



Explanatory statement

Draft electricity transmission network service providers service target performance incentive scheme

June 2015

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Contents

Executive Summary	1
1 Introduction	3
1.1. Development of the current scheme	3
1.2. Review of the current scheme	4
1.3. NER requirements	4
1.4. Structure of this document	5
2 Features of the current scheme	6
2.1. Service component	6
2.1.1 Average circuit outage rate.....	6
2.1.2 Loss of supply event frequency	6
2.1.3 Average outage duration	6
2.1.4 Proper operation of equipment	7
2.2. Market impact component	7
2.3. Network capability component	7
2.4. Annual compliance review	8
3 Proposed changes to the service component	9
3.1. Reasons for review	9
3.2. Stakeholder consultation	9
3.2.1 Stakeholder forum.....	9
3.2.2 Other stakeholder comments	9
3.3. AER position	10
3.3.1 Average circuit outage rate parameter	10
3.3.2 Forced unplanned outage circuit event rate sub-parameters.....	10
3.3.3 Other issues.....	11
4 Proposed changes to the market impact component	12
4.1. Reasons for review	12

4.2. Stakeholder consultation	12
4.2.1 Stakeholder forum.....	12
4.2.2 Other stakeholder comments	14
4.3. AER position	15
4.3.1 Rewards, penalties, and revenue at risk.....	15
4.3.2 Planned third party outages.....	17
4.3.3 Other changes.....	17
5 Proposed changes to the network capability component	19
5.1. Reasons for the review.....	19
5.2. Stakeholder consultation	19
5.2.1 Stakeholder forum.....	19
5.2.2 Other stakeholder comments	21
5.3. AER position	21
5.3.1 Continuation of the NCC	21
5.3.2 Proposed changes to the NCC.....	22
6 Other amendments to the scheme	26
6.1. Current annual STPIS compliance reporting requirements	26
6.2. Change in TNSP network tariff timeframes	26
6.3. Stakeholder consultation	26
6.4. AER position	27
7 Consultation process and invitation for submissions	28
7.1. Consultation process	28
7.2. Invitation for written submissions.....	28

Executive Summary

Under clause 6A.7.4 of the National Electricity Rules (NER), the Australian Energy Regulator (AER) is responsible for establishing and administering a service target performance incentive scheme (STPIS) for electricity transmission network service providers (TNSPs). The purpose of the STPIS is to provide incentives for TNSPs to improve or maintain a high level of service for the benefit of participants in the National Electricity Market (NEM) and end users of electricity.

The current version of the scheme has three components, the:

- service component (SC)—which measures network reliability and is designed to act as a lead indicator of potential reliability issues
- market impact component (MIC)—which is designed to incentivise TNSPs to improve network availability at times and on parts of the network that are most important to influencing wholesale electricity spot prices
- network capability component (NCC)—which is designed to drive TNSP operation and management of its network assets to develop low cost one-off projects that deliver value for money for consumers and that are not otherwise incentivised through the regulatory framework.

We propose to redesign some aspects of the scheme ahead of the next regulatory control periods for AusNet Services and Powerlink. We foreshadowed our intention to review some elements of the STPIS in the respective framework and approach papers.

Our review focused on making necessary improvements to ensure the scheme continues to provide value for money.

Based on the review, we have developed a draft decision of STPIS version 5, and we now seek stakeholder feedback on this draft. The consultation period ends on 28 July 2015.

The key amendments in draft STPIS version 5 are:

- The MIC has been amended to provide an incentive to improve performance and a disincentive towards performance reduction. This component now has a bonus/penalty of ± 1 per cent of maximum allowed revenue. Caps and floors have also been introduced to moderate variations and provide protection for one-off unforeseeable events.
- MIC counts arising from planned third party outages have been excluded. Thus planned and unplanned third party outages are now excluded.
- The incentive allowance for the NCC will now be able to be adjusted on a pro-rata basis to link the incentive to the total expenditure of approved projects.
- An enhanced ability for the AER to accept or reject priority projects in the network capability improvement performance plan (NCIPAP).
- The AER has a strengthened ability to conduct its ex-post assessment of priority projects.

