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# **AusNet Transmission Group Pty Ltd**

**Transmission Revenue Review 2023-2027**

**Revised Revenue Proposal**

**Appendix 9E: AusNet's Proposed  
Transitional Approach to the Market  
Impact Component**

**Submitted: 1 September 2021**

**PUBLIC**



## AusNet's Proposed Transitional Approach to the Market Impact Component

This note sets out a proposed 'transitional approach' to applying the Market Impact Component (MIC) in the 2022-27 regulatory period.

**Stakeholder support (from the Customer Advisory Panel, the Consumer Challenge Panel and AEMO) is sought on this approach.**

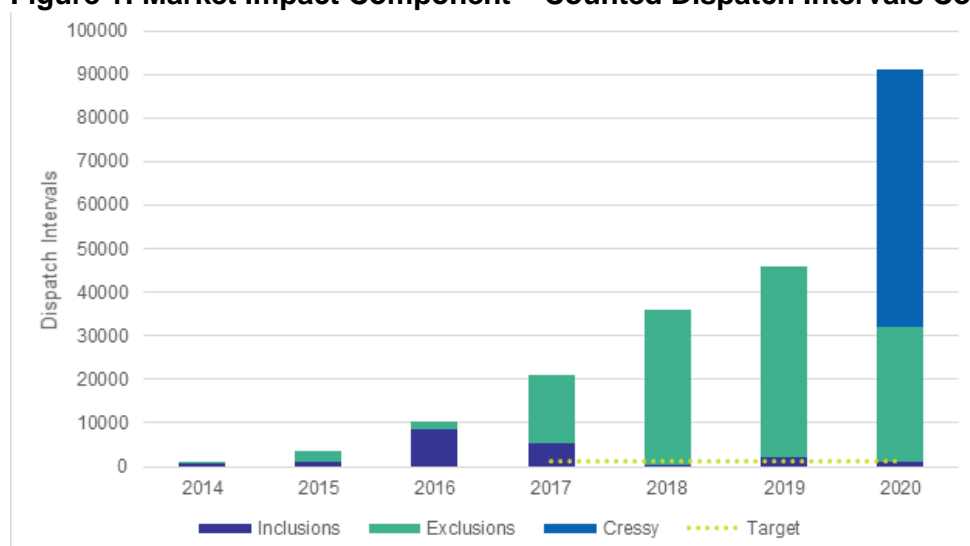
### Background

The rapid energy transition has resulted in a step change in constraints binding in the operating environment in the last 2-3 years. This has rendered the current MIC not fit for purpose because historic data cannot be reasonably used to set future targets and current exclusions, strictly interpreted, did not envisage the drivers of the changes we are seeing in operating environment.

For the current 2017 to 2022 period, where these problems have developed exponentially, the scheme's ability to continue to provide an incentive has been dependent on the AER pragmatically applying the exclusion regime in our annual performance assessment – the outcomes of which are shown below.

The chart below shows the rapidly growing number of Dispatch Intervals (DIs) that have been counted under the scheme in the last 6 years, and the proportion that have been excluded (99% in 2020 – a breakdown of our performance by exclusion is provided in the Attachment). Over the last 3 years, net of the DIs associated with the collapse of transmission towers near Cressy in early 2020, recorded DIs have averaged around 38,034 per annum, compared to a target of 1,245.

**Figure 1: Market Impact Component – Counted Dispatch Intervals Constrained**



We consider that the high and growing number of DIs recorded during the current regulatory period makes the current MIC, with strictly applied exclusions, unworkable because:

- The historic average with no wide-ranging exclusions cannot be reasonably used to set forward targets for the scheme as they will likely woefully underestimate the number of DIS caused in the new period
- An alternative reasonable forecast accounting for predicted growth cannot be used because it is not possible to accurately forecast DIs due to the fundamental changes occurring in an operating environment under a renewables transition that is leading the world and is still not fully understood.

