

Draft Decision

Directlink Electricity Transmission Determination 2025 to 2030 (1 July 2025 to 30 June 2030)

Attachment 10 Service target performance incentive scheme

September 2024

© Commonwealth of Australia 2024

This work is copyright. In addition to any use permitted under the *Copyright Act 1968* all material contained within this work is provided under a Creative Commons Attributions 4.0 Australia licence with the exception of:

- the Commonwealth Coat of Arms
- the ACCC and AER logos
- any illustration diagram, photograph or graphic over which the Australian Competition and Consumer Commission does not hold copyright but which may be part of or contained within this publication.

The details of the relevant licence conditions are available on the Creative Commons website as is the full legal code for the CC BY 4.0 AU licence.

Important notice

The information in this publication is for general guidance only. It does not constitute legal or other professional advice. You should seek legal advice or other professional advice in relation to your particular circumstances.

The AER has made every reasonable effort to provide current and accurate information, but it does not warrant or make any guarantees about the accuracy, currency or completeness of information in this publication.

Parties who wish to re-publish or otherwise use the information in this publication should check the information for currency and accuracy prior to publication.

Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601
Email: aerinquiry@aer.gov.au
Tel: 1300 585 165

AER reference: AER213705

Amendment record

Version	Date	Pages
1	27 September 2024	7

Contents

10	Service target performance incentive scheme	1
10.1	Draft decision	1
10.2	Directlink's proposal	2
10.3	Assessment approach	3
10.4	Interrelationships	4
10.5	Submissions	4
10.6	Reasons for draft decision	4
	Shortened forms	7

10 Service target performance incentive scheme

The service target performance incentive scheme (STPIS) provides a financial incentive to transmission network services providers (TNSPs) to maintain and improve service performance. The current version of the STPIS, version 5, will apply to Directlink, including two of the three standard components of the STPIS—the service component (SC) and the market impact component (MIC).

The SC provides a reward/penalty of +/- 1.25 per cent of maximum allowed revenue (MAR) for the relevant calendar year to improve network reliability, by focussing on unplanned outages. The SC is designed to encourage TNSPs to seek to reduce the number of unplanned network outages and to promptly restore the network in the event of unplanned outages that result in supply interruptions. This component is also designed to indicate potential reliability issues.

The MIC provides an incentive to TNSPs to minimise the impact of transmission outages that can affect wholesale market outcomes. The MIC measures performance against the market impact parameter, which is the number of dispatch intervals where an outage on the TNSP's network results in a network outage constraint with a marginal value greater than \$10/MWh (MIC count).¹

Each TNSP's annual MIC count is measured against its target, where the target is calculated by averaging the median five of the last seven years' performance.² Further, the dollars per dispatch interval (\$/DI) associated with the reward/penalty for each count can be directly calculated for the regulatory control period from the MIC target, and the MAR. Both the target and the \$/DI are fixed for the regulatory control period.

Under the MIC, TNSPs receive a reward or penalty of up to +/- 1 per cent of the MAR for the relevant calendar year. Under clause 4.2(a), a TNSP must submit 7 calendar years of data to calculate the target as noted above.

10.1 Draft decision

We will apply the SC and MIC of version 5 of the STPIS to Directlink for the 2025–2030 regulatory control period (period). Under this version of the scheme, the network capability component (NCC) does not apply to Directlink³.

However, we note we are currently undertaking a review of the STPIS⁴. We may update our final decision pending the outcomes of that review.

¹ AER, *Final – Service Target Performance Incentive Scheme*, October 2015, Appendix C.

² The target will be calculated from the average of the five values remaining from the last seven years of data excluding the largest and smallest annual values.

³ AER, *Final – Service Target Performance Incentive Scheme*, October 2015, cl. 2.2(d).

⁴ [Review of electricity transmission service standards incentive schemes.](#)

The draft decision components are outlined in the tables below. Service Component floors, targets and caps are based on historical performance data for Directlink for the 5 years up to and including calendar year 2022. MIC parameter values are based on historical performance data for Directlink for the 7 years up to and including calendar year 2022.

