Combined Proposal 2024-2029

Attachment 12
Service target performance incentive scheme

Outline: This attachment to TasNetworks' Combined Proposal sets out the proposed application and components of the Service Target Performance Incentive Scheme (**STPIS**) that will apply to TasNetworks during the 2024-2029 regulatory control period and how we propose to set STPIS performance targets for this period.

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Note

This attachment forms part of TasNetworks' Combined Proposal for the 2024-2029 regulatory control period and should be read in conjunction with the other parts of the proposal. TasNetworks' Combined Proposal is made up of the documents and attachments listed below, as well as the supporting documents that are listed in Attachment 23.

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	Combined Proposal overview
Attachment 1	Customer and stakeholder engagement summary
Attachment 2	Annual revenue requirement
Attachment 3	Regulatory asset base
Attachment 4	Rate of return
Attachment 5	Regulatory depreciation
Attachment 6	Capital expenditure
Attachment 7	Contingent projects
Attachment 8	Operating expenditure
Attachment 9	Corporate income tax
Attachment 10	Efficiency benefit sharing scheme
Attachment 11	Capital expenditure sharing scheme
Attachment 12	**Service target performance incentive scheme**
Attachment 13	Demand management incentives and allowance
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Attachment 19	Negotiated services framework and criteria
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12 Service target performance incentive scheme

12.1 Introduction

This attachment sets out TasNetworks proposed application of the Service Target Performance Incentive Scheme (**STPIS**) over the 2024-2029 regulatory control period. The STPIS plays a significant role in counter-balancing the incentives to minimise operating and capital expenditure that are provided by other aspects of the regulatory framework, including the Efficiency Benefit Sharing Scheme (**EBSS**) and Capital Expenditure Sharing Scheme (**CESS**). Unlike the EBSS and CESS, STPIS-based financial rewards or penalties over a regulatory control period are added to, or subtracted from, our annual revenue requirement within the same regulatory control period. In broad terms, the STPIS gives network service providers (**NSPs**) incentives to maintain and improve network reliability and performance.

TasNetworks operates under two STPISs. For transmission, this has been and will remain version 5, released in October 2015.[1] For distribution, TasNetworks is currently operating under version 1.2 but for the forthcoming regulatory control period will transition to version 2.0, released in November 2018.[2]

1 AER, Final Decision Electricity transmission network service providers, *Service Target Performance Incentive Scheme Version 5,* October 2015

2 AER, Electricity distribution network service providers, *Service target performance incentive scheme, Version 2.0*, November 2018

12.2 Rules requirements for distribution

The National Electricity Rules (**NER**) set out three relevant requirements in relation to the STPIS. They are:

- the building block proposal must contain a description of how the distribution network service provider (**DNSP**) proposes any STPIS specified in the Framework and Approach Paper should apply for the 2024-2029 regulatory control period[3]
- the building blocks used to calculate the annual revenue requirement for each regulatory year of the 2024-2029 regulatory control period must include (among other things) any revenue increments or decrements for the regulatory year arising from the application of the STPIS[4]
- the building block determination must specify how any applicable STPIS is to apply to a DNSP in the 2024-2029 regulatory control period.[5]

The STPIS to apply to TasNetworks in the 2024-2029 regulatory control period must be developed and implemented in accordance with clause 6.6.2 of the NER. In developing and implementing the STPIS, the AER must:

- consult with the authority responsible for the administration of relevant jurisdictional electricity legislation (i.e., the Office of the Tasmanian Economic Regulator (**OTTER**))
- ensure that service standards and service targets (including guaranteed service levels (**GSLs**)) set by STPIS do not put at risk the DNSP's ability to comply with relevant service standards and service targets (including GSLs) as specified in jurisdictional electricity legislation
- consider specified matters, including the past performance of the distribution network

3 NER clause S6.1.3(4)

4 NER clause 6.4.3(a)(5)

5 NER clause 6.3.2(a)(3)

- have regard to the Distribution Reliability Measures Guidelines.

In the 2024-2029 Framework and Approach paper, the AER stated that it intends to apply version 2.0 of the national STPIS to TasNetworks for the 2024-2029 regulatory control period. The AER also set out the components of the STPIS that it proposes to apply to TasNetworks.

