

3 February 2025

Mr Kris Funston  
Executive General Manager  
Australian Energy Regulator (AER)

By online submission

Dear Mr Funston

**Proposed amendments to the transmission Service Target Performance Incentive Scheme**

The Australian Energy Market Operator (AEMO) welcomes the opportunity to comment on the AER's proposed amendments to the transmission Service Target Performance Incentive Scheme (STPIS). In our rapidly changing energy system and market, mechanisms to ensure that transmission network service providers (TNSPs) are operating their networks in the best interests of the market and consumers are as critical as ever.

AEMO supports the proposed changes to the Network Capability Component (NCC) of the STPIS and considers that AEMO remains best placed to undertake the review of the estimated market benefits of NCC projects proposed by TNSPs.

AEMO agrees that the Market Impact Component (MIC) of the STPIS is not delivering its intended outcomes effectively across all NEM jurisdictions. AEMO notes that the AER is proposing to suspend this component. AEMO also notes that the intent of the MIC, to minimise the market impact of planned transmission outages, remains critically important. Given this, AEMO would encourage the AER to consider a replacement incentive mechanism prior to suspension of the current MIC.

AEMO proposes that the AER progress a formal process involving key stakeholders to develop a re-designed incentive scheme that minimises the impact of transmission outages in the current energy market. AEMO would be happy to participate and support the AER in these processes.

We have provided some further comments on the proposed amendments to the STPIS in Appendix 1.

If you would like to discuss anything further, please contact [REDACTED]

Yours sincerely,

[REDACTED]  
Violette Mouchaileh  
Executive General Manager – Reform Delivery

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## APPENDIX 1: AEMO'S COMMENTS ON THE PROPOSED AMENDMENTS

### 1. Market Impact Component (MIC) of the STPIS

AEMO agrees that the intent of the MIC, to minimise the market impact of planned transmission outages, remains critically important.

AEMO acknowledges that the MIC in its current form (both the metric of \$10/MWh events and the method of target setting) is resulting in a situation where most TNSPs have far exceeded their target number of MIC events and have faced maximum penalties for several years running. The current energy system and market differs considerably from that which existed when the MIC was designed. Given the increasing number of new connections each year in recent years, a trend which is likely to continue, the method of setting MIC performance targets, which assumes that history is a suitable indicator of the future, requires amendment. Also, the \$10/MWh metric is no longer a suitable indicator of when a planned outage is likely to have resulted in a material impact on spot prices.

AEMO encourages the AER to lead the development of an alternative mechanism prior to suspension of the MIC, noting the following:

- There is no other incentive or mechanism in place to influence TNSP scheduling of planned outages to minimise market impacts. AEMO is able to influence the timing of planned outages for system security and reliability reasons but not to minimise market impacts. Whilst we agree that the MIC is not working optimally across all NEM jurisdictions, there is evidence to suggest it is having some beneficial influence on the scheduling of planned outages, particularly in Tasmania.
- If the MIC is suspended, the suspension will apply for at least one regulatory period (5 years) for each TNSP unless there are changes to the National Electricity Rules to enable amendments to the STPIS within the regulatory period. AEMO is concerned that after several years without any market impact incentive, it will be a lengthy and difficult process to re-introduce an incentive scheme that has similar implications for TNSPs.
- The MIC is likely to be more effective once performance targets are reset at each TNSP's next revenue determination process. As the targets are a trimmed average of the past five years performance, a reset will essentially set a new baseline that takes into account the increased system congestion and other factors that are resulting in high numbers of \$10/MWh events. This resetting of performance targets is unlikely to be a permanent fix but may help to improve the effectiveness of the MIC in the short-term as a new mechanism is designed.

AEMO encourages the AER to commence a formal process to develop a re-designed incentive scheme that minimises the impact of transmission outages using metrics that are fit for purpose in the current energy market. AEMO would be happy to contribute to this process. At a minimum, the process should involve key stakeholder and industry groups and be informed by data collected by the AER in monitoring how TNSPs conduct planned outages.

AEMO data shows that TNSPs are scheduling (and re-scheduling) outages with short lead-times before the outage commences. In the majority of cases, planned outage lead-times tend to be less than 3 months. This data is publicly available in the Network Outage Submission Statistics Report at

<https://www.aemo.com.au/energy-systems/electricity/national-electricity-market-nem/system-operations/congestion-information-resource/statistical-reporting-streams>.

When considering a re-designed incentive scheme, AEMO would encourage the AER to consider the benefits and risks of incentivising longer lead times for planning outages. AEMO is of the view that longer lead-times can provide benefits in terms of avoiding outage clashes with generators and other market participants, including other TNSPs, minimising the likelihood of multiple outage constraints being invoked and allowing for improved outage planning by all parties. Conversely, encouraging TNSPs to provide longer lead-times may make TNSPs less responsive to shifting outages according to market conditions. It may also encourage overplanning of outages, where large outage windows are reserved in advance and then reduced closer to the commencement of the outage.

AEMO supports the AER's proposal to increase monitoring and gather more detailed outage information from TNSPs and to report on this information annually. More detailed outage information and data from TNSPs will help to inform the re-design of the metrics used by the MIC and may have some beneficial influence on outage scheduling.

## **2. Network Capability Component (NCC) of the STPIS**

AEMO agrees that the need for minor augmentations to the transmission network to alleviate system normal congestion still exists and will continue to exist as more generation plant connects to the network. Undertaking low-cost, high-value projects to reduce constraints on the network will result in lower costs to consumers.

AEMO supports the proposed requirement for TNSPs to identify NCC projects in the annual Transmission Annual Planning Reports (TAPR), and to discontinue the use of the NCIPAP. There are likely to be benefits from the identification of projects on an annual rather than a five-yearly basis and from increased transparency among market participants on the connection point limitations and associated NCC projects proposed by TNSPs. There are also likely to be efficiency benefits from both minimising the administrative complexity involved in the process to identify a NCC project and reducing duplication between the TAPR and the NCIPAP.

AEMO plays an important role in reviewing the TNSP's proposed NCC projects for their ability to provide market benefits. AEMO considers that it remains best placed to undertake this review as the independent transmission system planner and removing AEMO's review role in the NCC would decrease confidence that the proposed NCC projects will result in value for consumers. AEMO's role in the review of proposed NCC projects also provides an opportunity for AEMO to nominate potential NCC projects that have come to its attention as system operator.

AEMO supports the AER's proposal to cap revenue reductions to 1.5 times a project's costs should the project not achieve the improvement target. This brings the incentive payments and revenue reductions (if required) for NCC projects into alignment and should make these projects a more attractive proposition for TNSPs. Also, applying the incentive allowance annually and where relevant, any revenue reduction annually, is expected to reduce the administrative complexity of the NCC.

## **3. Service Component (SC) of the STPIS**

AEMO has no comment on the proposed change to the Service Component.

## **4. Timing of applying an amended STPIS**

AEMO considers that amendments to the STPIS should apply at the earliest possible time. It is unclear whether a rule change process would result in earlier adoption of the amended STPIS than applying it at the commencement of each TNSPs next regulatory control period. AEMO recommends that the AER consult with the AEMC on timing before commencing a rule change process.