

5 October 2021

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Dear Mr Anderson

**AusNet Services – Transmission Determination 2022 to 2027 – Application of Service Target Performance Incentive Target Scheme (STPIS) to AEMO initiated augmentations**

AEMO appreciates the opportunity to respond to AER’s draft decision in relation to AusNet Services’ Transmission Determination for 2022 to 2027.

1. Background

As you are aware, AEMO and AusNet Services Transmission Group Pty Ltd (AusNet Services) are responsible for the electricity transmission network in Victoria. AEMO is responsible for the planning and procuring the augmentation of the Victorian shared transmission network. AusNet Services is the entity that owns and operates the electricity transmission network in Victoria.

As part of AEMO’s role in planning and procuring network augmentations, AEMO enters into contracts with third parties (such as AusNet Services) to undertake and deliver the required augmentation works. This is done either on a contestable or non-contestable basis and these projects are commonly referred to as "AEMO initiated augmentations".

One such 'AEMO initiated augmentation' is the Western Victorian Transmission Project (WVTNP), in which following completion of the Regulatory Investment Test Process (RIT-T), AEMO has contracted with AusNet Services to undertake and deliver the necessary works. These works require AusNet Services to undertake certain outages on the existing Declared Shared Network (DSN) in order to connect the WVTNP to the DSN. Once the new assets are operational, outages will also be required for maintenance over the life of the new assets.

For the reasons set out below, it is AEMO’s view that any outages on the DSN that are related to AusNet Services undertaking any augmentation contracted by AEMO as part of AEMO’s planning functions, such as the WVTNP, should be excluded from AusNet Services’ STPIS outages for relevant calendar year(s) and in particular in relation to its Market Impact

Component (MIC).<sup>1</sup> Outages on the DSN which are required for the maintenance of AEMO driven augmentations should also be excluded from the STPIS. As explained in section 4 of this submission, the contractual mechanisms put in place by AEMO provide an equivalent incentive to encourage optimisation of the availability of contestable assets over their contracted lives.

## 2. Incumbent DTSO<sup>2</sup> cannot optimise timing or duration of outages

The timing of any AEMO driven contestable or non-contestable augmentation<sup>3</sup> is informed by the outcome of the RIT-T cost benefit analysis undertaken by AEMO to justify investing in the augmentation. The RIT-T cost benefit analysis will optimise the timing of service commencement by reference to when the discounted benefits are equal to or greater than the discounted costs.

Because of this, the successful contestable service provider (in the case of a contestable process) or the non-contestable provider (in the case of a non-contestable process) for an AEMO initiated augmentation has little influence over the timing of the outages needed to connect an augmentation project to the existing DSN. In fact, to encourage timely delivery and cost containment, our contestable project contracts generally impose liquidated damages on contestable service providers for late delivery of the contestable portion of the project.

The duration of the outages needed to connect an AEMO initiated augmentation is not totally within AusNet Services' control and would not have been needed if not for the augmentation. The necessary outages are ultimately dependent on the characteristics of each augmentation's scope. The RIT-T determines the size and general nature of an augmentation the number and duration of outages which are subsequently required to connect it to the existing DSN. Also, a contestable augmentation will not necessarily be carried out by AusNet Services and therefore outage needs and timing will be driven by the augmentation's successful proponent. Therefore, outage requirements for AEMO initiated augmentations are out of the control of AusNet Services.

For these reasons, if AEMO is to obtain AusNet Services' cooperation to smoothly and orderly connect any AEMO initiated augmentations, it has required AEMO, in its role as non-contestable interface works provider for the DTS, reimburse it for forgone STPIS revenue caused by outages required to allow for the new augmentation. This reimbursement permits any deduction from AusNet's STPIS entitlement to be returned to it, without the scheme playing the incentive role that it is expected to play.

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<sup>1</sup> Note that this will apply in respect of any party contracted to build, own and operate an "AEMO initiated augmentation".

<sup>2</sup> For current purposes, this means AusNet Services.

