

23 July 2024

Dr Kris Funston
Lvl 37, 2 Lonsdale Street
Melbourne VIC 3000

Locked Bag 14051
Melbourne City Mail Centre
Victoria 8001 Australia
T: 1300 360 795
www.ausnetservices.com.au

Dear Dr Kris Funston

AusNet Services would like to request that the Australian Energy Regulator (AER) develop a replacement Framework and Approach (**F&A**) to apply to the transmission determination process for the forthcoming regulatory control period commencing 1 April 2027. This letter sets out AusNet Services' preliminary views on the matters requiring AER consideration prior to the development of the F&A paper.

AusNet Services owns and operates the electricity transmission network in Victoria. Our role is to transport electricity from large coal, gas and renewable generators across Victoria and interstate, to terminal stations that supply large customers and the distribution networks. Those networks then deliver the electricity to households and businesses.

Unlike in other states, our transmission business does not plan for growth. AEMO and the Distribution Businesses have planned all growth on the Victorian network previously. Since the last TRR proposal there is a new planner, VicGrid which will gradually take on AEMO's Victorian planning responsibilities. VicGrid's powers are expected to be legislated by mid-2025, after which VicGrid may make changes to that could impact our TRR process. Given the potential for change we have maintained flexibility where appropriate to allow us to respond (if needed).

Incentive schemes

We consider most incentive schemes that are expected to apply in our 2028 - 32 Revenue Determination remain appropriate except for the Service Target Performance Incentive Scheme (STPIS). The STPIS is currently being reviewed by the AER. We reserve our position on the appropriate application of the STPIS until the outcome of that review.

(i) **Efficiency Benefit Sharing Scheme (EBSS)**

The EBSS is intended to provide a continuous incentive for network service providers (**NSPs**) to pursue efficiency improvements across the regulatory period by sharing the efficiency gains and losses between NSPs and network users. We support the application of the EBSS for the forthcoming regulatory period.

(ii) **Capital Expenditure Sharing Scheme (CESS)**

We support the continued application of the CESS to our business as usual (**BAU**) capex for the forthcoming regulatory period.

(iii) **Service Target Performance Incentive Scheme (STPIS)**

We support the AER's review of transmission STPIS and the application of the STPIS to provide incentives to efficiently improve the reliability for customers, however in its current form we do not consider the application of transmission STPIS as a regulatory incentive remains appropriate. We have serious concerns with the current STPIS approach particularly considering its relevance to the Victorian transmission framework as well as its suitability as a performance measure in the current environment given the changing generation mix.

Our key concern relates to the Market Incentive Component (**MIC**) which no longer works as intended. The regime is administratively burdensome and in its current form increases costs to consumers with uncertain benefits. This includes historical performance no longer being a reliable

baseline, unreliable price impacts, increasing costs for consumers for uncertain benefit and the disproportionate impact of the scheme compared to our ability to respond which are discussed in our response to the current review of the scheme [AusNet Services - Submission on AER review of transmission STPIS](#).

(iv) **Demand Management Innovation Allowance Mechanism (DMIAM)**

DMIAM provides funding TNSPs for research and development (R&D) in demand management projects that have the potential to reduce long-term network cost. The DMIAM consists of:

- i. fixed allowance for the costs of independent assessment, plus
- ii. 0.1 per cent of our total ABBRR (unsmoothed revenue) for the 2028-32 regulatory period.

We intend to propose a DMIAM scheme to apply in the upcoming regulatory period.

(v) **Small-scale Incentive Scheme (SSIS)**

Currently, there is no small-scale incentive scheme for TNSPs. We reserve our position to apply a SSIS should an applicable SSIS be developed in the lead up to our regulatory proposal. We request clarity on whether the AER is considering one for application in the forthcoming transmission determination.

(vi) **Depreciation**

We propose the application of forecast depreciation. Forecast depreciation is consistent with the approach in previous regulatory periods and is consistent with the CESS Guideline when the CESS mechanism is in place.

Regulatory Period Length

We are currently considering the length of the regulatory period to propose for the next regulatory period. Currently the times for the electricity distribution and transmission regulatory determination processes overlap with the same resources engaging in both the preparation and review processes. This is sub-optimal from an efficiency perspective as existing resources are more constrained requiring the utilisation of extra external resourcing.

In addition, the network planning role is shifting from AEMO to VicGrid with the Victorian Government expected to pass legislation by mid-2025 which transfers responsibility to plan Victorian declared shared network to VicGrid. Whether there are changes to AusNet's role or responsibilities because of this change is still uncertain. Should there be changes that have implications for the TRR process and depending on the magnitude of those changes we may need to consider options for how to flexibly respond to those changes, which could include the regulatory period length.

Sincerely,



Tom Hallam
General Manager, Transmission
AusNet Services