Table 10.1 Draft decision — Service Component floors, targets and caps for 2025–30

Parameter	Floor	Target	Cap
Unplanned outage circuit event rate:			
Circuit event rate – fault	1336%	673%	168%
Circuit event rate – forced	101%	47%	3%
Proper operation of equipment (number of events):			
Failure of protection system	4	1	0

Source: AER analysis

Table 10.2 Draft decision — Market Impact Component parameter values for 2025–30

MIC parameter values	
Target	1572
Unplanned outage event limit	267
Dollar per dispatch interval	14,162

Source: AER analysis

Our calculations and input data are shown in the 2025–30 STPIS Model worksheet published with this draft decision⁵.

10.2 Directlink's proposal

In its revenue proposal, Directlink proposed SC parameter targets, caps and floors for the 2025–30 period, based on 4 years of historical data as the most current data is not yet available.⁶ Directlink stated that it would update these values using current data in its revised proposal.⁷

Directlink also proposed MIC parameter values for the 2025–30 period.

In its revenue proposal, Directlink noted that the AER is currently consulting on the operation of the STPIS and the applicability of the updated scheme to Directlink will depend on the nature of the changes to the scheme and the ease of transitioning to the revised information requirements⁸.

⁵ AER, *STPIS model workbook for Directlink 2025-30 Draft Decision*, September 2024.xlsx

⁶ Directlink, *Revenue Proposal 2025–30, January 2024 - attachment-07a-directlink-2025-30-final-reset-rin-workbook-1-forecast-and-historical*, January 2024.

⁷ Directlink, *Interconnector 2025-2030 Revenue Proposal – January 2024 (Attachment 3)*, p. 82.

⁸ Directlink, *Interconnector 2025-2030 Revenue Proposal – January 2024 (Attachment 3)*, p. 82.

In our Framework and Approach⁹, we said that “[a] review of the Market Impact Component of the transmission STPIS planned for the second half of 2023 may mean that a new version of the STPIS will apply to Directlink in 2025–30.” However, given the STPIS review is still in progress we will apply version 5 of the STPIS to Directlink’s draft decision.

10.3 Assessment approach

A revenue determination for a TNSP is to specify, amongst other things, the annual building block revenue requirement for each regulatory year of the regulatory control period. In turn, the annual building block revenue requirement must be determined using a building block approach, under which one of the building blocks is the revenue increments or decrements (if any) for that year arising from the application of any STPIS (and other schemes)¹⁰. We have assessed Directlink’s proposal for the 2025–30 period against the requirements of version 5 of the STPIS.

10.3.1 Service component

We are required to assess whether Directlink’s proposed performance targets, caps and floors comply with the STPIS requirements.

Under the STPIS, we must accept Directlink’s proposed parameter values if they comply with the requirements of the STPIS. We may reject the proposed values if we are of the opinion that they are inconsistent with the objectives of the STPIS¹¹.

We are required to assess Directlink’s SC proposal against the requirements of the STPIS—that is, whether:¹²

- Directlink’s data recording systems and processes produce accurate and reliable data and whether the data is recorded consistently based on the parameter definitions under the STPIS
- the proposed performance targets were equal to the average of the most recent five years of performance data
- any adjustments to the proposed targets are warranted and reasonable
- Directlink applied a sound methodology, with reference to the performance targets, to calculate the proposed caps and floors
- any adjustment to a performance target was applied to the cap and floor of that parameter.

10.3.2 Market impact component

We are required to assess Directlink’s MIC proposal against the requirements of the STPIS.

We are required to assess whether:

⁹ [Framework and approach: Directlink, July 2023](#), p. 7

¹⁰ NER, cll. 6A.5.4(a)(5), 6A.5.4(b)(5) and 6A.7.4.

¹¹ AER, *Final – Service Target Performance Incentive Scheme*, October 2015, cl. 3.2.

¹² AER, *Final – Service Target Performance Incentive Scheme*, October 2015, cl. 3.2.

- data used to calculate the market impact parameter is accurate and reliable, and consistently recorded based on the parameter definition in Appendix C¹³
- the proposed performance target was calculated in accordance with the requirements of clause 4.2(g) in version 5 of the STPIS
- the proposed unplanned outage event limit has been calculated in accordance with the requirements of clause 4.2(h) in version 5 of the STPIS
- the proposed dollar per dispatch interval has been calculated in accordance with clause 4.2(j) in version 5 of the STPIS.

10.4 Interrelationships

The STPIS takes into account any other provisions in the NER that incentivise TNSPs to minimise capital or operating expenditure. One of the objectives of the STPIS is to assist in the setting of efficient capital and operating expenditure allowances by balancing the incentive to reduce actual expenditure with the need to maintain and improve reliability for customers and reduce the market impact of transmission congestion.