AusNet requested in early 2018 that, given the step change in operational conditions in Victoria, the AER reviews the MIC before the start of the 2022-27 regulatory period. In February 2020, Energy Networks Australia subsequently submitted a request for a scheme review due to growing concerns from TNSPs throughout the NEM. The AER did not consider that this was a priority.

Given this, this note sets out our proposal to codify a pragmatic list of exclusions so the scheme can be effectively applied in the 2022-27 regulatory period. This will ensure that, where AusNet has the ability to influence outages, we continue to be incentivised to minimise disruption of the wholesale market.

The proposed approach maximises the long-term benefit to customers.

### **Problems to be Addressed**

The impacts on performance of the following drivers of the step change in operational conditions – the impacts of which would not be reflected in our targets (based on 7 years of data) – need to be addressed through exclusions as they cannot be accurately forecast:

**1. AEMO’s Power System management policy changes** following the SA system black event, which has led to the introduction of new, more restrictive constraints which vary frequently bind during outages which put SA on a single contingency. This was partly addressed by the AER in our 2017-22 determination but as the operational situation in SA has got increasingly complex, needs to further evolve;

**2. The connection of an unprecedented number of renewable generators** in Victoria (to both transmission and distribution networks) and South Australia. If these generators continue to bid into the market during an outage (we have no control over this) a constraint on each individual participant is introduced, and up to 22 DIs can bind simultaneously for the duration of the outage – in 2018 the equivalent number was zero. For a single 8 hour outage, this could result in 2,112 binding DIs (170% of the current target), which would have been zero in 2018. This impact cannot be mitigated by outage timing;

**3. Deteriorating system strength issues, minimum demand and solar shake off**, partly driven by the increasing penetration of renewables, resulting in smaller windows for us to take outages at a time which is acceptable to AEMO Operations. The increasing risk to power system security means that during outages for essential maintenance, AEMO may dictate that additional assets also be taken out, increasing the MIC count beyond our control. Directions by AEMO Operations on this basis commenced in September 2020 and is not in our benchmark (nor, unlike the above, has there been an exemption claim made to the AER on this matter); and

**4. The Victorian planning arrangements** must also be considered. The AER is clear that works associated with the commissioning of contestable augmentations are exempt. It has also previously exempted non-contestable works – these are driven by AEMO and AusNet has no control over the number, nature or timing of these projects. We are seeking for this

approach to be clarified in our determination, and extended to include projects initiated by VicGrid, to provide clarity for AusNet, AEMO, customers and the AER going forward.

In addition, AusNet continues to consider outages associated with ongoing O&M of contestable works post-commissioning should be excluded from the scheme. Currently, these are only included when the TNSP is AusNet Services' contestable transmission business. If another transmission business, such as TransGrid, owned and operated these assets an exemption would apply. This arrangement unfairly penalises AusNet during the contestable tendering process by raising our costs relative to our competitors and should be excluded to ensure **competitive neutrality**. While we would appreciate customer views on this issue it is not the focus of this note.

### AusNet's Objectives

We are seeking to **codify existing AER practice** in our determination, which will form a **transparent, transitional arrangement** put in place pending a review of the scheme.

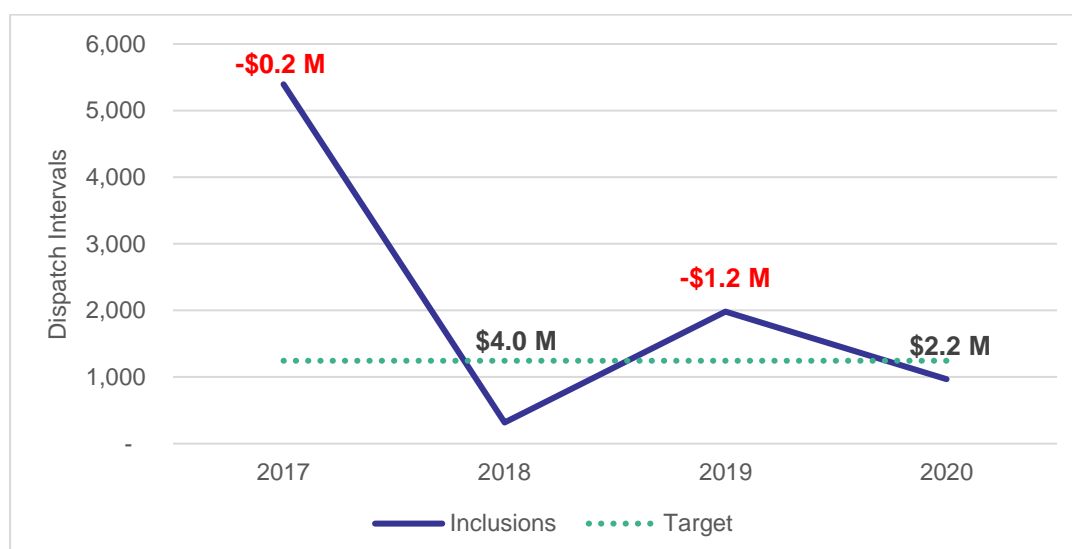
This approach will maximise the long-term benefit to customers by:

- Maintaining the incentive for AusNet to optimise its outages to deliver wholesale market price benefits for customers; and
- Not unduly penalise AusNet for the exponential change in operating conditions, outside of its control, that have arisen since 2017 and provide us an opportunity to recover our efficient costs.

It is important to establish that AusNet's Proposal is not seeking any adjustments to the scheme that embed bonuses as new targets would continue to be set using historic performance (net of our proposed exclusions). Therefore, consistent with its other incentive schemes, we would have to improve on historic performance to receive a bonus and would be penalised for any drop in performance.

As shown below, performance (with exclusions) in the current regulatory period has not resulted in consistent outperformance of the target. **This is what we are seeking to codify.**

**Figure 2: Financial Rewards/ Penalties Received under the Market Impact Component**



Rather, we are trying to avoid an outcome where the AER changes its current practice and applies a strict interpretation of the exemptions. As the data presented in Figure 1 starkly illustrates, we would expect this to result in a guaranteed **full penalty under the scheme each year of the regulatory period**. Under this scenario no incentive is being provided as nothing we do reduces the penalty. Furthermore, actions we currently take to minimise market disruption that cost us money (justified under a properly functioning scheme by the offsetting incentive bonus) would no longer be justified as no bonus or reduction in penalty could be earned.

This would be a poor outcome for both customers and AusNet. We believe that our operational efforts to optimise outage planning to minimise impacts on the wholesale market have resulted in price benefits for customers many times the reward we have received under this scheme. More information on these actions can be provided on request.

In addition, if the system evolves to reduce some of the issues experienced, under our proposed exemption regime, no windfall gain would be generated as the reduced outages would fall into excluded categories.

We are seeking stakeholder support (from our Customer Advisory Panel, and from AEMO) for this proposal.

## Modified Exemptions

### Exclusion 1: Force majeure events

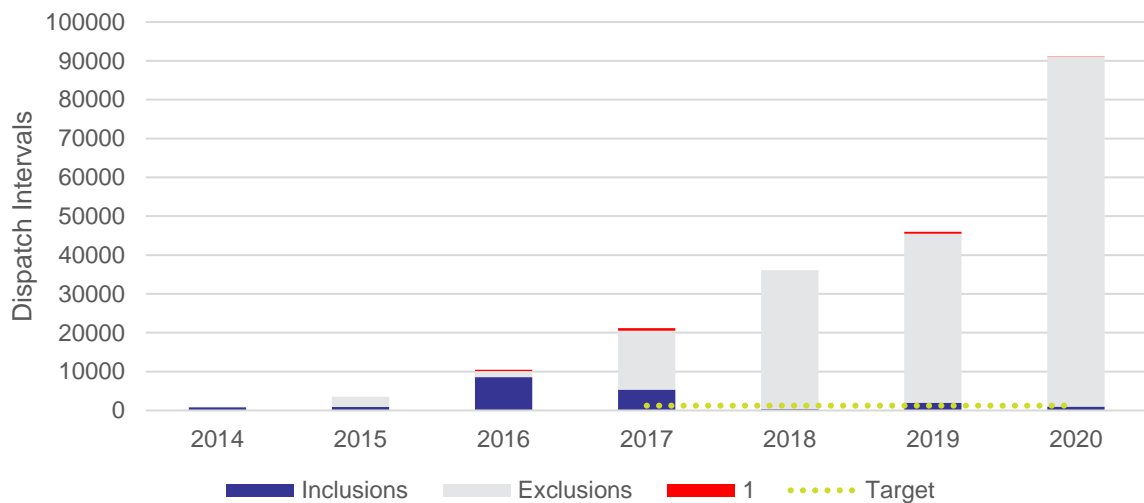
#### **Extend exclusion definition to include:**