This is a change for TasNetworks, as for the 2019-2024 regulatory control period we have operated under version 1.2 of the STPIS published in November 2009.

Key changes in version 2.0 of the STPIS include:

- the change of sustained interruption threshold from greater than 1 minute to greater than 3 minutes
- adjusting the incentive rate weighting between System Average Interruption Duration Index (**SAIDI**) and System Average Interruption Frequency Index (**SAIFI**) from the current approximately 50:50 ratio to a 60:40 ratio.

In preparation for the changes in version 2.0 of the STPIS we have recorded the reliability of supply performance over the past five years incorporating the change in sustained interruption threshold to ensure that we have the data to calculate future targets that are consistent with version 2.0 of the STPIS.

12.3 Distribution STPIS to apply for the 2024–2029 regulatory control period

TasNetworks proposes that the AER apply the components of version 2.0 of the STPIS to TasNetworks for the 2024-2029 regulatory control period in a manner that is consistent with the AER's proposed approach as set out in the Framework and Approach with the clarifications as set out in Table 1.

Table 1. Summary of AER's STPIS position in the 2024-2029 Framework and Approach and TasNetworks' proposed approach

STPIS component	AER's Framework and Approach position	TasNetworks' proposed approach
Revenue at risk	± 5 per cent	Accept
Segment the network	Segment the network according to the Tasmanian Electricity Code's supply reliability categories (critical infrastructure, high density commercial, urban, high density rural and low density rural).	Accept
Performance parameters	Apply the SAIDI, SAIFI and customer service (telephone answering) parameters. However, if TasNetworks' proposed customer service incentive scheme (**CSIS**) includes a similar performance measure, the telephone answering parameter of the STPIS will not be applied.	Accept, and propose a CSIS to replace the customer service parameter. The CSIS is detailed in Attachment 14 Customer service incentive scheme.
Performance targets	Set performance targets based on TasNetworks' average performance over the past five regulatory years.	Accept
Exclusions	Apply the method in the STPIS for excluding specific events from the calculation of annual performance and performance targets.	Accept
Incentive rates	Apply the latest published value of customer reliability (**VCR**) values by the AER to set the incentive rates for SAIDI and SAIFI.	Accept
Guaranteed Service Levels	Not apply the GSL component if TasNetworks remains subject to a jurisdictional GSL scheme (as set out in the Tasmanian Electricity Code).	Accept

Maintaining the revenue at risk at the current level of ± 5 per cent reflects our customers' feedback to maintain affordability and reliability of network services at current levels.

TasNetworks proposes to use data from 1 July 2017 to 30 June 2022 to set targets in this proposal and will update the targets using data from 1 July 2018 to 30 June 2023 in the Revised Proposal. TasNetworks proposes setting the major event day threshold using the methodology outlined in version 2.0 of the STPIS.

Table 2. Proposed STPIS distribution reliability performance targets and incentive rates for 2024-2029

Classification	SAIDI	Incentive rate	SAIFI	Incentive rate
Critical infrastructure	6.260	0.0027	0.078	0.1438
High Density Commercial	36.778	0.0032	0.365	0.2152
Urban	98.014	0.0351	1.080	2.1238
High Density Rural	241.273	0.0101	2.183	0.7425
Low Density Rural	375.790	0.0175	2.832	1.5485

Table 3. Proposed STPIS customer service targets and incentive rates for 2024-2029

Customer service parameter	Target	Incentive rate
Telephone answering	83.12%	-0.040

12.4 Rules requirements for transmission

The transmission STPIS is governed by NER clause 6A.7.4 and the arrangements established under that clause by the AER. It consists of three components:

1. a service component, which provides a reward or penalty of +/- 1.25 per cent of the maximum allowed revenue (**MAR**) for the relevant calendar year to improve network reliability by focussing on unplanned network outages and prompt restoration in the event of unplanned outages that cause supply interruptions. It is measured by four main parameters and various sub-parameters acting as key indicators
2. a market impact component (**MIC**), which provides a reward or penalty of up to +/- 1 per cent of the MAR for the relevant calendar year to minimise the impact of transmission outages that can impact the spot price and wholesale electricity market outcomes
3. a network capability component, which provides pro-rata incentive payment of up to 1.5 per cent of MAR for completion of operating expenditure (**opex**) or capital expenditure (**capex**) projects that improve network capability at times when it is most needed and provide value for money to customers.