The STPIS will interact with the capital expenditure sharing scheme (CESS) and the operating expenditure efficiency benefit sharing scheme (EBSS). The STPIS allows us to adjust the performance targets of the SC for the expected effects on the TNSP's performance from any increases or decreases in the volume of capital works planned during the regulatory control period¹⁴. In conjunction with the CESS and the EBSS, the STPIS will ensure that:

- any additional investments to improve service quality are based on prudent economic decisions
- reductions in capital and operating expenditure are achieved efficiently, rather than at the expense of service levels to the network users.

10.5 Submissions

We received no submissions from stakeholders regarding the application of STPIS to Directlink for the 2025–30 period.

10.6 Reasons for draft decision

We will apply the STPIS version 5 with the AER's MIC exclusions clarification¹⁵ to Directlink and the reasons for our draft decision are outlined below.

10.6.1 Service component

Performance targets must equal the TNSP's average performance history over the past five years unless they are subject to an adjustment under clause 3.2(i) or (j) of the STPIS. We

¹³ AER, *Final – Service Target Performance Incentive Scheme*, October 2015, cl 4.2(c).

¹⁴ *Ibid*, cl. 3.2(j)(2).

¹⁵ [Guidance note: Transmission Service Target Performance Incentive Scheme, April-2023](#)

generally approve performance targets that are the arithmetic mean of the past 5 years' performance data.

We do not accept Directlink’s proposed SC parameter values because:

- the targets were not the mean of the previous 5 years of performance actuals¹⁶
- the performance data provided was two-(calendar) year rolling averages, not the annual performance actuals required for the target calculation¹⁷
- the methodology for the calculation of the caps and floors was not provided.¹⁸

In this draft decision, we have calculated SC parameter target values that comply with the scheme using 5 years of compliance-reviewed SC actual performance data (2018-2022¹⁹) for Directlink.

Proposed caps and floors must be calculated with reference to the proposed performance targets using a sound methodology²⁰. In arriving at our draft decision, we calculated Directlink's cap and floor values using our @risk model (Table 10.3)²¹. Our approach used 5 years of performance data to determine a statistical distribution that best fits that data— with the caps and floors set at two standard deviations either side of the mean (using a normal distribution); or at the 5th and 95th percentiles (if using a distribution other than the normal distribution). This is consistent with our previous transmission determinations.

Our approved cap and floor values for Directlink are set out in Table 10.3.

Table 10.3 Draft decision — Service Component Parameters: distribution, floors and caps for 2025–30

Parameter	Distribution	Floor (5 th percentile)	Cap (95 th percentile)
Unplanned outage circuit event rate:			
Circuit event rate – fault	Weibull	1336%	168%
Circuit event rate - forced	Triang	101%	3%
Proper operation of equipment (number of events):			
Failure of protection system	Geomet	4	0

Source: AER analysis

¹⁶ clause 3.2(f) of the STPIS

¹⁷ clause 3.2(f) of the STPIS

¹⁸ clause 3.2(e) of the STPIS

¹⁹ Since 2023 actual performance data is not yet available, we have used 2018-2022 data as a placeholder. For the Final Decision, 2019-2023 data will be used.

²⁰ AER, *Final – Service Target Performance Incentive Scheme*, October 2015, cl 3.2(e).

²¹ Our @risk model has been used to set the cap and floor range in most of our recent determinations.

10.6.2 Market impact component

Where Directlink’s proposed values for the market impact parameter do not comply with the requirements of the STPIS or is otherwise inconsistent with the objectives of the scheme²², we will not accept the proposed values and provide substitute values which comply with the STPIS.

Directlink did not provide evidence to show how it calculated its proposed MIC targets. As a result, we have replaced Directlink’s proposed targets with our calculated target values that comply with the scheme using 7 years of compliance-reviewed MIC data 2016-2022. Results are outlined in Table 10.2.

²² AER, *Final – Service Target Performance Incentive Scheme*, October 2015, cl 4.2(d).

Shortened forms

Term	Definition
CESS	capital expenditure sharing scheme
DI	dispatch interval
EBSS	efficiency benefit sharing scheme
MAR	maximum allowed revenue
MIC	market impact component
NCC	network capability component
RIN	regulatory information notice
SC	service component
STPIS	service target performance incentive scheme
TNSP	transmission network service provider