- AEMO-imposed Frequency Control Ancillary Services (FCAS) constraints for outages on assets associated with the VIC-SA interconnector, and fixed limit constraints below 250MW. (addresses Problem 1)

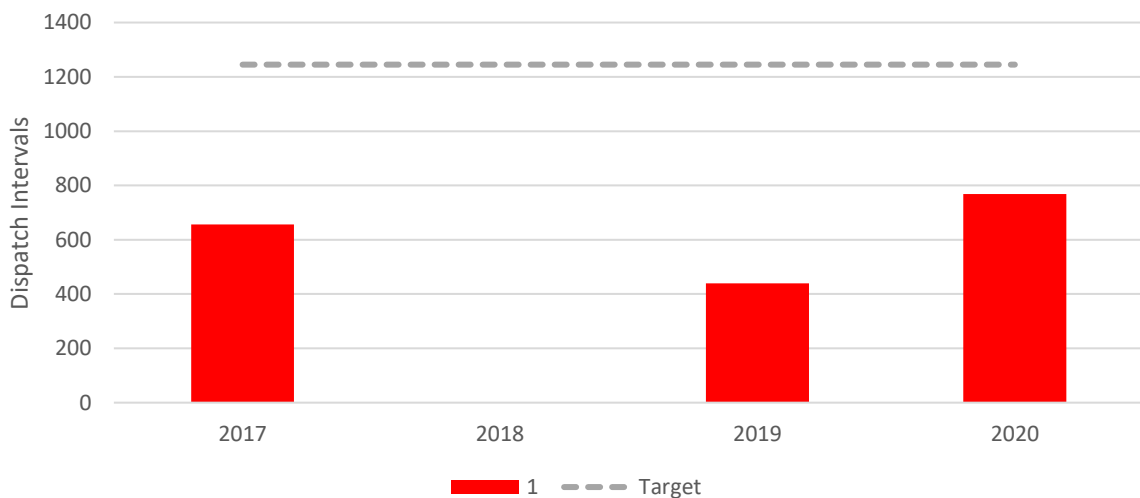
#### **Contribution of applying this interpretation to recent performance:**

The charts below show that while applying this contribution has a minor contribution to overall counted DIs, this has only impacted performance since 2016 (so will not be fully reflected in our 2023-27 target), and relative to our 2017-22 MIC target the impact is material.

