

SERVICE TARGET PERFORMANCE INCENTIVE SCHEME PROPOSED AMENDMENTS

Presentation to AER STPIS Forum

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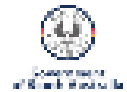
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EUAA
Energy Users Association of Australia



Members include most major industrial energy users on the east coast

ENERGY USER MEMBERS



- Designed to incentivise TNSPs to undertake outages when they have little to no impact on wholesale market prices – this is becoming difficult to achieve due to a highly dispersed generation fleet and growing congestion
- Due to decreased incentive the current model is leading to outages potentially being planned during high demand periods which leads to further impacts on business, both financial and their ability to supply customers
- We believe the MIC is not fit for purpose
 - target impact to wholesale prices of \$10/MWh is clearly too low
 - the effective non-inclusion of some lines creates inequities for consumers on those lines
 - significantly different NEM
- Needs to be made fit-for-purpose for the changing NEM
 - This may require several changes to the MIC as the proportion of VRE in the NEM increases and as interconnectivity of the predominantly radial system occurs
- **EUAA is opposed to the current situation that unintentionally penalises TNSPs due to an outdated process that uses historical averages (over 7 years) when the network was significantly different and less congested.**

- The MIC should be retained; however, it does need to be amended to be fit-for-purpose in the current transitional environment.
 - Removal of the MIC may lead to TNSPs performing outages when it is lowest cost for them (during normal work hours), without consideration of what is lowest cost for consumers.
 - We support AER’s proposal to suspend the MIC while a workable solution is found
- Semi-scheduled generation must be included
- Trunk and Radial lines must be included
- We supported a revision to the wholesale market price impact threshold, however
 - We now consider that this does not reflect underlying demand and transmission line utilisation profiles
- **Preferably, any new MIC target needs to encourage planned outages when utilisation of the asset is at its lowest**
- **That the current “carrot and stick” approach is investigated and revised**

STPIS NETWORK CAPABILITY COMPONENT

- Designed to provide incentives to maximise the capability of the existing network through low-cost options
- It would appear that the NCC introduced in 2012 has never been fully utilised by any of the TNSP's
- We consider one or all of the following are issues
 - there is a major design flaw in the NCC.
 - the 1.5% of MAR threshold is too high.
 - The penalty for a failure (either cost overrun or low performance) is too high.
- Low take-up could be due to:
 - The easy projects are done.
 - Relatively low incentive compared to other priorities (e.g. system strength, ISP projects, new connections etc).
- **We support the purpose and existence of the NCC, however questions whether its design was ever fit-for-purpose.**

- The NCC should be retained,
 - but needs a significant revision in order to function as intended,
 - needs to account for the current ISP/REZ spend and the transition of the NEM to net zero.
 - does the incentive need to be larger e.g. 2x the cost rather than the proposed 1.5x?
- We support keeping NCC qualifying projects below the RIT-T threshold
- We support linking the NCC to the TAPR
 - removes the onerous administrative process
 - Need to be careful that NCC projects actually provide a real improvement in network capability, and not just an improvement through end-of-life replacement
 - Can the AER test for real improvements, or does AEMO need to be retained in the process?
- We support annual identification of NCC project from the TAPR
 - Need to keep the annual process simple
- We support the annual payment for NCC projects in advance and the annual true-up should a penalty be required
- We support the AER's proposed penalty equaling the incentive allowance
 - i.e. no net impact to the TNSP if penalized
- **The NCC needs to provide a REAL incentive to TNSPs and be administratively simple while providing real improvements in network capability**

- Designed to provide incentives to a TNSP to maintain the reliability of its network as measured through
 - Unplanned outage circuit event rate
 - Loss of supply event frequency
 - Average outage duration
 - Proper operation of equipment
- However, Powerlink and Transgrid have targets of zero
 - due to rounding of previous regulatory period average
 - i.e. two events in 5 years becomes 0.4 which is currently rounded to zero

- We do not support increasing the “duration of an outage” before the outage is counted in the SC
 - This is a backwards step from current restoration times and de-incentives TNSPs
- Agree that rounding is causing penalties for TNSPs when a fraction becomes zero
 - However rounding up to 1 would not provide an incentive as this would allow 5 events per regulatory period.
- Agree with AER to remove rounding

- Implementation will occur at the commencement of the next regulatory period for each TNSP
 - the first with AusNet on 1 July 2027
 - the last with TasNetworks on 1 July 2029
- It is not fair or equitable to TNSP's, generators or consumers to delay the implementation
- We support a rule change to implement the amended STPIS ASAP.
 - We propose enactment be 6-12 months after the rule change is made
 - This time will allow TNSP's and AER to adjust their current regulatory determination relating to MIC, NCC and SC