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Via email: [transmissionstpisreview@aer.gov.au](mailto:transmissionstpisreview@aer.gov.au)

Dear Dr Funston,

**SUBMISSION ON ISSUES PAPER FOR TRANSMISSION SERVICE TARGET PERFORMANCE INCENTIVE SCHEME (STPIS) REVIEW**

Powerlink Queensland (Powerlink) welcomes the opportunity to provide feedback on the Australian Energy Regulator's (AER's) Issues Paper for the Transmission STPIS Review. We broadly support the objective of this Review to ensure the STPIS continues to provide appropriate incentives for Transmission Network Service Providers (TNSPs) to maintain and improve services and provide greater reliability of the transmission system.

To ensure the Transmission STPIS remains appropriate during the energy transition, we recommend:

1. **Introducing greater flexibility into the STPIS.** We consider a more customer-focussed outcome could be achieved by allowing key STPIS parameters to be determined as part of a revenue determination process.
2. **Service Component to form part of the STPIS Review** to ensure interactions with the other STPIS components are appropriately considered together. Under the current National Electricity Rules, changes to STPIS parameters can only be considered as part of a scheme review, such as this STPIS Review.
3. **Market Impact Component to pause or convert to report-only** to ensure that TNSPs do not continue to be systematically penalised for factors outside their control. We strongly recommend the option to pause to enable the AER and other stakeholders to observe the behaviours of TNSPs in the absence of the incentive.
4. **Simplifying reporting and revising penalty arrangements for the Network Capability Component** as the current metric involves a high administrative burden and ongoing reporting requirements.

We provide further detail on our recommendations in the Attachment. If you have any questions regarding this submission, please contact [REDACTED] in the first instance.

Yours sincerely,

[REDACTED]  
Jacqui Bridge  
Executive General Manager, Energy Futures

## **ATTACHMENT: POWERLINK FEEDBACK ON ISSUES PAPER FOR TRANSMISSION STPIS REVIEW**

### **1. Introducing greater flexibility into the STPIS**

We consider the Transmission STPIS Review offers an opportunity to provide greater flexibility in the STPIS and allow certain elements to be modified through a revenue determination process.<sup>1</sup> The current transmission STPIS has key elements, such as parameter definitions and exclusions, embedded in the STPIS instrument.<sup>2</sup> While this approach was intended to promote regulatory stability and certainty, we do not consider this gives adequate flexibility to meet rapid and significant changes that may occur as part of the energy transition.

By way of example, there is a lack of flexibility in the loss of supply event system minutes thresholds (x and y system minutes) in the Service Component (SC). For example, a target of zero applies to Powerlink for the larger loss of supply event threshold (y system minutes) in our current regulatory period. This is due to our performance being consistently better than the target. In practice, this results in a *penalty-only arrangement* for this parameter, which provides no incentive to maintain or improve service performance.

We consider that a more customer-focussed outcome could be achieved if key STPIS parameters could be determined as part of a revenue determination process. This approach would ensure a TNSP can only keep its reward if the service level improvement is retained in subsequent regulatory periods. Under this approach, consumers would not pay for the same improvement in network performance twice as the new target would reflect the TNSP's past performance with reference to a more challenging new threshold.<sup>3</sup>

Importantly, a revenue determination process involves considerable engagement with customers and other key stakeholders on various aspects of a Revenue Proposal, including the STPIS, the broader business context, future outlook and expenditure requirements, to deliver prescribed transmission services in the upcoming regulatory period. This process provides a far more practical and targeted opportunity for customers and stakeholders to review past targets and performance and proposed future targets in the context of what is forecast to occur in the business and operating environment at the same time. Customers and stakeholders would have the opportunity to consider key proposals and expenditure from the business to improve network performance and to test, challenge and understand business drivers within context. In Powerlink's case, the AER is typically invited to attend these engagement forums, where they can hear directly from customers as well as the business on what factors may be at play, as well as how and why trade-offs were made to achieve service outcomes going forward.

### **2. Service Component to form part of the STPIS Review**

We agree that the current form of the SC generally encourages TNSPs to behave in a manner consistent with the principles of the STPIS. While the AER considers the SC should be retained in its current form, we recommend the SC be included in the Review to ensure interactions with the other two STPIS components – the Market Impact Component (MIC) and the Network Capability Component (NCC) – are appropriately considered together. In particular, we consider there are interactions in the current STPIS between the SC and MIC with respect to a TNSP's

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<sup>1</sup> It is expected that minor amendments to the National Electricity Rules would be required to enable this flexibility.

<sup>2</sup> See also the March 2022 submission by TNSP Chief Executives to the AER's *Review of Incentive Schemes for Regulated Networks* Discussion Paper.

<sup>3</sup> In line with the AER's approach to vary system minute thresholds in its 2015 Transmission STPIS Review, a revised threshold could be set to provide a TNSP with a target of one without the need for rounding.

management of unplanned outages that should be tested through the STPIS Review. For clarification, an unplanned outage can result in both a loss of supply (captured in the SC) and in network constraints (captured in the MIC).

We also consider that inflexible system minute thresholds for the loss of supply frequency measures can result in a TNSP target of zero. This approach raises concerns for the following key reasons:

- A zero target indicates the best possible performance. As a result, the incentive to continue to *improve* performance is removed and the scheme becomes a penalty-only arrangement.
- A target of zero is not in the interests of customers. The costs to maintain a performance level to meet a zero target would be higher compared to a lower target. These are costs which are ultimately borne by customers.