### Exclusion 1



### Exclusion compared to target



**Exclusion 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

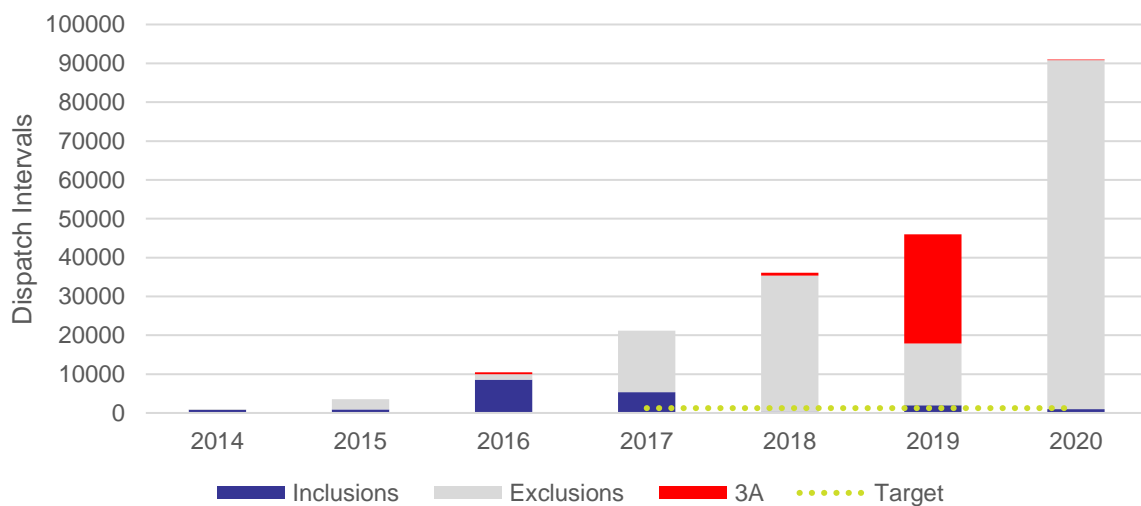
**Extend exclusion definition to include:**

- All AEMO or VicGrid-initiated contestable and non-contestable projects, including those that will provide prescribed transmission services. (addresses Problem 4)

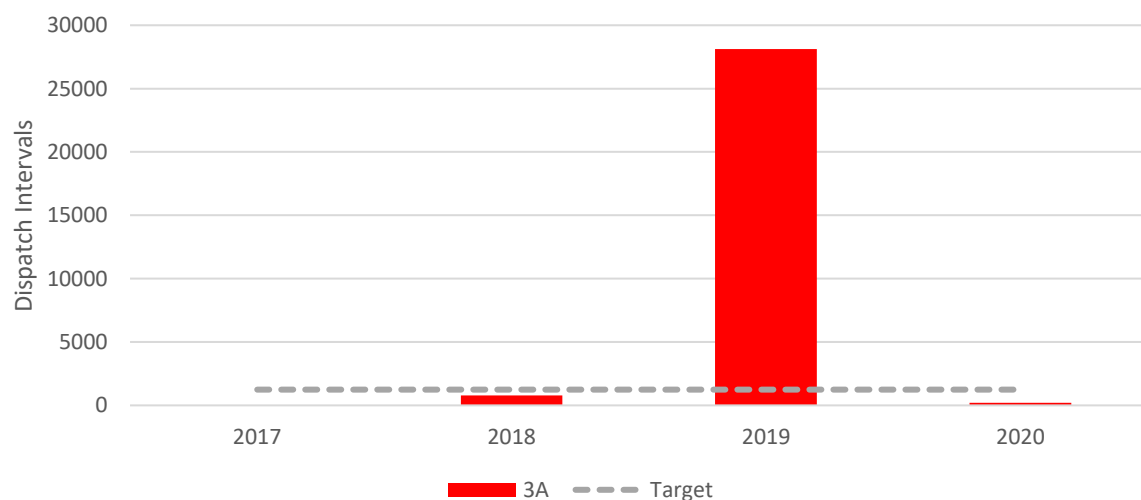
**Contribution of applying this interpretation to recent performance:**

The impact of this exclusion can be very material in particular years, and is highly dependent on the timing, outage requirement and location of VicGrid or AEMO-initiated projects. It is possible that outages required for these projects may greatly exceed the target, which would effectively remove the incentive in the relevant year.

