

5 April 2024

Kris Funston
Executive General Manager
Australian Energy Regulator

Submitted electronically

Dear Mr. Funston,

PIAC submission to AER Review of electricity transmission service standards incentive schemes

The Public Interest Advocacy Centre (PIAC) welcomes the opportunity to respond to the Australian Energy Regulator (AER) Review of electricity transmission service standards incentive schemes issues paper (the Paper).

We concur with the AER that the circumstances in which the service target performance incentive scheme (STPIS) are being applied today are very different to 2007, when the first version of the scheme was published, or even 2015 when the last major structural change was made.

However, the move to a more complex energy system encompassing many more load entry points has led to more curtailment issues. This trend is likely to continue. This, along with the increase in both the cost and time needed to complete large network augmentation works, has increased the importance of efficiently maximising the capacity of existing network assets.

We encourage the AER to respond more effectively to this dynamic environment, and commit to regular reviews of its incentive schemes to assess their effectiveness and consider scope for improvement. This should include an assessment of schemes in which network service providers consistently 'outperform' targets.

The AER should consider not just whether incentive payments under STPIS correlate with improved service reliability, but whether such schemes are working at least cost or most efficiently to deliver outcomes for consumers. There may be materially less costly mechanisms for ensuring improved service reliability and efficient utilisation.

Market impact component (MIC)

PIAC consider the objective of the MIC broadly appropriate. TNSPs should seek to minimise the impact of transmission outages on wholesale market outcomes.

The AER suggests the MIC is not working as intended given that the number of \$10/MWh events has increased substantially and most TNSPs are incurring the maximum possible MIC penalty. We acknowledge that a TNSP incurring the maximum penalty irrespective of its outage management actions undermines the incentive to improve performance.

We welcome efforts to improve outage management through amending the MIC and support the proposal to simplify the scheme by limiting it to planned outages and to larger TNSPs (i.e. excluding Murraylink and Directlink).

Our preferred approach to addressing the limitations of the current scheme is through better targeting rewards and penalties by only capturing MIC events that have a significant impact on wholesale prices. We consider this approach best aligned with the objective of the MIC.

The paper suggests this could be done by running the NEM dispatch engine (NEMDE) with and without the outage in question and only applying rewards or penalties where NEMDE shows these events have a material impact on spot prices. We note that AEMO does not do this at present and has raised concerns that such changes would be difficult and costly to implement.

We encourage the AER to use this review to further interrogate these claims and transparently assess the costs and benefits of this proposal to assist stakeholders evaluate available options. Should this assessment show that the costs of targeting the MIC through NEMDE outweigh the benefits, we recommend limiting the MIC to outages on trunk lines.

We consider this approach preferable to excluding semi-scheduled generation given the significant shifts in generation mix underway. Likewise, we do not support combining the \$10 threshold with a wholesale market price target because this approach does not sufficiently disincentivise TNSPs from carrying out planned outages that have a material impact on spot market prices. Namely, this approach does not penalise TNSPs for carrying out such an outage if it occurs at a time of low wholesale prices.

Network capability component (NCC)

PIAC supports the intent of the NCC, which we understand to be increasing the efficient capability of existing assets in the network.

The AER is correct to note that the context in which the scheme is operating has changed significantly since 2012. However, the move to a more complex system with many more generators and storage providers has led to a rise in issues of transmission access and curtailment. The need to maximise the capacity of existing assets has accordingly risen and is likely to rise further in coming years.

The increases in costs and time needed to complete large scale transmission projects in recent years add weight to the position that small scale augmentations are likely to be value-adding.

It is not clear to PIAC which provisions in Chapter 6A of the NER the review paper is referring to. We consider that if discontinuing the NCC is likely to result in fewer priority projects being undertaken, this is not likely to be in consumers' interests.

Cost of the NCC

The relevant cost benefit analysis of the administrative costs of the NCC should be from the perspective of consumers, not AEMO.

It is likely there is a net benefit from a reasonable number of priority projects from the perspective of consumers, not to mention other beneficiaries, such as generators and storage providers.

The net benefits are likely to be large enough to afford contributions to the costs of the scheme borne by AEMO, while still returning net benefits to these participants.

There are, in any case, alternatives to positive incentive schemes available to encourage TNSPs to undertake efficient investment in their network assets.

For example, the distribution network service provider (DNSP) revenue framework stipulates that network augmentation should be a last resort in the management of curtailment issues and exhorts DNSPs to explore other, less costly solutions, before proposing large-scale works. There is no reason a similar bias could not be written into the transmission revenue framework in an analogous way.

The need to augment distribution network assets

The same need to optimise utilisation of existing assets in the transmission network applies to the distribution networks. PIAC recommends the AER consider developing a rule change to either extend the availability of the NCC to DNSPs as well as TNSPs, or to produce a parallel scheme with the same intent.

PIAC welcomes the opportunity to discuss these matters further with the AER and other stakeholders.

Yours sincerely

Jan Kucic-Riker
Policy Officer, Energy and Water

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