

AER – TRANSMISSION STPIS REVIEW: MIC AND NCC

5 APRIL 2024

INTRODUCTION

The Energy Users' Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing, building materials and food processing industries. Combined our members employ over 1 million Australians, pay billions in energy bills every year and in many cases are exposed to the fluctuations and challenges of international trade.

Thank you for the opportunity to make a submission for the Issues Paper: Transmission Service Target Performance Incentive Scheme (STPIS) Review: Market Impact Component (MIC) and Network Capability Component (NCC).

The MIC was designed to incentivise TNSPs to undertake outages when they have little to no impact on wholesale market prices (i.e. avoid planned outages when demand is high) and the NCC was designed to provide incentives to maximise the capability of the existing network through low-cost options. The EUAA recognises that these are just two of the STPIS incentives, however that neither of these incentives is currently working undermines the effectiveness of the STPIS and could lead to higher costs in these two areas, which will lead to higher costs for consumers.

In particular we are concerned:

- That the MIC now leads to outages potentially being planned during high demand periods which leads to further impacts on business, both financial and their ability to supply customers.
- That the NCC is not being fully utilised is of concern and needs further investigation.

The EUAA supports the design of incentive schemes in order to achieve efficient, cost effective and equitable outcomes for networks and consumers. If an incentive scheme is no longer working, the EUAA encourages re-designing the incentive scheme so that it functions as it was intended. With a changing NEM, this may require regular updates of incentive schemes.

RESPONSE TO SELECTED CONSULTATION QUESTIONS

Market Impact Component (MIC)

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

Based on the evidence provided in the AER's Issues Paper, the MIC is not fit for purpose. The target impact to wholesale prices of \$10/MWh is clearly too low, and the effective non-inclusion of some lines creates inequities for consumers on those lines. With the transition to a VRE dominated NEM, it is our opinion that the MIC needs to be

made fit-for-purpose for the changing NEM. This may require several changes to the MIC as the proportion of VRE in the NEM increases and as interconnectivity of the predominantly radial system occurs.

EUAA is opposed to the current situation that unintentionally penalises TNSPs due to an outdated process that uses historical averages (over 7 years) when the network was significantly different and less congested. In effect, the MIC has become a congestion tax on TNSPs and it is disappointing that most TNSPs are incurring maximum penalties.

2. What have been the benefits of the MIC for consumers?

The main benefit of the MIC has been twofold for consumers, reliability during high demand periods and lower costs overall (i.e. the increased cost of planned outages outside of high demand periods is offset by the outage having minimal impact to wholesale prices and production in industry).

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

The MIC should be retained; however, it does need to be amended to be fit-for-purpose in the current transitional environment.

Removal of the MIC may lead to TNSPs performing outages when it is lowest cost for them (during normal work hours), without consideration of what is lowest cost for consumers.

Given the discussion in the Issues Paper, the EUAA makes the following comments about the amendments discussed:

- We support in-principle the status quo on the basis of a MIC target that allows for the impact of renewable generation, noting that this target will need to move over-time to adjust to the changing VRE mix in the NEM. EUAA suggests that if this option is chosen by AER, then it needs to be supported by rigorous modelling and the new target published at least a year in advance to allow TNSPs to adjust their activities.
- We do not support the removal of the MIC. Although there are currently no benefits for consumers in retaining the MIC, the EUAA believes that the current MIC can be amended to reflect the current transitional NEM that will improve outage management by TNSPs.
- The EUAA supports-in-principle a revised performance target. In the same manner as above, rigorous modelling needs to be performed to inform a revised target, which probably needs to be adjusted annually as the VRE penetration increases, and revised targets need to be advertised at least a year in advance to allow TNSPs to adjust their outage management.
- The EUAA supports in-principle better target rewards and penalties. We recognise that outages on some lines have minimal impact to wholesale market prices as they have minimal generation capacity connected to them. As with the setting of revised targets above, each line will need to be assessed annually by the AER to ensure that new VRE connections that change a line from “low impact” to “high impact” on the wholesale price are taken into account.
- We do not support excluding semi-scheduled generation from the MIC, as when the transition is complete, close to 100% of generation will be semi-scheduled VRE.