### Exclusion 3A



### Exclusion compared to target



**Exclusion 4: Outages on assets that are not providing prescribed transmission services**

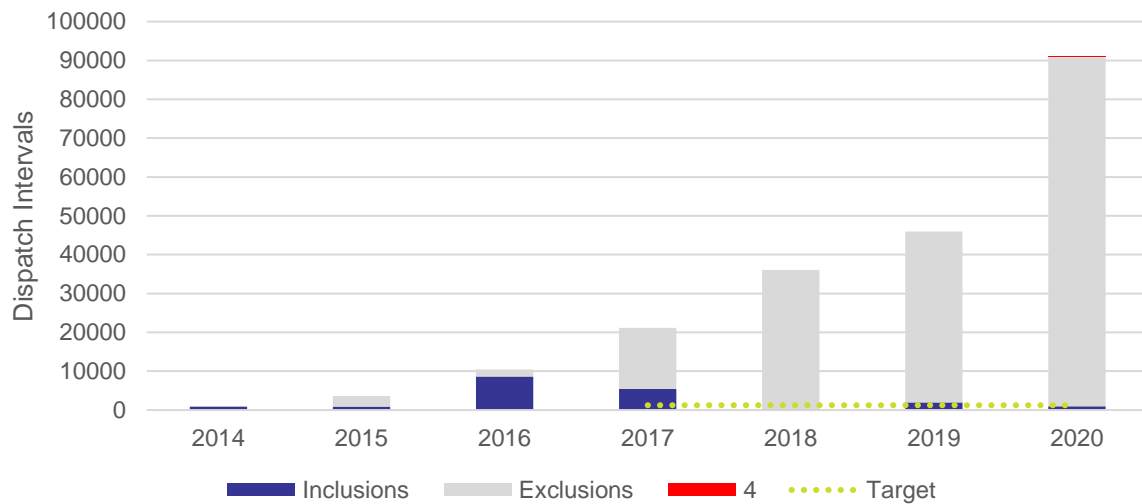
**Extend exclusion definition to include:**

- O&M outages taken by AusNet's contestable business on assets it owns.

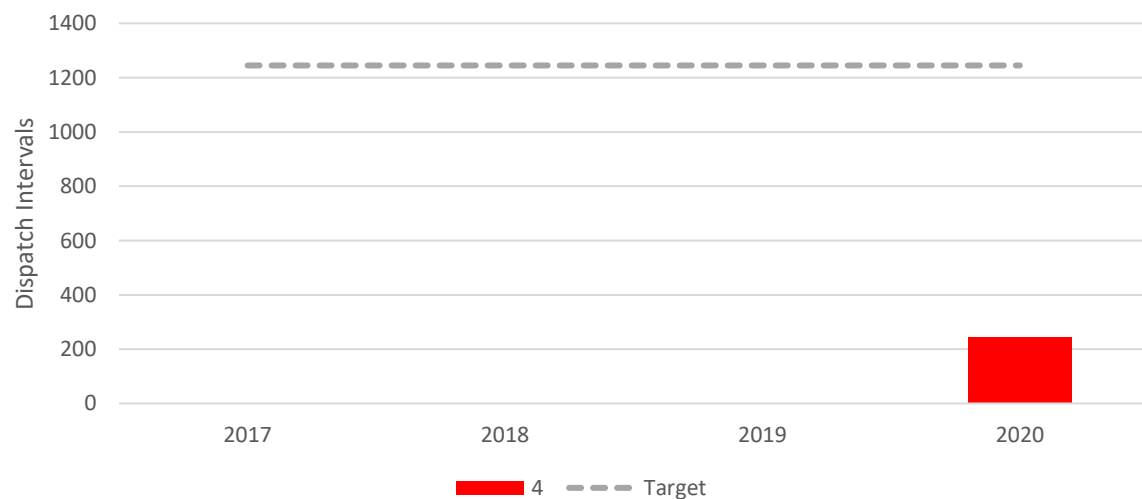
**Contribution of applying this interpretation to recent performance:**

This has only had a minor impact to date but is expected to be more prominent going forward.

**Exclusion 4**



**Exclusion compared to target**



**Exclusion 6: Outages that are only for the purposes of assisting with operational security, for example where a lower voltage parallel circuit is taken out of services to assist with transfers across an interconnector.**

**Extend exclusion definition to include:**

- Outages on assets required by AEMO to manage operational security to enable a concurrent outage to proceed. (addresses Problem 3)



For example:

- We expect that AEMO will dictate that in order to take circuit X out, circuit Y must also be taken out in the interests of operational security
- We consider that circuit X should be included in our performance, but not circuit Y
- This is because we would not have taken out circuit Y had it not been for the AEMO direction

We have not had to use this exclusion to date.