In its Final Framework and Approach for TasNetworks, the AER concluded that STPIS version 5 will continue to apply for the 2024-2029 regulatory control period.[6] Therefore, in accordance with S6A.1.3(2) we are required to submit:

- proposed values for the service component parameters
- data for the market impact component for the preceding seven regulatory years and proposed parameter values for:
  - the performance target
  - the unplanned outage event limit
  - the dollar per dispatch interval incentive
- a Network Capability Incentive Parameter Action Plan (**NCIPAP**) containing proposed priority projects.

6 AER, *Final Framework and Approach for TasNetworks for the 2024-29 regulatory control period*, July 2022

12.5 Transmission STPIS to apply for the 2024–2029 regulatory control period

Our proposed performance targets, caps, collars, and weightings for the transmission STPIS parameters satisfy the requirements of version 5 of the STPIS.

In calculating our proposed performance targets, we have applied the methodologies specified in the scheme and the AER's Framework and Approach for TasNetworks. We have:

- established reliability targets to equal our average performance over the last five years in accordance with clause 3.2(f) of the scheme
- proposed weightings for each performance measure that are consistent with table 3.1 of the scheme
- proposed caps and collars, which are set using a reasonable methodology as explained below.

We propose to use our performance data for the period 2018 to 2022 for target setting purposes. The current proposed targets, which are based on the latest available data, being 2017 to 2021, will be updated at the Revised Proposal stage once the 2022 data is available.

Clause 3.2(e) of the STPIS specifies that the proposed caps and collars must be calculated by reference to the proposed performance targets and using a sound methodology. These may result in symmetric or asymmetric incentives for the Transmission network service provider (**TNSP**).

The proposed collars and caps have been developed using the same methodology as that adopted by the AER in our current determination. For asymmetrical distributions, this outcome is achieved by setting collars and caps at the 5th and 95th percentile. These percentiles have been calculated using the distribution which best fits the 2017-2021 performance data.

Table 4 below shows the assumed probability distribution for each sub-parameter that has been used to set caps and collars to apply for the forthcoming regulatory control period, as well as the proposed targets, collars, and caps for each of the service component parameters, using the methodology described above.

Table 4. Proposed STPIS performance targets for transmission for 2024-2029

Service component	Distribution	Cap	Target	Collar	Weighting (% of MAR)
Average circuit outage rate					
Lines event rate –fault	Log Normal	8.99%	14.65%	22.14%	0.20%
Transformer event – fault	Uniform	3.83%	7.31%	10.79%	0.20%
Reactive plane outage rate – fault	Normal	4.06%	17.44%	30.81%	0.10%
Lines event rate – forced	Log Normal	6.88%	15.98%	30.16%	0.10%
Transformer outage rate – forced	Log Normal	2.31%	6.59%	13.79%	0.10%
Reactive plant outage rate – forced	Log Normal	8.63%	15.51%	25.23%	0.05%
Loss of supply (LOS) events					
LOS>0.1 system minutes	Poisson	1	4	7	0.15%
LOS>1 system minutes	Poisson	0	0	2	0.15%
Average outage duration (minutes)	Log Normal	15.71	170.67	643.39	0.20%
Proper operation of equipment					
Failure of protection system	Weibull	1	3	6	0.00%
Material failure of SCADA	Poisson	0	2	4	0.00%
Incorrect operational isolation	Exponential	0	3	8	0.00%

12.5.1 Market impact component

Under version 5 of the STPIS, TasNetworks is required to submit data for the MIC in accordance with Appendix C of the scheme for the preceding seven regulatory years. We must also submit a proposed value for a performance target, unplanned outage event limit and dollar per dispatch interval incentive. This information is provided in Attachment 23.

TasNetworks considers the current design of the MIC is not suited to the current and future network operational conditions in Tasmania. The flow of energy over TasNetworks' transmission network is highly variable because of the operating behaviour of hydro-electric generation. This means it is inherently difficult to schedule planned outages at times of lower network constraints. TasNetworks collaborates with market participants and other stakeholders likely to be affected by a network outage to find the most convenient and efficient time for works. However, the nature of Tasmania's electricity system means it is difficult to forecast actual flows on the day of the outage making the use of predicted MIC impacts to influence the timing of planned outages a lottery.