- We do not support limiting the MIC to trunk lines and excluding rural radial lines. Our preference is for the AER to identify each line as having “low impact” or “high impact” to regional wholesale prices to allow TNSPs to manage outages to have minimal impact to the NEM wholesale prices in each region.
- We support in-principle combining a price threshold (e.g. \$10/MWh) with a target wholesale market price, thus ensuring that the MIC has maximum impact to TNSP outage scheduling during high demand periods where curtailment of generation due to outage has the maximum impact to wholesale prices. This also allows TNSP’s to schedule outages for periods of low or negative wholesale prices when curtailment would likely occur anyway. Again, this option would need rigorous modelling to support the development of the specific framework.

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

The AER might consider revisiting the incentives for MIC. Prior to 2015, the incentive for MIC was 2% of maximum allowed revenue (MAR). In 2015, this was adjusted to +/-1%. It would appear from the graphs supplied by AER in the Issues Paper that the reduction in the effectiveness of the MIC aligns with both the significant increase in VRE penetration post 2013 and also the changing the “carrot” style incentive to a “carrot and stick” incentive.

The EUAA recommends that the AER models the impact of various different incentive percentages, with rewards and/or penalties in order to determine the optimal level of incentive and penalty.

Network Capability Component (NCC)

6. Is the NCC still fit for purpose given the experience to date and the energy transition underway?

Given the evidence provided in the Issues Paper, it would appear that the NCC introduced in 2012 has never been fully utilised by any of the TNSP’s. Our definition of full utilisation of the NCC is for a TNSP to expend 1.5% of the average MAR over a regulatory period in network capability works to maximise the capability of the existing network. This suggests that there is a major design flaw in the NCC or that the 1.5% threshold is too high. Given some TNSPs spend 0% of MAR on the types of projects that improve the utilisation of existing infrastructure, and that in the current regulatory period TNSPs are expending a combined 0.026% of combined MAR on such projects, it would appear that the NCC is not meeting its initial design parameter as stated by AER in the explanatory note on its inception:

“The AER considers it is appropriate to introduce a capability incentive to deliver efficient levels of network capability from existing assets when it is most needed. The network capability Incentive would encourage TNSPs to identify whether incremental or small improvements can be implemented to resolve limitations or emerging constraints on the network. This would not be a heavy additional regulatory burden on TNSPs, but rather an extension of the existing obligations on TNSPs to identify known and emerging limitations in annual planning reports. However TNSPs would now be incentivised to deliver a more service-oriented focus by determining whether incremental or small improvements could be implemented to improve network capability. “

The EUAA supports the purpose and existence of the NCC, however questions whether its design was ever fit-for-purpose. The EUAA proposes that AER needs to investigate further why TNSPs are not taking up the NCC and redesign the NCC based on the facts gathered, and not the economic based analysis presented in the Issues Paper

that bears little input by of the TNSP's actual behaviour (note the first rule of economics that people behave rationally is incorrect).

7. How can the data collected by the TNSPs to date be best evaluated to demonstrate the benefits consumers may have realised from the undertaking of NCC projects? Have those benefits for consumers outweighed the costs?

The AER needs to ensure that the administration of NCC projects by TNSPs is minimalised, however ensuring that adequate data is collected so that the AER and the TNSPs can demonstrate the benefit to consumers. As it stands, from the information presented in the Issues Paper, it would appear that the administrative burden of NCC projects for TNSPs outweighs the benefits for consumers, and therefore acts as a penalty for TNSPs.

8. Should the NCC be retained as is, discontinued or amended?

The EUAA is of the firm belief that the NCC should be retained, but needs a significant revision in order to function as intended, and probably needs to account for the current massive infrastructure spend of TNSPs are currently undertaking with ISP projects and the transition of the NEM to net zero.

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

The EUAA considers that one reason TNSPs have not taken up the NCC is due to the relatively low incentive compared to other priorities (i.e. system strength, ISP projects, new connections etc). From this perspective, EUAA considers that a project multiplier incentive may work better than the current incentive, i.e. similar to the Federal Governments former research and development tax incentive, that allowed 200% of the value of R&D to be tax exempt. The AER would need to perform rigorous modelling to arrive at an appropriate multiplier, as the Federal Government found 200% was too high and has since adjusted this figure.

CLOSING REMARKS

The EUAA supports the design of incentive schemes in order to achieve efficient, cost effective and equitable outcomes for networks and consumers.

It is evident from the Issues paper that both the MIC and NCC need to change to become relevant in the current transition, probably need to be fluid in their design (allowing for variable targets as the transition progresses) and not act as penalties to TNSPs and thus disincentivising their uptake.

The EUAA does not support the removal of either the MIC or the NCC.

Do not hesitate to be in contact should you have any questions.

Andrew Richards
Chief Executive Officer