



Ref. A4799597

21 December 2021

Mr Warwick Anderson
General Manager, Network Pricing
Australian Energy Regulator
GPO Box 3131
CANBERRA ACT 2601

Dear Mr Anderson,

DRAFT GUIDANCE NOTE: DATA PERIOD FOR CALCULATION OF MARKET IMPACT COMPONENT PERFORMANCE TARGET

Powerlink Queensland (Powerlink) welcomes the opportunity to provide input on the Australian Energy Regulator's (AER's) Draft Guidance Note on the calculation of the Market Impact Component (MIC) performance target for the Transmission Service Target Performance Incentive Scheme (STPIS).

Powerlink appreciates the AER's focus on regulatory clarity and its acknowledgement that the scheme instrument could more clearly articulate the relevant data period for setting the MIC performance target. We consider the Draft Guidance Note largely addresses these issues and is consistent with the AER's September 2021 Draft Decision for Powerlink's 2023-27 regulatory period.

To ensure the regulatory approach is clear and effective, Powerlink considers the AER should:

- clarify the interaction between the Guidance Note and the Framework and Approach paper for revenue determinations, both of which are non-binding on the AER and the Transmission Network Service Provider (TNSP);
- undertake a broader review of the STPIS, beyond the issues covered in the Draft Guidance Note, as a matter of urgency to ensure the scheme remains fit-for-purpose; and
- correct some minor details in the presentation of the Draft Guidance Note.

These matters are discussed in more detail in the attachment to this submission.

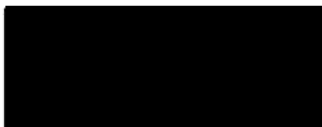
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As Powerlink has indicated several times to the AER over the past few years, energy market bodies, including the AER, must look forward and try to get ahead of the game, including on the STPIS. To play catch-up after the fact may be too late and could result in unintended negative consequences for network performance and, ultimately, for customers.

If you have any questions regarding this submission or would like to meet with Powerlink to discuss this matter further, please contact me on [REDACTED] or by email at [REDACTED]

Yours sincerely,

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Jennifer Harris
GENERAL MANAGER, NETWORK REGULATION

ATTACHMENT: DETAILED POWERLINK FEEDBACK

Interaction between the Guidance Note and the Framework and Approach paper

To provide greater clarity for TNSPs, Powerlink recommends the AER confirms in a Framework and Approach paper for a TNSP's revenue determination that it intends to apply the Guidance Note in relation to its approach for the STPIS. This should support consistency, given the AER's position that Version 5 of the STPIS:

- does not provide flexibility in the data period to be used to calculate a TNSP's MIC performance target; and
- does not allow the AER to approve or require a MIC performance target to be based on a different time period than provided for in clause 4.2 of Version 5 of the STPIS.

Powerlink notes the Draft Guidance Note clarifies that the AER requires the annual STPIS review to be completed and approved by the AER before MIC data can be considered as part of a TNSP's Revenue Proposal. This requirement was not applied by the AER for Powerlink's 2018-22 regulatory period, as the AER requested 2015 calendar year MIC data be submitted with our Revenue Proposal in January 2016 when the annual compliance review for the 2015 data had not yet been completed.

If application of the Guidance Note is referenced appropriately in the Framework and Approach paper, the types of regulatory determination inconsistencies experienced by TNSPs in the past, including Powerlink, may be avoided in future.

Broader review of the STPIS required to ensure it remains fit for purpose

The electricity supply system in Australia is undergoing profound and rapid change. The drive to decarbonise electricity supply has already seen significant amounts of new variable renewable energy (VRE) generation investments start to replace the existing baseload coal-fired generation fleet.¹ Queensland has experienced significant growth in transmission-connected solar and wind farms as well as distributed rooftop photovoltaic (PV) cells installed behind the meter. This unprecedented and rapid turnover of generation sources has implications for the performance of transmission networks.

The current design of the transmission STPIS largely reflects a power system with a relatively high degree of predictability of power flows across the network, both seasonally and from year to year. It is predicated on a TNSP's ability to reasonably forecast when transmission network capacity is of most value to network users and to plan network outages around these times, with some capability to respond to short notice variability. This has been enabled by the relatively slow change in the usage characteristics of the transmission network. With the energy transition leading us to a power system with a large number of smaller VRE generators distributed widely across the network, including embedded on distribution networks and within customer premises, the previous paradigm has shifted rapidly.