<sup>3</sup> An exception occurs with augmentations directed by Ministerial Order under section 16Y of the National Electricity (Victoria) Act, where the timing of the project may be influenced by other factors or different cost benefit considerations.

### 3. New assets provide Prescribed Services but do not go into the RAB

Assets associated with AEMO initiated augmentations for which AusNet Services successfully wins a contestable process (e.g. WVTNP) or which are non-contestable,<sup>4</sup> will not form part of AusNet Services regulated assets base (RAB) unless approved by AEMO<sup>5</sup>. Consequently, the value of those assets are not taken into account when determining future STPIS incentive amounts and nor will outages of these assets contribute to the setting of any future STPIS outage baselines.<sup>6</sup> In order to ensure consistent treatment of these new assets from a regulatory perspective, it follows that any outages of the existing network needed to connect the new assets should be excluded from the calculation of AusNet Services STPIS for the relevant calendar years.

Furthermore, as noted above, contestable augmentations may be provided by parties other than AusNet Services. These third parties may not have a RAB<sup>7</sup> and therefore there is no question that the assets built, owned and operated by that party will not be subject to a STPIS incentive arrangement.

### 4. No increase in outage efficiency

Subject to the confidentiality arrangements agreed by AEMO and AusNet Services, AEMO's contracts with:

- AusNet Services or any other successful transmission service provider for the delivery of a contestable augmentation or
- AusNet Services for the delivery of a non-contestable augmentation (which includes the interface (non-contestable) portion of a contestable augmentation,

requires the service provider to work cooperatively with AEMO to determine the timing of outages for windows that are least impactful to the NEM. Under this agreement, we seek to

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<sup>4</sup> A contestable augmentation is defined by clause 8.11.6 of the National Electricity Rules to be an augmentation that exceed the relevant limit and is a separable augmentation. A non-contestable augmentation is an augmentation that does not meet both of these requirements.

<sup>5</sup> Note that these assets will however provide a "prescribed transmission service" for the purpose of the National Electricity Rules. Further note that this approach is also being applied to projects that are the subject of a Ministerial Order under section 16Y of the National Electricity (Victoria) Act 2005.

<sup>6</sup> Note that it is entirely feasible for contestable projects to be awarded to DTSOs/TNSPs that do not have and have no intention to apply for and maintain a RAB. It should also be noted that in order to limit outages of the new assets to those that are efficient for necessary maintenance and operation and other essential activities, AEMO's network service agreements contain stand-alone outage incentive schemes (described elsewhere in this submission) that provide financial incentives to optimise the timing and duration of outages. In this regard, while different in approach, it attempts to achieve a similar outcome to the MIC component of the STPIS scheme.

<sup>7</sup> Only AusNet Services currently maintains a RAB of transmission system assets in Victoria. Other DTSOs are not required to maintain one despite a RAB for transmission system assets they build as a result of winning a contestable process.

reach a balance where the cost of the outage to the NEM is balanced with the cost to the project of delaying outages or insisting that they be of such short duration that they would unreasonably add to the overall cost of the project. We also work, within reason with local and other affected generators and load to take opportunistic coordinating outages.

Our contestable augmentation project agreements also contain an availability incentive scheme to optimise the availability of the new contestable assets over their contracted life. The scheme deducts amounts ("rebates") from the annual service payments for outages of the contestable assets according to duration and seasonal timing of the outage.<sup>8</sup> The rebates are aligned as close as possible to the foregone value to Victorian customers that the outages represent.<sup>9</sup> There are prohibitions on the TNSP taking outages at peak seasonal times in order to minimise wholesale market and customer impacts. Therefore, in procuring contestable network services, AEMO seeks to restrain unnecessary or inefficient outages – including operational outages of the contestable assets- over the life of its service contracts for the benefit of Victorian network users.

In AEMO's considered opinion, these factors support the position that the outage efficiency of the assets connected in an AEMO initiated project should be similar to that sought to be achieved by the STPIS because they both seek to achieve similar aims, albeit in different ways.