- The NCC has been amended to clarify the information which TNSPs must provide to AEMO in the development and assessment of priority projects.
- The "average circuit outage rate" in the SC has been renamed the "unplanned outage circuit event rate".
- The forced outage sub-parameters in the SC were weighted at zero. Weightings have now been assigned to these sub-parameters and the incentive under the SC increased to ± 1.25 per cent of maximum allowed revenue (MAR).
- Exclusions for ramping constraints and T-connection agreements have been made to the MIC component. These were practically excluded in previous versions, but are now expressly excluded in version 5.
- Some editorial revisions have been made throughout the scheme for clarity and accuracy.

1 Introduction

We, the Australian Energy Regulator (AER), are responsible for regulating the revenue of electricity transmission network service providers (TNSPs) in the National Electricity Market (NEM) in accordance with the National Electricity Rules (NER).

Under clause 6A.7.4 of the NER, we are responsible for establishing the service target performance incentive scheme (STPIS). This scheme is designed to provide incentives for each TNSP to maintain or improve the reliability of transmission network services.

1.1 Development of the current scheme

The STPIS was based on the service standards guidelines developed by the Australian Competition and Consumer Commission (ACCC) in 2003. The ACCC service standards guidelines addressed the incentives provided to TNSPs under an ex ante revenue cap to reduce operating costs below forecast levels at the expense of service quality. The guidelines attempted to address this incentive by linking TNSPs' performance against defined service level measures to their regulated revenues.

In 2006 the Australian Energy Market Commission (AEMC) reviewed the framework for regulating electricity transmission networks. The new arrangements required us to release guidelines on its approach to regulation including a new service target performance incentive scheme.

We published the STPIS (version 1) in August 2007, incorporating the service measures that were previously used under the ACCC's service standards guidelines. These parameters included: circuit availability, loss of supply event frequency, and average outage duration collectively referred to as the service component (SC). The scheme focused on providing an incentive to TNSPs to improve network availability and reliability.

STPIS (version 1) did not address incentives on TNSPs to reduce the market impact of transmission congestion. Transmission network congestion can lead to higher wholesale prices, which in turn flows through to customer energy prices.

STPIS (version 2) was published in March 2008. This version retained the SC, and introduced a new market impact component (MIC). The MIC provided an incentive to TNSPs to improve the availability of the transmission system at times, and on those elements of the network, that are most important to determining spot prices.

STPIS (version 3) was published in March 2011. This version incorporated relatively minor amendments to the parameters to be applied to Powerlink in its 2012–2017 regulatory control period.

Following a comprehensive review of the STPIS, we released the STPIS (version 4) in December 2012. Version 4 encompassed the following key design changes: amending the SC to focus more on lead indicators of reliability; changing the way performance against the market impact component was measured; and the introduction of a new network capability component (NCC).

We released STPIS (version 4.1) in September 2014, which included adjustments to the MIC specifically for Directlink. Version 4.1 is the current version, and is substantially the same as version 4.

1.2 Review of the current scheme

While the STPIS was amended in 2012 following an extensive consultation process, since the introduction of STPIS (version 4), stakeholders have commented on the scheme through submissions to both the revenue resets and the annual STPIS compliance reviews.

In light of this feedback and through our review, we have identified some improvements that could be incorporated ahead of the next regulatory control periods for AusNet Services and Powerlink. We foreshadowed our intention to review some elements of the STPIS in the respective Framework & Approach papers.

As part of this review, we sought feedback from stakeholders through a forum on 18 May 2015. The forum was attended by 20 external stakeholders and AER staff and included representatives from network businesses (ElectraNet, Powerlink, APA Group, TransGrid, AusNet Services, TasNetworks, and Western Power), the AER Consumer Challenge Panel (CCP), Major Energy Users, the Australian Energy Market Operator (AEMO), and generators/customers (GDF Suez, Energyproject, Res Ltd and ERM).

This review focussed on improvements to ensure the scheme continues to provide value for money. The issues addressed are:

- reduced incentive and introduction of a reward/penalty design for the MIC
- planned third party outages in the MIC
- pro-rata the incentive allowance for the NCC
- payback period for network capability incentive parameter action plan (NCIPAP) projects
- ex-post assessment of NCIPAP projects
- information to be provided to AEMO in the NCC
- weighting of average outage circuit rate in the SC.