Our recommendation also reflects the current National Electricity Rules that the AER must publish performance incentive scheme parameters at the same time as it publishes a STPIS instrument.<sup>4</sup> This means a formal review of the scheme by the AER is currently the only opportunity available to review key scheme parameters.

### **3. Market Impact Component – Pause or Report Only**

We agree with the AER that the current MIC is not working as intended. Powerlink has incurred maximum penalties under the scheme since 2019, despite having implemented prudent measures and behaviours to manage market impacts. The fact that a number of TNSPs continue to be systematically penalised for factors outside their control runs counter to objective and incentive properties of the scheme.

The current and medium-term future state of the power system differs markedly from the power system operating environment when the MIC was first established. The current design of the STPIS largely reflects a previous paradigm. It was predicated on a transmission business' ability to reasonably forecast when transmission network capacity is of most value to network users and to plan network outages around these times, with some capability to respond to short notice variability.

Power flows on our network are now heavily influenced by weather-dependent variable renewable energy output, both grid-connected and on customer rooftops. The rapid change in the mix and location of generation is not directly within our control. It is clear that the paradigm has shifted rapidly, and the scheme is no longer fit-for-purpose.

We remain committed to minimise the cost of electricity to our customers. In scheduling planned outages, we seek to minimise customer impacts through:

- alignment of transmission network outages with those scheduled by generators connected to our network. This leverages information available directly from customers and broader contextual information available through the Australian Energy Market Operator (AEMO) Coordination Forum;
- in-service work on transmission lines and substations, where appropriate and safe to do so;
- consolidating network outages to achieve multiple maintenance and/or connection works requirements; and
- use of shoulder periods where grid-level demand is lower, and patterns of usage are usually more predictable.

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<sup>4</sup> Clause 6A.7.4(c) of the National Electricity Rules.

Where possible, we schedule network outages well in advance at times expected to minimise market impacts and communicate this schedule with market participants. It allows them to confidently trade around these outages. At times where unplanned network or generator outages arise, we consider whether it is prudent and feasible to recall or reschedule our work to minimise market impacts. We consider that such behaviours should be encouraged, but the current MIC design does not recognise these actions.

More broadly, we consider the metric based on dispatch interval counts from AEMO's Marginal Constraint Cost process can inform network outage management considerations. In the absence of a clear alternative, this metric is a transparency measure that can provide some market impact information for TNSPs to monitor performance.

However, the current operating environment for TNSPs poses practical challenges for development and application of reasonable target-setting arrangements and exclusion criteria for a quantitative scheme. These challenges have been demonstrated through the AER's clarifications of the application of some MIC exclusion codes that reflect congestion that arises from the operation of semi-scheduled renewable generators.<sup>5</sup>

Powerlink proposes two options for the AER's consideration that:

- the MIC of the **STPIS be paused for a period of time** – potentially five years - to enable TNSPs, the AER and other relevant stakeholders to take stock of the events, better understand the complexity of what is occurring across transmission networks and the market and monitor how things evolve over that period. We consider that such a course of action would not only be prudent, but entirely reasonable. Among other things, this would enable the AER and other stakeholders to observe the behaviours of TNSPs in the absence of the incentive. We strongly recommend that the AER adopt this option.
- the AER retain the existing MIC metric but convert this component of the STPIS to a **report-only measure**.

While both options would ensure that TNSPs do not continue to be systematically penalised for factors outside their control, the option to pause the MIC of the STPIS avoids the administrative burden of reporting and provides greater insight into how networks behave.

Powerlink also considers that in an attempt to ensure the MIC is not abandoned and redesigned to make it more fit-for-purpose, there is a strong risk that the outcome will be even more complex than what exists now.

#### **4. Simplifying reporting and revising penalty arrangements for the Network Capability Component**

We agree that the current NCC involves a high administrative burden to not only develop, validate, and consult with AEMO on the Network Capability Incentive Parameter Action Plan (NCIPAP) projects, but to meet ongoing reporting requirements. We also consider the current penalty arrangements associated with failure to meet cost, delivery and/or customer benefit benchmarks for accepted NCIPAP projects are disproportionate to the rewards available to TNSPs. In particular, the potential penalties (up to 3.5% of a TNSP's Maximum Allowed Revenue) are not aligned with the value of NCIPAP projects and their expected benefits for electricity consumers.

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<sup>5</sup> The AER clarified the application of exclusions 1 (force majeure events) and 3A (new asset connections requested by third party or AEMO exclusion) in Attachment 10 of its Final Decision on AusNet Services' 2023–27 Revenue Determination (January 2022). The AER applied similar clarifications to exclusions in its Final Decision on Powerlink's 2023–27 Revenue Determination (April 2022).

The NCC of the scheme was designed to incentivise TNSPs to deliver benefits of improved network capability from existing network assets to benefit customers and wholesale markets when most needed. This could be achieved through minor capital and operational expenditure.

Powerlink remains of the view that if it were to identify minor capital or operational works that would further enable it to improve the capability of its existing network assets, these are works that could be justified as part of its normal capital and operational works program. At this time, we do not consider that additional incentive by way of the NCC is required.

However, if the AER considers the NCC should be retained, we recommend:

- reducing the reporting and consultation requirements for NCIPAP projects; and
- modifying the penalty arrangements in Section 5.3 of the STPIS to ensure the penalties associated with failure to meet an NCIPAP project's specifications mirror the scale of the project's cost and expected benefits; and
- providing greater flexibility so the TNSP can propose, and AER can elect not to apply the NCC as part of a revenue determination process.