#### 5. STPIS guidelines (version 5) not entirely consistent with AER's Final Decision

When the AER revised the STPIS guidelines to version 5, it mentioned the following with respect to the Victorian planning and procurement arrangements.

In Victoria contestable arrangements exist for network augmentations where the "construction, ownership and operation" of new transmission assets is competitively tendered. Therefore, in Victoria:

- any connection arrangements that result in MIC counts on the existing prescribed network will be excluded from the parameter. This is irrespective of whether AusNet Services, or any other TNSP subject to the STPIS, is the successful tenderer for the new assets.
- As in other jurisdictions, once the assets are in service, if AusNet Services is the operator of the non-prescribed assets, then the counts on the prescribed network due to planned or unplanned outages will be included in the scheme. This provides AusNet Services an incentive to minimise the impact of maintaining the network within its control.

The first point recognises the fact that the Victorian framework has been designed to create incentives for efficiency by giving an independent planner responsibility for developing the network in a fashion that promotes the NEO. *We agree with AEMO that projects initiated by AEMO are funded outside the revenue determination, and should not be included in the scheme.*

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<sup>8</sup> This applies to either forced or planned outages.

<sup>9</sup> The reference point for the rebate amount are the discounted benefits foregone according to the analysis under the relevant RIT-T.

*We also agree that, where a TNSP has borne the up-front cost of forgone incentive revenue, rather than shifting the full costs onto third parties, it should be permitted to retain the higher performance target associated with those outages. (emphasis added)*<sup>10</sup>

The Final Decision clarified that any connection agreement that results in a MIC count will be excluded from the parameter. However, version 5 does not permit exemptions for the full range of third-party connections causing outages on the existing prescribed network because version 5 has restricted the third-party causer exemption to the following:

3A. any planned outage of an asset that is providing prescribed transmission services shown to be primarily caused or initiated for the connection of *a new asset that is not providing prescribed transmission services as requested by a third-party or by AEMO* (emphasis added).<sup>11</sup>

Based on the clarification provided by the AER in relation to “projects that are initiated by AEMO”, outages needed to connect these augmentations to the existing network should be exempted. In our considered opinion, there are two reasons why the final draft of Version 5 does not accord with the Final Determination:

- The AER seemed to agree that outages needed to connect an AEMO initiated project should be excluded (see emphasis above). It has been clarified elsewhere in this submission that AEMO initiated projects are funded outside the revenue determination and are not rolled into AusNet’s RAB. In our view, the view “a new asset that is not providing prescribed transmission services” in this context is not correct. These assets are justified as efficient by the prevailing network investment mechanisms (such as the RIT-T) and they are paid for by Victorian TUOS customers under service contracts entered into by AEMO with the service provider for the benefit of customers in general and are funded outside the revenue determination.
- Given that the AER accepted the position that outages required to connect AEMO initiated augmentations and funded outside the revenue determination process should not be included in the scheme, we consider that the implementation of the final determination exclusion 3A in Appendix C did not allow for this important exclusion.

Accordingly, AEMO considers that as a general proposition, outages needed to connect any AEMO initiated augmentation should receive this exemption.

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<sup>10</sup> Final Decision Electricity transmission network service providers service target performance incentive scheme, September 2015 p. 34 - <https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/service-target-performance-incentive-scheme-version-5-september-2015-amendment>

<sup>11</sup> Final Electricity transmission network service provider Service target performance incentive scheme Version 5 (corrected) October 2015, p. 37 (Appendix C – Exclusion to the Market impact component – definition) - <https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/service-target-performance-incentive-scheme-version-5-september-2015-amendment>

AEMO appreciates the AER's consideration of this submission. Should you wish to discuss any of the matters raised in this submission, please contact Franc Cavoli, Manager Network and Grid Management Services Acquisition ( [REDACTED] ) or Niluksha Herath, Manager Western Victoria Transmission Network Project ( [REDACTED] ).

Yours sincerely



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