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Australian Energy Regulator
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**Transmission Service Target Performance Incentive Scheme
Review: Market Impact and Network Capability – Issues paper
– 8 December 2023**

EnergyAustralia is one of Australia's largest energy companies with around 2.4 million electricity and gas accounts across eastern Australia. We also own, operate and contract a diversified energy generation portfolio across Australia, including coal, gas, battery storage, demand response, wind and solar assets, with control of over 5,000MW of generation capacity.

We appreciate the opportunity to comment on the Market Impact and Network Capacity components of the AER's Service Target Performance Incentive Scheme (STPIS) for transmission.

Transmission Network Service Providers (TNSPs) need to be appropriately incentivised to manage their networks in ways that maximises value for customers via ensuring efficient market dispatch. These incentives will be important as the mix of technologies in the National Electricity Market (NEM) continues change, and the availability of enabling transmission becomes more critical.

These changes are already apparent in the financial outcomes of the Market Impact Component (MIC), where almost all TNSPs are now incurring maximum penalties in relation to network outages. As the AER has highlighted, this is mainly because the MIC targets the number of dispatch intervals where the marginal impact of network constraints is greater than \$10/MWh, which are being over-represented due to the defensive bidding of constrained generators. The AER's reliance on bid data rather than the 'true' marginal cost of constrained resources reflects data limitations and the need for administrative simplicity in applying incentives.

We support the AER taking a broad approach to reconsidering the MIC in line with the long term interest of consumers. As noted by the TNSPs, network congestion will increase in the coming years which poses challenges in calibrating incentive targets to historical trends. The value of energy that will be delivered via critical transmission infrastructure will increase over time as we see more variable renewable generators locate in areas that tend to be distant from storage and load. We therefore expect to see greater market impacts of planned and unplanned transmission outages. If not appropriately managed this will increase risk for prospective investors and ultimately the costs paid by end use customers.

On this basis we do not support options 1 or 2 in the AER's issues paper which would retain current arrangements or remove financial incentives under the MIC. We support the



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AER exploring refinements that potentially strengthen incentives, including those it has already canvassed:

- increasing the \$10/MWh price threshold. We note this value has not escalated since it was introduced in 2008. While not directly comparable, the NEM's price settings (and potentially the underlying value of traded energy) are adjusted annually for inflation and are also periodically reviewed in line with customer values of reliability
- considering the inclusion of system normal constraints rather than just outages
- introducing performance targets that capture the depth or volume of lost energy, not just the frequency of material price events during outages
- introducing price bands that provide escalating incentives in line with events of higher value to the market
- reconsideration of the total revenue at risk for TNSPs. Generally speaking the marginal incentive for TNSPs relating to an outage should be set equal to the value of the associated loss to the market, while also accounting for any costs incurred by the TNSP of selecting (or shortening) particular outage windows.

These and other options could be shortlisted through consultation with a stakeholder reference group, and modelled by the AER to test different incentive calibrations and their administrative complexity. We would not support excluding events on radial lines however this could also be explored in terms of improving feasibility of the MIC, including over simulated periods based on ISP input assumptions. Our expectation is that the future NEM will be characterised by increasing power flows on radial configurations and this will be important to capture in any modelling of incentives or market impacts.

We also support suggestions to strengthen rather than weaken the Network Capability Component of the STPIS.

We consider the network capability incentive parameter action plan (NCIPAP) to be very important element of the regulatory and transmission planning framework. The NCIPAP is designed to encourage TNSPs to be more innovative in pursuing network solutions that are of high value to customers but can be delivered quickly and at low cost. Information on the application of the NCIPAP suggests, however, that some TNSPs are not responding to the incentives offered. As the AER notes this could reflect the perceived importance of larger RIT-T projects and reprioritisation of planning efforts by AEMO. As part of the transition, the role of TNSPs and needs of the system are changing. The overall expansion of transmission infrastructure and diversity of operators connected to the system arguably sees a greater need for innovation and value that can be delivered. A prominent example of this is the non-contestable element of the Waratah Super Battery, which EnergyAustralia supports and should be encouraged in planning and regulatory arrangements like the NCIPAP.¹

We note the NCIPAP is already a generous scheme allowing TNSPs to receive financial benefits of up to 50% above project costs. It may be worth examining recent projects to determine the extent to which this is in proportion to the benefits accruing to customers, hence their willingness to pay for incentives, and the extent to which it offsets the administrative costs involved for TNSPs in their own planning functions. TNSP effort could be reduced by socialising information on priority NCIPAP projects. This in turn could help

¹ [Transgrid Waratah Super Battery \(non-contestable\) - draft decision \(energyaustralia.com.au\)](https://www.energyaustralia.com.au)

facilitate collaboration with partners on prospective projects and help prioritise supporting efforts from AEMO. The AER could also examine the extent to which the NCIPAP is affected by the RIT-T materiality threshold, and how projects can be pursued and delivered in a timely manner by TNSPs.

If you would like to discuss this submission, please contact me on [REDACTED]

Regards

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