¹ See, for example, the [Wholesale Markets Quarterly - Q3 2021](#) report.

The target-setting arrangements under the transmission STPIS, for both the Service Component (SC) and MIC, use between five and seven years of historical data to set targets that will apply for each year of the next five-year regulatory period. As the illustration in the table below shows, the application of the data period specified in the Draft Guidance Note to derive a MIC performance target for the next regulatory period means a time gap of 18 months to 8.5 years between the information used to set the target and the trend that reflects the rapidly changing environment. As the target remains fixed for the entire regulatory period, the gap between the final year in the regulatory period and the historical data used to calculate the target extends to up to 13.5 years.

Timeliness of MIC Target-Setting Data: Powerlink 2023-27 Regulatory Period

2023 – 27 STPIS Year	Historical range for target setting data	Age span of target-setting data*
2022 (H2)	2014 – 2020	1.5 – 9.0 years
2023	2014 – 2020	2.0 – 10.0 years
2024	2014 – 2020	3.0 – 11.0 years
2025	2014 – 2020	4.0 – 12.0 years
2026	2014 – 2020	5.0 – 13.0 years
2027 (H1)	2014 – 2020	6.0 – 13.5 years

* Minimum span is from 31 December 2020 to the start of the period in the left-hand column and the maximum span is from 1 January 2014 to the end of the period in the left-hand column.

In our experience, the historical data used to set future targets now bears no relationship to the current state of the power system, much less the needs over the next five years. There is a risk that the incentive scheme will drive behaviours that do not align with customers' current expectations. Given rapid and large-scale power system changes that have occurred and are expected to continue to occur over the medium to long term, we consider it is no longer valid to maintain the existing approach.

In contrast to the SC and MIC, the Network Capability Component (NCC) adopts a forward-looking approach. In addition, the NCC provides greater flexibility in that existing priority projects can be removed and new priority projects can be introduced if circumstances change within the regulatory period. While the activities targeted by the NCC are very different to those under the SC and MIC, we consider the SC and MIC elements of the transmission STPIS need to be reformed to adopt a more forward-looking approach.

For the transmission STPIS to remain consistent with the National Electricity Objective and provide long-term benefits to customers, the rewards or penalties resulting from the scheme should be referable to conscious decisions on the part of the transmission business. They also need to be consistent with the current performance of the power system and not the result of past years' performance, which in recent years has been heavily influenced by weather-driven VRE generation, whether grid-connected or on customer rooftops. Networks are also still coming to understand the impact on network performance and usage of new technologies, such as large-scale batteries and virtual power plants.

These concerns are not confined to Powerlink as similar concerns have been expressed by most transmission businesses over the past two years, including:

- [Energy Networks Australia's \(ENA's\)](#) letter to the AER in February 2020;
- requests from [ElectraNet](#) (November 2020) and [Transgrid](#) (October 2020) to update their respective Framework and Approach papers;
- AusNet Services' [Revised Revenue Proposal](#) in September 2021; and
- Transgrid's [Preliminary Revenue Proposal](#) in October 2021.

For these reasons, we again urge the AER to progress an urgent review of the transmission STPIS in its entirety to ensure it remains fit-for-purpose and provides ongoing benefits to customers.

Powerlink considers the AER's intention not to review the design of any of the three transmission STPIS components as part of its *Review of Incentives Schemes for Networks*² represents a significant missed opportunity. Case-by-case adjustments to STPIS components made through individual Revenue Proposals are unlikely to support the intended incentives on networks and again highlight that the scheme, as currently constructed, is no longer fit-for-purpose.

Correction of details in the Draft Guidance Note

Powerlink has identified the following minor corrections to the Draft Guidance Note.

- Page 5, last paragraph in Section 3.2 – the reference to “clause 3.1(g)” should read “clause 3.2(g)”.
- Page 5, second paragraph in Section 3.3 – the reference to the “annual Scheme Regulation Information Notices (RINs)” should be “annual STPIS compliance review” to avoid confusion. Annual RINs, which include performance under Version 4 of the STPIS, are due at the end of October each year.
- Page 10, third paragraph – the reference to the “planned outage event limit” should read “unplanned outage event limit”.
- Page 11, Table 4-4 and related text – the reference to the unplanned outage event limit for RP3 should be 93 dispatch intervals (DIs) (0.17 times 549 DIs), not 390 DIs.

² AER, *Review of Incentives Schemes for Networks*, [Discussion Paper](#), 2 December 2021.