

Replacement of framework and approach paper

Powerlink

1 July 2027 – 30 June 2032

December 2024

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1 Introduction

The Australian Energy Regulator (AER) exists to ensure energy consumers are better off, now and in the future. Consumers are at the heart of our work, and we focus on ensuring a secure, reliable, and affordable energy future for Australia. The regulatory framework governing electricity transmission and distribution networks is the National Electricity Law and Rules (NEL and NER). Our work is guided by the National Electricity Objective (NEO).

A regulated network business must periodically apply to us for a determination of the revenue it can recover from consumers using its network. Electricity transmission network service provider Powerlink is due to submit their next revenue proposal on 31 January 2026, for the period 1 July 2027 to 30 June 2032 (2027–32 period).

The first step in our process to determine efficient prices for an electricity transmission service is to publish a Framework and Approach paper (F&A). The F&A sets our approach to key elements of the upcoming determination and facilitates early public consultation on this before businesses prepare and submit their revenue proposals. These elements include:

- Which incentive schemes will apply, for example, to service quality, improvements in network reliability or capital and operating expenditure.¹ The purpose of incentive schemes is to encourage network service providers to manage their business in a safe, reliable manner that serves the long-term interests of consumers. The schemes provide network service providers with incentives to only incur efficient costs and to meet or exceed service quality targets.
- Our approach to setting efficient expenditure allowances² and depreciation for the establishment of the opening regulatory asset base for the upcoming regulatory control period³.

The F&A that has applied to Powerlink in the current (2022–27) regulatory control period was published in July 2020. Since then, we have seen significant transition in the energy market and the rules, schemes and guidelines under which we regulate electricity networks.

On 30 October 2024, the business wrote to us, asking us to consider amending or replacing their current F&A in preparation for the 2027–32 period. We published this letter on our website and sought submissions from stakeholders on whether amendments to or replacement of the F&A is necessary or desirable.⁴

Having received no submissions, we have considered the information provided by the business and have decided that we will make a replacement F&A for Powerlink electricity transmission business. Our reasons for commencing this review are summarised in this paper.

¹ NER, cl. 6A.10.1A(b)(1), (2), (3), (4) and (7)

² NER, cl. 6A.10.1A(b)(5)

³ NER, cl. 6A.10.1A(b)(6)

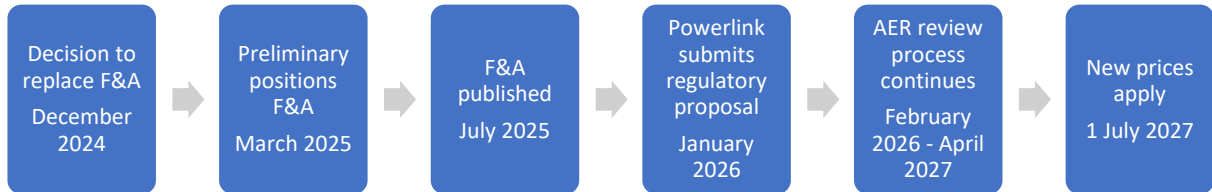
⁴ AER, [Powerlink Transmission - Determination 2027-2032 - Initiation](#), 6 November 2024.

We will engage further with stakeholders as we consider preliminary positions on the amendments required, before making a final decision on the replacement F&A in July 2025.

We consider that consumers should be actively involved in the F&A process as the decisions made will apply for a five-year period before they are reviewed.

Figure 1 provides an overview of where the F&A sits in the Powerlink 2027-32 reset process. Stakeholder consultation occurs throughout the process.

Figure 1 Powerlink 2027-32 reset process timeline



2 Matters identified for review

We consider it necessary to replace the F&A for Powerlink for the next regulatory control period of 1 July 2027 to 30 June 2032. We expect to issue a preliminary positions F&A in March 2025 outlining preliminary views on the matters outlined in this decision. We must then publish the final F&A by 31 July 2025.

The specific matters we will include in the F&A are outlined below.⁵ We will also consider any other relevant matters appropriate or convenient for us to address in the F&A.⁶

2.1 Application of incentive schemes

Our F&A for Powerlink will set out our proposed approach to the application of the following incentive schemes in the 2027–32 period:

- Service target performance incentive scheme (STPIS)⁷
- efficiency benefit sharing scheme (EBSS)⁸
- capital expenditure sharing scheme (CESS)⁹
- small-scale incentive scheme (SSIS)¹⁰
- demand management innovation allowance mechanism (DMIAM)¹¹

These schemes work together within a revenue determination to provide incentives for network service providers to invest efficiently and operate in the long-term interests of consumers.

