

5 April 2024

Mr Scott Hall
Director – Networks Monitoring Team
Australian Energy Regulator (AER)
By online submission

Dear Mr Hall,

AER Issues Paper – Transmission STPIS Review: MIC and NCC

The Australian Energy Market Operator (AEMO) welcomes the opportunity to comment on the AER Issues Paper – Transmission STPIS Review: Market Impact Component (MIC) and Network Capability Component (NCC).

It is timely to review the effectiveness of some aspects of the service target performance incentive scheme (STPIS) for transmission networks considering the rapid and substantial changes that are occurring in the mix and location of generators across the National Electricity Market (NEM). The effective operation of the STPIS is directly relevant to AEMO in our role as system operator of the NEM and also in our capacity as the Jurisdictional Planning Body (JPB) responsible for planning the Victorian Declared Shared Transmission Network.

AEMO accepts the case put forward by TNSPs that the MIC is no longer driving the intended outcome of incentivising TNSPs to minimise the impact of transmission outages on wholesale market outcomes. In fact, it is likely that factors other than the MIC are having a greater influence on TNSP's decisions on the timing of scheduled transmission outages.

AEMO is concerned that the MIC, in its current form, may also be jeopardising the timely and efficient connection of new generation projects due to uncertainty on how the STPIS is considered by TNSPs in the connections process. In addition, the STPIS in its current form is not providing an effective incentive to TNSPs to take timely action to reduce transmission network congestion.

We have provided some perspectives on the questions posed in the Issues Paper in Appendix 1 below. If you would like to discuss anything further, please contact Kevin Ly, Group Manager – Reform Development & Insights [REDACTED]

Yours sincerely,

[REDACTED]

Violette Mouchaileh
Executive General Manager – Reform Delivery

APPENDIX 1: AEMO'S COMMENT ON THE ISSUES PAPER

General comments

Comments on specific components of the STPIS:

AEMO's views on the questions posed in the Issues Paper (where relevant) are set out below.

1. Market Impact Component

1.1. *Is the MIC still fit for purpose given the experience to date and the energy transition underway?*

AEMO agrees that the case put forward by TNSPs that the MIC is no longer driving the intended outcome of incentivising TNSPs to minimise the impact of transmission outages on wholesale market outcomes may have merit. AEMO is available to work with the AER to assess whether the threshold of \$10/MWhr events is appropriate given the changing generation mix.

AEMO also questions the effectiveness of the MIC in the current market where the windows available for outages are getting progressively narrower due to changing network conditions and inter-regional impacts in neighbouring regions. During certain times, when TNSPs try to schedule complex outages (including high impact outages) requiring longer duration and/or recall time or concurrent outages (intra and inter-regional), TNSPs may be experiencing limited flexibility in identifying suitable windows for planned outages.

AEMO is endeavouring to provide as much advance notice to TNSPs of likely concerns with planned outages proceeding. In some instances, there may be external unplanned events on the network that may impact the ability of TNSPs to progress with planned works. In these cases, to manage power system security and/or reliability, planned outages may be unlikely to proceed with little advance notice. This should be a key consideration for the AER in any re-design of the MIC.

Additionally, the MIC may also have the unintended consequence of delaying connections of new generation as TNSPs consider the STPIS implications of generators connecting in particular locations. Similarly, timely delivery of network augmentations that are in the long-term interest of consumers can be impacted if TNSPs are unwilling to take the transmission outages in certain periods due to this short-term disincentive. Alternatively, any STPIS payments arising due to construction of these network augmentations is passed through to consumers.

1.2. *What have the benefits of the MIC been for consumers?*

In Victoria, the MIC can act as a disbenefit for consumers as it can disincentivise timely delivery of network augmentations and STPIS payments arising due to the construction of network augmentations are allocated to consumers through Transmission Use of Service (TUOS) charges.

1.3. *Should the MIC be retained as is, discontinued or amended?*

AEMO is of the view that the MIC should not be retained in its current form. A comprehensive re-design to align the incentives with the intended aims for the current energy market would be the optimal outcome, however it is not obvious to AEMO how this could be done in practice. In re-designing the MIC, it is important that the core aims of ensuring outages are appropriately timed and timely removal of material network constraints is retained.

1.4. Are there any other options that this Issues Paper does not identify that we should consider?

The review could explore options regarding incentives for TNSPs to support the timely connection of new plant in the NEM. A substantial level of connections will be critical to the energy transition and TNSPs play a key role in the connection process. AEMO notes its own role in connections is also important and there are many and varied reasons that connections may be delayed many of which are outside the control of the TNSPs and it may be difficult to establish a well-targeted incentive arrangement. At the least, a re-design of the STPIS should ensure that the MIC does not provide any disincentive to timely connection of new generation by TNSPs.

The review could also explore options to improve incentives for TNSPs to prioritise works to reduce material network congestion in various locations across the transmission network. Timely resolution of congestion issues is critical to the connection of new renewable generation and to the delivery of ISP projects.

1.5. If the MIC is amended, which option will best promote the National Electricity Objective (NEO)?

AEMO has no comment on this question.

2. Network Capability Component

AEMO has no comment on the Network Capability Component.

3. Service Component

AEMO has no comment on the Service Component.