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Scott Hall
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Australian Energy Regulator
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via TransmissionSTPISReview@aer.gov.au

Dear Scott,

Submission to the Transmission STPIS Review MIC and NCC Issues Paper

Executive Summary

Tilt Renewables supports continuation, and improvements, to both the Market impact component (MIC) and Network capacity component (NCC) of the STPIS to make them more effective. We consider the MIC still needs to incentivise Transmission Network Service Providers (TNSPs) to communicate and manage planned outages more effectively for the benefit of customers (and generators). As new major network projects continue to be delayed, it is very important that the NCC works to maximise the utilisation of the existing network to reduce prices to consumers and decrease unnecessary curtailment of generators.

Our response to the detailed questions in the Paper appears below.

Questions about the MIC

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

Tilt Renewables considers that an effective MIC would be beneficial to consumers (and generators). Providing effective incentives and/or penalties for TNSPs to schedule outages to minimise generator curtailment thereby reducing the price impact on customers to be at least as important today as when the MIC was introduced in 2008. However, the data in the Paper does demonstrate the MIC is much less effective than it was 8-10 years ago. We agree with the AER that having all mainland TNSPs paying the maximum penalty for the past few years is very likely to diminish their incentive to improve the management of planned network outages.

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

While it is difficult to unequivocally establish whether improved scheduling of network outages was primarily caused by the MIC, there is no question that efficient scheduling of outages is beneficial to consumers. This benefit is primarily enabled by reducing curtailment of generation which inevitably leads to lower wholesale prices---particularly when the generation being curtailed is zero marginal cost (i.e. wind or solar farms).

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

Tilt Renewables considers that the MIC should be amended and made more effective. The other two options are not supported as the current mechanism is not working very well, so changes are needed. In addition, the objectives of the MIC are still very important, so it should be continued. We are not certain that increasing penetration of renewables is the primary cause of most TNSPs paying the maximum penalty. While this trend has coincided with increased renewable generation, the Paper provides no evidence of a causal effect, and even if there was, it is clear that increased renewables is the future of the NEM as outlined in AEMO's Integrated System Plan, so TNSPs will need to manage this transition. We also do not consider that "often...the amount of generation capacity displaced is small with limited implications for spot prices and therefore generators". In our experience, scheduled outages can result in 100% curtailment of generators which is certainly not a "limited implication".

There are still many opportunities for improvement in TNSPs' management of scheduled outages. For example, an analysis of the Network Outages Schedule (NOS) for one TNSP last year showed that only about 10% of outages were input into the NOS 13 months ahead of time (as required by the National Electricity Rules) and only about 33% were lodged more than 3 months ahead of time. It should be stated that the issues with outages being entered into the NOS well after the required 13 month notice period is not limited to one TNSP.

Short notice of planned network outages results in less opportunities to coordinate outages to reduce generator curtailment or enable generators to coordinate their required maintenance with network outages thereby increasing generator availability. Both of these outcomes increase wholesale electricity prices. In addition, fewer LGCs are created leading to higher LGC certificate prices which are passed onto consumers.

Amending the MIC is needed to better incentivise TNSPs to communicate and manage these outages more effectively.

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

Tilt Renewables considers that shortening the period of seven years of historical data to set performance targets could be worthy of consideration. As the Paper correctly states, the NEM is changing quickly, so perhaps using historical data for 3-5 years to set performance targets might prove beneficial.

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

Tilt Renewables does not support limiting the MIC to trunk lines or scheduled generation. The future of generation in the NEM is more semi-scheduled generation on trunk and other transmission lines; therefore, it makes little sense to have the MIC only apply to generation technologies with ever declining market shares. It is not our experience that "constraining off semi scheduled generation is unlikely to have a material effect on spot prices". For example, it is unclear how constraining off zero marginal cost generation (i.e. semi-scheduled renewables) in favour of thermal generation with significant short run marginal costs would have very little impact

on wholesale prices. Tilt Renewables also does not consider that transparency is likely to provide sufficient reputational incentives for regulated monopolies.

It is also worth noting that increased curtailment of semi-scheduled (zero emission) generation is inconsistent with the revised NEO that has one of its objectives to reduce greenhouse emissions in the NEM.

Tilt Renewables would prefer cost effective and efficient incentives for TNSPs to better manage their planned outages. However, if this is not possible or practical, then compliance obligations and/or more severe penalties may need to be considered.

Questions about the NCC

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

Tilt Renewables considers the NCC is fit for purpose and as important as ever. Large transmission projects are being delayed, and after Project Energy Connect, it could be 3-5 years before the next major transmission project is completed. In the meantime, it is very important that TNSPs and AEMO work to maximise the utilisation of the existing network. We do note the decline in the number of Network Capability Incentive Parameter Action Plans (NCIPAP) projects undertaken as shown in the Paper which is disappointing.

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?

While the paper provides useful data on the number of NCC projects and the (modest) cost of these projects, we consider that documenting the forecast (and actual, if known) benefits to customers (and generators) would be very useful in demonstrating the importance and value of the NCC projects. It is not possible to answer this question of comparing benefits and costs without this information.

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

Tilt Renewables considers the NCC should definitely be retained, as well as amended, to increase the volume of successful NCC projects. The 1.5X proposed cost incentive provided in the NCIPAP process does not appear sufficient to motivate most TNSPs to actively participate in the NCC. It would be useful to look for opportunities to fast track particularly beneficial NCIPAPs. Qualitative evaluation by experts could result in some NCIPAPs being determined to provide obvious benefits well above their costs. Perhaps, these projects could be quickly approved and start the implementation process while the final analysis and quantifying of the cost benefit analysis continued.

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

Tilt Renewables considers that the capital expense level requiring a RIT-T process should be significantly increased from its current level of \$7Million. We completely understand why TNSPs would be very reluctant to undertake network augmentations of \$8-10 Million knowing all too well the massive amount of time and expense required by the RIT-T process.

Public display and communication of the success of NCC projects in mitigating constraints on generation and reducing wholesale prices would be very useful information to communicate to

stakeholders and customers. Tilt would recommend that such success stories be widely communicated.

10. If the NCC is amended, which option will best promote the NEO?

While the Paper mentions the option of introducing a Capability Incentive, it is not clear exactly how this would differ, or provide superior outcomes, to the current NCIPAP. Tilt Renewables would support a reduction in administrative complexity and streamlining of the assessment process. While there needs to be an assessment of NCIPAPs, it appears very unlikely that TNSPs could significantly change their financial results by trying to implement lots of NCC projects to try to boost their bottom line. In fact, the issue today appears to much more that TNSPs do not have enough incentive to propose and implement NCC projects.

We agree with the AER that the rationale for the NCC is as strong today as it was in 2012 when the NCC was introduced. As mentioned, with the ongoing delays in new major transmission works and continuing acceleration of new clean energy build, Tilt Renewables considers the NCC is more important now than 12 years ago.

Thank you for the opportunity to comment on this Paper. We would be pleased to meet with the AER to discuss our submission and answer any questions you might have. Please feel free to contact [REDACTED] in this regard.

Yours Sincerely,



Jonathan Upson
Head of Policy & Regulatory Affairs
Tilt Renewables