1.3 NER requirements

Our draft scheme complies with the principles set out in clause 6A.7.4 (a), which provides that we must develop a scheme that complies with a number of principles as listed in clause 6A.7.4 (b). The principles are that the STPIS should:

- 1) provide incentives for each Transmission Network Service Provider to:
 - i. provide greater reliability of the transmission system that is owned, controlled or operated by it at all times when Transmission Network Users place greatest value on the reliability of the transmission system; and
 - ii. improve and maintain the reliability of those elements of the transmission system that are most important to determining spot prices;

- 2) result in a potential adjustment to the revenue that the Transmission Network Service Provider may earn, from the provision of prescribed transmission services, in each regulatory year in respect of which the service target performance incentive scheme applies;
- 3) ensure that the maximum revenue increment or decrement as a result of the operation of the service target performance incentive scheme will fall within a range that is between 1 and 5 per cent of the maximum allowed revenue for the relevant regulatory year;
- 4) take into account the regulatory obligations or requirements with which Transmission Network Service Providers must comply;
- 5) take into account any other incentives provided for in the Rules that Transmission Network Service Providers have to minimise capital or operating expenditure; and
- 6) take into account the age and ratings of the assets comprising the relevant transmission system.

Clause 6A.7.4 (f) of the Electricity Rules allows us to amend or replace the service target performance incentive scheme from time to time. Any amendment or replacement of the STPIS must be made in accordance with the transmission consultation procedures.

The transmission consultation procedures in clause 6A.20 of the NER outline the process to be followed by the AER in developing the final STPIS. They require us to publish a draft of the proposed STPIS, an accompanying explanatory statement and invite written submissions on the proposed scheme. Within 80 business days of publishing a proposed STPIS, we must publish the final STPIS and an accompanying final decision.

1.4 Structure of this document

The remainder of the explanatory statement outlines our proposed amendments and the consultation process:

- chapter 2 – features of the current scheme
- chapter 3 – service component
- chapter 4 – market impact component
- chapter 5 – network capability component
- chapter 6 – other amendments to the scheme
- chapter 7 – consultation process.

2 Features of the current scheme

The current version of the scheme (version 4.1) consists of three components.

2.1 Service component

The SC provides an incentive (penalty/bonus) of +/- 1 per cent of maximum allowed revenue (MAR).

The SC incentivises network reliability by focussing on unplanned outages. It incentivises TNSPs to reduce the occurrence of unplanned outages and to return the network to service promptly after unplanned outages that lead to an interruption to supply. This component has been tailored to act as a lead indicator of potential reliability issues and to encourage TNSPs to maintain or improve performance.

The SC was amended in version 4 to use four parameters to measure performance.

2.1.1 Average circuit outage rate

This parameter measures the average number of times circuits were unavailable as a result of unplanned outages. An increase in the frequency of unplanned outages may be a lead indicator of a future reliability issue. This parameter does not measure either the duration of the outage or whether the outage caused a loss of supply or market impact. Any impact of the unplanned outage on the wholesale market is measured by the MIC.

2.1.2 Loss of supply event frequency

This parameter measures the number of unplanned outages during which there was a loss of supply. It measures the number of small events (where smaller loads are interrupted for short periods) and large events (where a customer with a large load is interrupted for even a short duration, or a customer with a moderate load is interrupted for a long duration). The parameter is designed to incentivise TNSPs to reduce the duration of moderate and small customer interruptions through fast response times and to reduce the frequency of large customer interruptions through improved reliability.

2.1.3 Average outage duration

This parameter measures the average length (minutes) of unplanned outages where a loss of supply has occurred. It uses the time a TNSP takes to restore plant as a proxy for measuring the effectiveness of the TNSP's operational response to unplanned events. The parameter focuses on loss of supply events to incentivise TNSPs to focus on those unplanned outages with the greatest impact on customers.

2.1.4 Proper operation of equipment

This parameter measures the number of incidents where a protection or control system has failed or where there has been incorrect operational isolation of equipment during maintenance. These events can cause an unplanned outage of primary transmission equipment and act as a lead indicator of reliability. This is a new parameter introduced on a reporting only basis.

2.2 Market impact component

Under the current MIC, a TNSP may earn up to 2 per cent of its MAR for the relevant calendar year. Unlike the SC and NCC, the MIC currently has no financial penalty.

