNSPs' ability to accommodate such requests, potentially leading to lost renewable generation opportunities due to outages occurring during optimal weather conditions, or reduced system flexibility, negatively affecting both generators and consumers in the long term.

Lack of Evidence Supporting Consumer Benefits

ENA notes that no analysis has been provided to establish a direct link between enforcing a four-month notice period and achieving long-term benefits for consumers. Without such evidence, it is unclear whether the proposal aligns with the National Electricity Objective, which prioritises the long-term interests of consumers in terms of price, reliability, and security of supply.

While ENA recognises the importance of addressing outage impacts, it is concerned that a mandatory four-month notice period would reduce the flexibility needed to manage a rapidly evolving energy system effectively. Instead, ENA recommends a collaborative, evidence-based approach that prioritises the long-term interests of consumers by balancing certainty with flexibility in outage planning.

With this said, ENA and its transmission members would be pleased to work with the AER and other stakeholders to support the AER's efforts to identify appropriate datasets and information to devise an alternative mechanism to ensure that TNSPs face appropriate incentives to consider the consumer impact of transmission congestion when scheduling outages, noting that outage planning is highly complex in the sector as we transition to net zero.

2. Network Capability Component

ENA is supportive of the AER's proposal to retain the NCC, while making it more flexible with the ability to propose priority projects annually and being more balanced and proportionate in terms of the incentive.

ENA supports a TNSP being able to identify proposed priority projects in its Transmission Annual Planning Report (TAPR) and for the AER to use the information in the TAPR to review and approve these projects.

The way the NCC reward and penalty is calculated should be consistent. The AER's Draft Guidelines propose to link the reward with the priority project forecast cost and the penalty to actual project cost.

It is the ENAs position that both the reward and penalty should be based on the priority project estimated cost. As outlined in the Draft Guideline Explanatory Statement, aligning revenue reductions with the rewards is more likely to facilitate improved take up on the NCC. Aligning both rewards and penalties to estimated cost maintains the scheme's symmetry while providing clarity and transparency to stakeholders.

ENA supports the removal of AEMO from the formal priority project consideration to reduce the regulatory and administrative costs of operating the scheme.

3. Service Component

ENA supports the AER's proposal to remove the rounding used in the target setting and performance assessment of the Service Component. This change would ensure that the scheme continues to incentivise each TNSP to maintain and improve network performance over multiple years, better reflecting actual performance and encouraging TNSPs to strive for consistent improvements in reliability.

As outlined in Section 4, ENA supports the proposal for a rule change to allow TNSPs the option to apply for early adoption of the revised calculation method of the Service Component. Early adoption of the revised rounding of the performance targets would not impose significant administrative burden of recalculating performance targets set within each TNSP regulatory period, but rather involve the mathematical removal of rounding in existing calculation models for both the target and performance reporting.

4. Implementation

ENA supports the AER's proposal to submit an expedited rule change to adopt amended incentive schemes as changes are made from time to time. As the AER indicated during the public forum, this will give consumers the opportunity to benefit from improvements without waiting for the regulatory cycles to complete.

To achieve this, ENA proposes that a rule change be introduced allowing TNSPs to opt into incentive schemes that are amended during a regulatory cycle. The opt in element ensures that changes to incentive schemes do not have unintended effects such as challenging the existing risk structures during a regulatory cycle while creating the opportunity for consumers to benefit early. To support the AER in this regard ENA has prepared rule drafting that would achieve the intended outcome.

Before pursuing this avenue, ENA notes that the transition from the existing NCC component to the AER's proposed approach may not be entirely seamless because TNSPs have already proposed NCIPAP projects and the revenue associated with those is already included in existing revenue determinations. This may require that the existing NCIPAP approach be retained for the remainder of the existing regulatory cycles and the new NCC approach should be introduced *as well* to allow new projects to be introduced. The AER may also wish to consider transferring NCC projects from new to old through annual review processes (noting that revenue adjustments would be required to avoid double payment). This could be done on a bilateral basis between the AER and affected TNSPs.

Attachment 2

11.XX Application of Transmission Incentive Scheme Rule 2025

11.xx.1

Definitions

For the purposes of this rule 11.xx:

commencement date means the day on which the this Rule commences operation.

current regulatory control period means, for a Transmission Network Service Provider, a regulatory control period that commenced before the commencement date and, as at the commencement date, has not ended.

Incentive scheme means the Transmission Service Target Performance Incentive Scheme, the Capital Expenditure Sharing Scheme, the Demand Management Incentive Allowance, Efficiency Benefit Sharing Scheme and any future scheme the AER determines to be an incentive scheme for the purpose of this Rule

start date means the date from which the amended or new incentive scheme will apply to a Transmission Network Service Provider.

11.xx.2

Purpose

The purpose of this rule 11.xx is to allow a Transmission Network Service Provider to apply to the AER for the application of amended or new incentive schemes during its current regulatory control period.

11.xx.3

Earlier application of the incentive schemes

(a) A Transmission Network Service Provider, which will be subject to an amended or new incentive scheme during its next regulatory control period, for the current regulatory control period.

Submission of proposal

(b) If a Transmission Network Service Provider wishes a new or amended incentive scheme to apply to it during its current regulatory control period, the Transmission Network Service Provider must submit a proposal to the AER setting out:

> **(1)** the proposed start date for the new or amended incentive scheme which must be a date no earlier than 60 business days after the proposal is submitted;

2) if relevant, information on whether the Transmission Network Service Provider could apply the amended or new incentive scheme during the current regulatory control period;

Preliminary examination and determination on compliance with relevant information requirements

(c) If the AER receives a proposal under paragraph (b), it must:

(1) make a determination on whether the proposal contains the necessary information and, if not, specify the additional information the TNSP must provide to allow the AER to make a determination; and

(2) notify the Transmission Network Service Provider of its determination within 10 business days after receiving the proposal.

Publication and consultation on proposal

(d) The AER must, as soon as practicable, publish

(1) the proposal or any revised proposal, submitted under paragraph (b) ; and

(2) an invitation for written submissions from any person on the proposal within a period specified by the AER, being a period not less than 20 business days from the date of publication of the invitation for submissions.

(e) Any person may make a written submission to the AER on the proposal, within the period specified in the invitation referred to in paragraph (d)(2).

Making of final decision

(f) In making its final decision, the AER must consider the proposal, or any revised proposal, submitted under paragraph (b), and any written submissions made on the proposal or any revised proposal.

(g) The AER must make its final decision in accordance with paragraphs (h)-(k).

Requirements relating to final decision

(h) A final decision under paragraph (g) is a decision by the AER on whether to apply the new or amended scheme to a Transmission Network Service Provider during its current regulatory control period and (where relevant) must include a decision on the start date and set out reasons for the decision.

(i) The AER may make a decision on a start date which is different to the proposed start date, provided the start date is not later than the proposed start date.

(j) If the AER makes a final decision that the new or amended scheme will apply to a Transmission Network Service Provider then it will apply to the relevant Transmission Network Service Provider from the start date.

Notice of final decision

(k) The AER must, at least 1 business day before the start date, but not earlier than 20 business days before the proposed start date, publish:

(1) notice of the making of the final decision; and

(2) the final decision, including its reasons.