Since we published the F&A for the current, 2022–27 period, we have finalised a review of the CESS, EBSS and STPIS that were applied under determinations for that period, and a new version of CESS will be available to Powerlink for the first time in the 2027–32 period.

We note Powerlink’s concerns around the current form of the STPIS, including the view that TNSPs should not be penalised for factors outside their control, as expressed in their letter to us of 30 October 2024.¹² We are presently conducting a review of all components of the electricity service standards incentive schemes, including the transmission STPIS.¹³ Our Issues Paper on the transmission STPIS, including the Market Impact Component (MIC), was published in December 2023. Submissions on our Issues Paper closed in April 2024. We note that Powerlink made several recommendations in its submission to us in response

⁵ NER, cl. 6A.10.1A(c)(3).

⁶ NER, cl. 6A.10.1A(g). The AER would consult appropriately on any additional matters it wishes to include in the F&A.

⁷ NER, cl. 6A.10.1A(b)(1)

⁸ NER, cl. 6A.10.1A(b)(2)

⁹ NER, cl. 6A.10.1A(b)(3)

¹⁰ NER, cl. 6A.10.1A(b)(4)

¹¹ NER, cl. 6A.10.1A(b)(7)

¹² Powerlink, [Powerlink - Letter to AER on Framework and Approach - 30 October 2024](#)

¹³ AER, [Review of electricity transmission service standards incentive schemes](#), 8 December 2023.

to the Issues Paper, which are repeated in Powerlink’s letter to us of 30 October 2024 (greater flexibility should be introduced into the STPIS; Service Component should be part of the STPIS Review; MIC should be paused or converted to report only; simplify reporting and revise penalty arrangements for the Network Capability Component). We published for consultation proposed amendments to the STPIS for transmission network service providers, including an explanatory statement, in November 2024.¹⁴ This includes a proposal to suspend application of the MIC. We will publish a final decision on the matter in April 2025.

We note that Powerlink’s letter to us of 30 October 2024 suggests that for the Efficiency Benefit Sharing Scheme (EBSS) and Capital Expenditure Sharing Scheme (CESS), we have some flexibility in application of negative carryovers (penalties) from one regulatory period to the next. Powerlink anticipates an overspend of capital, operating and maintenance expenditure allowances for the current regulatory period, due to factors such as supply chain challenges and inflationary pressures, with the extent yet to be determined. For the purposes of the F&A process, Powerlink encourages us to have regard to the circumstances of any material overspends in capex (capital expenditure and/or opex (operating expenditure)) and exercise discretion on whether to apply a net negative carryover (for the EBSS and/or CESS) to the 2027-32 period.

Considering the changes and issues in application of incentive schemes outlined above, and because incentive schemes operate in combination to drive desired behaviours within a revenue determination, we consider that the application of all incentive schemes should be reviewed in finalising the Powerlink F&A for the 2027–32 period.

2.2 Expenditure forecast assessment guidelines

Our F&A for Powerlink will set out our proposed approach to the application of our Expenditure Forecast Assessment Guidelines.¹⁵ These guidelines describe the process, techniques and associated data requirements for our approach to setting efficient expenditure allowances for network businesses.

The Guidelines applied to Powerlink in our assessment of the proposal for the current, 2022–27 period. To ensure this approach is still appropriate and to review alignment with the Better Resets Handbook, we consider the application of the Guidelines should be reviewed for the business in finalising the F&A for the 2027–32 period.

2.3 Establishing the opening regulatory asset base for the regulatory period

Our F&A for Powerlink will set out whether depreciation for establishing the opening regulatory asset base at the commencement of the 2027–32 regulatory control period is to be based on actual or forecast capital expenditure.¹⁶

¹⁴ AER, [AER Explanatory statement - Proposed transmission STPIS](#), 6 November 2024, p. 23.

¹⁵ NER, cl. 6A.10.1A(b)(5)

¹⁶ NER, cl. 6A.10.1A(b)(6)

For the 2027–32 period, we will establish the opening regulatory asset base using depreciation based on forecast capital expenditure.¹⁷ Powerlink have indicated they will give consideration, by engaging with us and customers, as to whether to maintain this approach for the 2027–32 period.

¹⁷ AER, *Powerlink 2022-27 - Framework and Approach*, July 2020, pp. 19-20.

Glossary

Term	Definition
ACCC	Australian Competition & Consumer Commission
AER	Australian Energy Regulator
CESS	Capital Expenditure Sharing Scheme
DMIAM	Demand Management Innovation Allowance Mechanism
EBSS	Efficiency Benefit Sharing Scheme
F&A	Framework and Approach paper
NEL	National Electricity Law
NEO	National Electricity Objective
NER	National Electricity Rules
SSIS	Small-Scale Incentive Scheme
STPIS	Service Target Performance Incentive Scheme