The MIC provides financial rewards to TNSPs for improvements in their performance measured against a performance target; it incentivises TNSPs to minimise the impact of their transmission outages that materially affect the NEM spot price. This measures the number of dispatch intervals when an outage of a TNSP's network results in a network outage constraint binding with a marginal value greater than \$10/MWh (the MIC count).¹

The performance target is an average of the previous three years of performance, with performance measured as a rolling average of the most recent two years of performance.² These targets are published annually after we have conducted the annual STPIS compliance review.

AusNet Services commenced STPIS version 4 on 1 April 2014 and TransGrid and TasNetworks had the MIC of version 4 applied in their transitional years (2014–15). Directlink will commence version 4.1 on 1 July 2015. The MIC was first introduced in 2008. Its efficacy is evidenced by the reduction in the number of MIC counts following its application, and therefore, the market impacts of transmission outages—noting that the vast majority of constraints affecting the market are planned and within TNSP control.

2.3 Network capability component

The NCC, introduced in version 4 of the STPIS, provides an incentive of 1.5 per cent of MAR subject to the completion of projects that improve the capability of the transmission network at times most needed. The component is designed to influence a TNSP's operation and management of its network assets to develop one-off projects that can be delivered through low cost operational and capital expenditure (up to a total of 1 per cent of the proposed MAR per year). AEMO plays a part in prioritising the projects to deliver best value for money for consumers.

Under the NCC, a TNSP is required to submit, as part of its revenue proposal, a network capability incentive parameter action plan (NCIPAP). The TNSP must consult AEMO in developing the NCIPAP.

¹ AER, *Final - Service Target Performance Incentive Scheme*, September 2014, Appendix C.

² AER, *Final - Service Target Performance Incentive Scheme*, September 2014, cl. 4.2(d) and Appendix F.

The NCIPAP must outline the key network capability limitations on each transmission circuit or load injection point on the TNSP's network. The TNSP should also include a list of projects (priority projects) designed to improve, through operational and/or minor capital expenditure, some of the network capability limitations identified and the value of the priority project improvement target for the projects. The TNSP ranks the priority projects based on the likely benefit of the projects on customers or wholesale market outcomes in descending order. AEMO's role includes prioritising the projects that will deliver best value for money for consumers and ranking those priority projects. The total annual average expenditure of the projects listed cannot exceed 1 per cent of the MAR proposed by the TNSP.

When determining whether a target would result in a material benefit, we take into account the factors outlined in the scheme, including the likely benefits to the wholesale market or to customers. A material benefit in this sense takes into account the effect the achievement of the target would have on spot price outcomes or improved capability of the transmission system at those times when customers place greatest value on its reliability.

In the annual STPIS compliance review, TNSPs are required to report on steps taken towards reaching the priority project improvement target, including any measurable improvements in network capability as a result of implementing a priority project.

In the first part of the regulatory control period the TNSP receives annual incentive payments equivalent to 1.5 per cent of the MAR to fund projects outlined in the NCIPAP. For the final regulatory year, we assess whether the TNSP has achieved the priority project improvement targets for all the priority projects, based on the annual compliance report following the end of the regulatory control period. If the TNSP has not achieved the priority project improvement targets for the regulatory control period or a priority project costs more than the expenditure outlined in the NCIPAP, then we may reduce the incentive payment of per project by a proportion of the MAR. Projects ranked in the top half of approved priority projects are subject to a higher reduction rate than projects ranked in the bottom half.

2.4 Annual compliance review

TNSPs are required to report their compliance with the scheme under the TNSP Information Guidelines (or a regulatory information notice, if applicable). We provide TNSPs with a customised service performance reporting template by 15 December each year. TNSPs are required to fill out the reporting template in accordance with the TNSP Information Guidelines and provide the completed template to the AER by 1 February the following year. We assess the TNSP's performance against the STPIS parameters for the preceding calendar year and verify the financial bonus or penalty to be recovered by the TNSP.

3 Proposed changes to the service component

This chapter sets out our proposed amendments to the SC parameters.

3.1 Reasons for review

The average circuit outage rate sub-parameters in the SC introduced in version 4 were divided between forced and fault outages because TNSPs did not have the available data at the time for forced outages.³ Forced sub-parameters were weighted at zero while fault outages were weighted at 0.5 per cent of MAR. Due to information gathered in the AER's Economic Benchmarking Regulatory Information Notices, the forced and fault sub-parameters can now be amalgamated and/or non-zero weightings set for the forced sub-parameters.