Given these concerns, TasNetworks proposes that the MIC applied for the next regulatory control period be revised. A scheme similar to the MIC was historically used in the United Kingdom to incentivise the system operator to manage network outages. Following a review of incentives, a change was made in 2018 to base reward or penalty payments on a largely qualitative assessment of the outage management performance, measured against a forward plan. TasNetworks proposes that similar changes be made to the MIC. Under our proposed scheme, a TNSP would be able to avoid a MIC penalty in respect to an outage if it has consulted with affected market participants and delivers on an outage during the time agreed to.

The scheme would operate along the following lines:

- a secure page could be established on, for example the Australian Energy Market Operator's (**AEMO's**) website, access to which would be restricted to registered market participants
- each TNSP would place a notification of planned work in relation to a specified line and the timeframe required to complete the work
- the notification would be provided at least 13 months prior to a planned outage
- market participants would be given an automatic message when the page was updated
- market participants would have a month to provide feedback to the TNSP on their preferences for the timing of the outage
- the TNSP would weigh up the responses and determine the proposed timeframe for the outage
- if a market impact occurs as the result of the outage, the TNSP would provide the AER with the relevant information supporting the rationale for the timing of the proposed outage
- if it is demonstrable that the TNSP undertook the outage at the best time, no MIC penalty would apply.

To ensure symmetry in the scheme, the TNSP would initially be provided a bonus reflecting the cost of undertaking each consultation. A penalty would arise if the TNSP decides not to consult or is found to not have undertaken the outage at the appropriate time, with the current MIC count being used to calculate the size of the penalty.

TasNetworks recognises this is a departure from the current scheme but believes it will provide more targeted incentives that will encourage TNSPs to consult with affected parties leading to an improvement in the timing and notification of planned work. This should result in parties being more able to manage the impact on the market of those outages.

12.5.2 Network capability

A proposed NCIPAP has been developed in accordance with the requirements of version 5 of the STPIS. We have identified one low-cost priority project to improve network capability in the upcoming regulatory control period, summarised in the table below. The NCIPAP projects were identified based on analysis of project rankings to ensure that the selected projects delivered the best outcome for our customers.

Table 5 summarises the ranking of TasNetworks' proposed NCIPAP projects for the 2024-2029 regulatory control period. The scheme limits the value of NCIPAP projects to a combined expenditure limit of one percent of MAR; approximately $8 million for the 2024-2029 regulatory control period. Given the total project cost is below the expenditure limit, TasNetworks will continue to explore other projects to include in the NCIPAP over the 2024-2029 regulatory control period.

Table 4. TasNetworks' proposed 2024-2029 NCIPAP Projects

Tasnetworks project ranking	Project name	Scope of works	Payback period in years	Annual market benefits ($)	Project cost Level 1 estimate ($)	Project drivers and material benefit
1	Palmerston Substation terminal equipment upgrade	Upgrade terminal equipment at Palmerston Substation for Waddamana–Palmerston 220 kV transmission line	2.31	1,628,912	3,769,706	Upgrade terminal equipment limitation at Palmerston Substation on the Waddamana–Palmerston 220 kV transmission circuits, releasing available transmission capacity to support initial development of the Central Highlands Renewable Energy Zone. This increased rating would eliminate current congestion in the network allowing increased output of generation in the region.
Total project cost ($)					**$3,769,706**	

The STPIS guideline requires that TNSPs must consult with AEMO prior to submitting the NCIPAP[7] to assess and provide advice on the proposed projects to ensure the objectives of the scheme are achieved. The proposed NCIPAP for the 2024-2029 regulatory control period was shared with AEMO for review and endorsement in October 2022. Following its review of our proposed NCIPAP projects, AEMO agreed with the assessment of the proposed project needs, improvement targets, expected material benefits and ranking of proposed projects.

7 AER, Final Decision Electricity transmission network service providers, Service Target Performance Incentive Scheme Version 5, October 2015, page 13


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