**Exclusion 11: Transmission connection agreements where a lower service standard has been negotiated giving the TNSP the right to disrupt service under certain network conditions where the constraint only affects the parties subject to the agreement.**

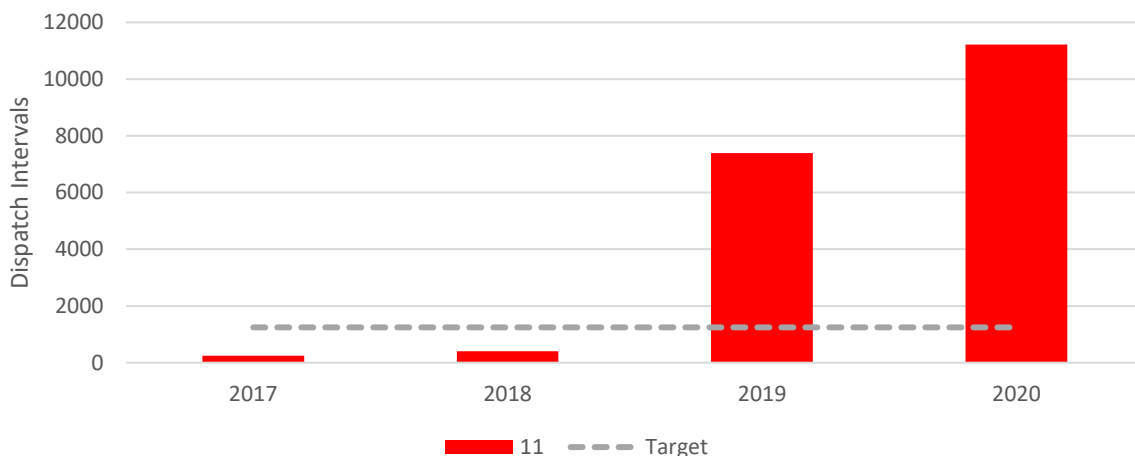
**Extend exclusion definition to include:**

- any constraint that constrained an individual participant. (addresses Problem 2)

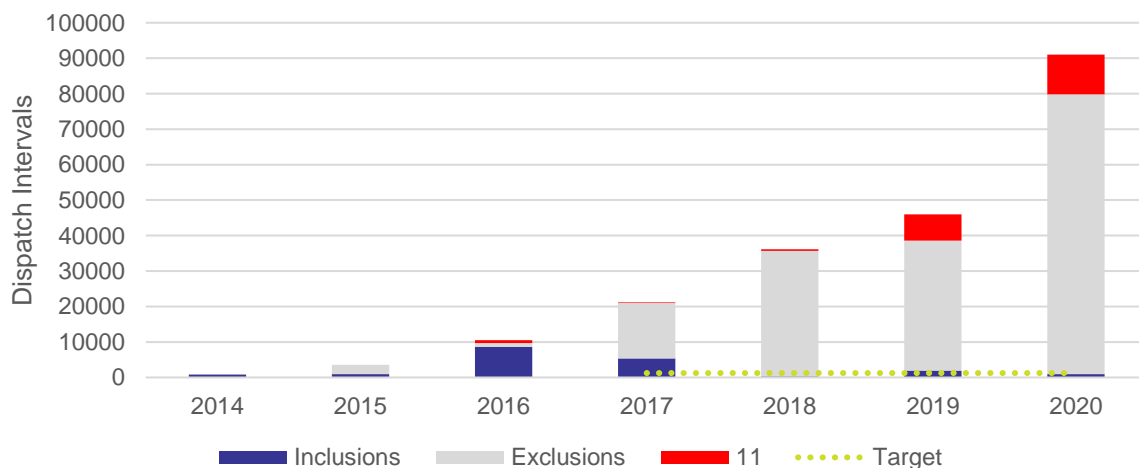
**Contribution of applying this interpretation to recent performance:**

This is a very material issue and has rapidly increased in magnitude with the connection of an increasing number of renewable generators.

