

AER ELECTRICITY TRANSMISSION NETWORK SERVICE PROVIDERS SERVICE TARGET PERFORMANCE INCENTIVE SCHEME PROPOSED AMENDMENTS

3 FEBRUARY 2025

INTRODUCTION

The Energy Users' Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing, building materials and food processing industries. Combined our members employ over 1 million Australians, pay billions in energy bills every year and in many cases are exposed to the fluctuations and challenges of international trade.

Thank you for the opportunity to make a submission under the Electricity Transmission Network Service Providers (TNSP) Service Target Performance Incentive Scheme (STPIS) Proposed Amendments.

The EUAA supports the design of incentive schemes in order to achieve efficient, cost effective and equitable outcomes for networks and consumers. If an incentive scheme is no longer working, the EUAA encourages re-designing the incentive scheme so that it functions as it was intended. With a changing NEM, this may require regular updates of incentive schemes.

It is clear to us that the Market Impact Component (MIC), Network Capability Component (NCC) and Service Component (SC) of the STPIS are currently not working as they were designed, that is, to encourage TNSPs to act in the best interests of consumers with respect to outage timing, network improvements and reliability respectively.

We support the AER in its efforts to find workable solutions for these three components of STPIS.

MARKET IMPACT COMPONENT (MIC)

The MIC was 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 this 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 because:

- The target impact to wholesale prices of \$10/MWh is too low
- The effective non-inclusion of some lines creates inequities for consumers on those lines
- The NEM is significantly different to what it was when the MIC was designed

The MIC 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.

The 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.

We believe 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
 - Similar to the original intent of the NCC, we believe the MIC should change its focus to:

*“...improving the **availability** of the transmission system at times when users place greatest value on the transmission system **being available**”*

In this way, any new MIC target needs to encourage planned outages when utilisation of the asset is at its lowest. With the high penetration of roof-top solar, we do not consider that the market price is the appropriate measure of a transmission outage’s impact to consumers, e.g. we are receiving reports of transmission networks hitting thermal limits from solar exports from regional areas to metro areas when wholesale prices are low.

We also support the Clean Energy Council’s (CEC) recommendation in its submission that incentives are linked to the length of notification the market is provided by the TNSP for an outage and performing outages is aligned with other TNSP’s.

We believe that TNSP’s need to provide adequate notice (at least 4 months) to the market, so the market impacts can be minimised, by promoting:

- Retailers to adopt risk mitigation measures to minimise impacts on consumer prices – via hedging.
- Generators to schedule their own maintenance work to align with the network outage.
- Better coordination between TNSP’s to minimise consecutive network outages impacting generators on borders i.e. it is not in the interests of consumers that Electranet performs a planned outage on a transmission line one week, and several weeks later AusNet Services had a planned outage on the same line on the other side of the border, with both outages binding the interconnector!
- AEMO and TNSPs to work collaboratively to move planned outages during the planning stages.
- AEMO, TNSPs and generators to collaborate through the ACCC authorised NEM Maintenance Forum.
- AEMO to use its powers to minimise impacts e.g. procuring System Integrity Protection Scheme services.

While supporting the temporary suspension of the MIC to stop further penalising TNSP’s for congestion, we also support the CEC’s position (and as we mention above) that without a MIC, TNSPs may start performing outages when it is lowest cost for them (during normal work hours), without consideration of what is lowest cost for

consumers (or generators). For this reason, we support AER’s proposal to implement a code of conduct rule change to ensure that TNSP’s consider the cost to consumers of their planned outages.

NETWORK CAPABILITY COMPONENT (NCC)

The NCC was designed to provide incentives to maximise the capability of the existing network through low-cost options. However, 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.

We believe the NCC should be retained, however:

- It needs a significant revision in order to function as intended.
- It needs to account for the current ISP/REZ spend and the transition of the NEM to net zero, i.e. where are the TNSP’s placing their limited available capital?
- We pose the question of does the incentive need to be larger e.g. 2x the cost rather than the proposed 1.5x? in order to incentivise TNSP’s to perform these projects in addition to their ISP commitments.
- We support keeping NCC qualifying projects below the RIT-T threshold (although we do question if the current RIT-T threshold has adequately kept up with global inflation).
- We support linking the NCC to the annual TNSP Transmission Annual Planning Report (TAPR):
 - As this removes the (current) onerous administrative process that is one possible disincentive for TNSP’s.
 - We would consider that TNSP’s would still need to perform an economic benefits analysis, similar to the RIT-T process.
 - We consider that care needs to be taken in linking the NCC to the TAPR so that NCC projects actually provide a real improvement in network capability, and not just an improvement through end-of-life replacement (as new infrastructure is almost always more efficient than old infrastructure).
- We seek clarity on the roles of AER and AEMO in the NCC process, including assessment of the NCC project presented in the TAPR to test that it is a real NCC project (and not end of life replacement).
- 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 equalling the incentive allowance i.e. no net impact to the TNSP if penalized (e.g. if the project underperforms or does not proceed).

The NCC needs to provide a REAL incentive to TNSPs and be administratively simple while providing real improvements in network capability.

Some easy projects could be dynamic line ratings (instead of the seasonal or fixed line ratings) taking into account variable wind, humidity and temperature profiles, and upgrading capacity (similar to the QNI upgrade), both of which would allow higher utilisation and therefore higher efficiency, deferring the need for augmentation.

SERVICE COMPONENT (SC)

The SC was 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, under the current methodology of rounding down the previous regulatory period average annual outage rate, Powerlink and Transgrid have targets of zero 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. We see this as a backwards step from current restoration times and disincentivizes TNSPs.

We agree with the AER that rounding is causing penalties for TNSPs when a fraction becomes zero, but rounding up to 1 would not provide an incentive as this would allow 5 events per regulatory period.

We support the AER to remove rounding from the calculation of SC, and keep a fraction as the average to 1 decimal place.

AMENDED STPIS TIMING

We are concerned with the proposed timing of the amended STPIS, with implementation to occur at the commencement of the next regulatory period for each TNSP:

- This will see the first with AusNet Services on 1 July 2027; and
- 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 as soon as possible with enactment to be 6-12 months after the rule change is made. We believe that this time will allow TNSP’s and AER to adjust their current regulatory determinations relating to MIC, NCC and SC.

CONCLUDING REMARKS

As stated in the Introduction, we support the design of incentive schemes in order to achieve efficient, cost effective and equitable outcomes for networks and consumers. If an incentive scheme is no longer working, the EUAA encourages re-designing the incentive scheme so that it functions as it was intended. With a changing NEM, this may require regular updates of incentive schemes.

Penalising a TNSP for not meeting an incentive scheme target through no fault of their own ultimately impacts the consumer through lower availability, reliability and efficiency of the transmission system.

Further, through thinking from the businesses bottom line, as is required by the *Corporations Act (2001)*, instead of through a consumer lens that is required by the National Electricity Objective (NEO) in the National Electricity Law (NEL), the TNSP's are costing consumers money. Clarifying that TNSP's need to consider the total cost of outages to consumers through a code of conduct within the NEL will resolve this TNSP interpretation of legal precedence.

Do not hesitate to be in contact should you have any questions.



Andrew Richards
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