### Exclusion compared to target

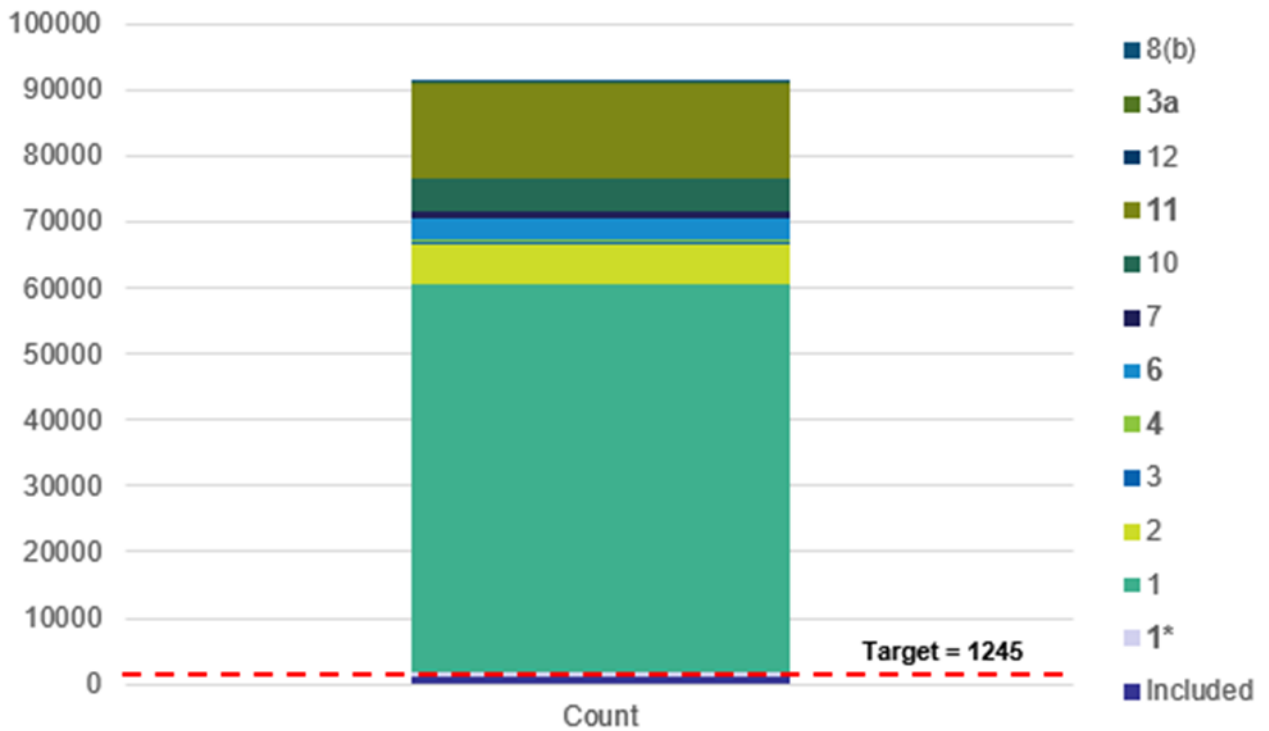


### Exclusion 11



Attachment: 2020 performance by exclusion

2020 Constraints



Note: 1 related to constraints related to the Cressy Towers incident; 1\* represents other Force Majeure exclusions

The breakdown of all dispatch intervals (DIs) by exclusion code in 2020 is below:

INCLUDED	967
<b>1: Force majeure events</b>	<b>59742</b>
2: Re-classification of contingency events	5860
3: Caused by event not providing prescribed transmission services	286
<b>4: Asset not providing prescribed transmission services</b>	<b>306</b>
<b>6: Assisting operational security</b>	<b>3319</b>
7: Related to network support services	1120
10: Ramping constraints	4809
<b>11: Lower service standard agreements</b>	<b>14359</b>
12: Power system tests for NCIPAP projects	3
<b>3a: Planned outage caused by not providing prescribed services</b>	<b>214</b>
8(b): Affected by AEMO constraint	12
<b>TOTAL</b>	<b>90,997</b>