3.2 Stakeholder consultation

3.2.1 Stakeholder forum

At the stakeholder forum, AER staff sought feedback on whether to amalgamate the forced and fault outage sub-parameters in the average circuit outage rate parameter.

AusNet Services indicated a preference to keep forced and fault parameters separate to prevent the occurrence of fault outages by taking more forced outages (which generally have less impact on customers). AusNet Services also proposed that a non-zero weighting be assigned to forced outages. Powerlink and ElectraNet supported amalgamating the parameters; they considered that it would dilute the incentives under the average circuit outage rate parameter as the 0.5 per cent weighting would have to be distributed across six sub-parameters instead of three. A reduction of revenue at risk for each sub-parameter could reduce the incentive such that the cost required improving or maintaining performance outweighs the financial benefit.

3.2.2 Other stakeholder comments

During the determination process for AusNet Services' 2014-17 regulatory control period, AusNet Services and the AER's consultants (EMCa) raised minor issues around the terminology and formula used for the average circuit outage rate parameter. EMCa suggested that the average circuit outage rate parameter be amended in the following ways, the parameter:

- be renamed the "unplanned outage circuit event rate" to better reflect that the parameter effectively measures the event rate of unplanned outages (per 100 circuits)
- formula be amended by removing the percentage symbol. Expressing the parameter as a percentage is incorrect due to the fact that any one circuit may have one or more events on it within a year.

³ A forced outage is an urgent outage taken with less than 24 hours notice to AEMO or customers.

Following the stakeholder forum, TasNetworks and the MEU provided comments on the SC.

TasNetworks supported the amalgamation of the forced and fault outage sub-parameters.

The MEU considered that as data is collected, new parameters should be introduced. In addition, the MEU also raised concerns that some of the SC parameters used static targets which are based on five years of recorded data. This means the oldest data used would be over a decade old by the end of the regulatory control period in which it was used to set a performance target. The MEU considered this could be addressed by the introduction of rolling targets for all service component parameters and the use of rolling targets could be extended to the distribution STPIS as well.

3.3 AER position

3.3.1 Average circuit outage rate parameter

We propose to accept the minor changes proposed by EMCa. Accordingly, we have renamed the "average circuit outage rate parameter" the "unplanned outage circuit event rate" and have removed the percentage symbol from the parameter formula. There has been flow on amendments to sub-parameter naming for consistency. This better describes what the parameter seeks to measure and the removal of the percentage symbol will avoid confusion as to how performance is calculated. These amendments will not have any material impact on how TNSPs gather and report data for this parameter.

3.3.2 Forced unplanned outage circuit event rate sub-parameters

We propose that the forced and fault unplanned outage circuit event rate sub-parameters remain separate. We agree with AusNet Services that forced and fault outages should be treated differently by TNSPs, as forced outages are generally preferable to fault outages.

The draft scheme differentiates between forced and fault outages by introducing non-zero weightings to the forced unplanned outage circuit event rate sub-parameters. To prevent the dilution of the financial incentive for the unplanned outage circuit event rate parameter, we propose to increase the revenue at risk for this parameter by allocating an additional 0.25 per cent to the forced unplanned circuit event rate outage sub-parameters. We consider this appropriate as the unplanned outage circuit event rate parameter is a lead indicator of system reliability and incentivises TNSPs to maintain and/or improve the reliability of their networks. This increases the revenue at risk for the service component to ± 1.25 per cent.

The forced unplanned outage circuit event rate sub-parameters will have a total weighting of 0.25 per cent compared to the weighting of 0.5 per cent for the equivalent fault outage sub-parameters. We consider this weighting is appropriate as forced outages usually have less impact on customers than fault outages while still providing TNSPs a meaningful incentive.

Different weightings have been assigned to the unplanned outage circuit event rate sub-parameters for Directlink and Murraylink. Only two sub-parameters apply to the interconnectors: circuit event rate - fault, and circuit event rate - forced. The weighting for the circuit event rate - fault sub-parameter has been revised from 1 per cent to 0.75 per cent and a weighting of 0.50 per cent given to the circuit event rate - forced sub-parameter.

We note that while the revenue at risk has increased for the service component, overall, this is offset by amendments to the revenue at risk for the market impact component.

3.3.3 Other issues

With respect to the MEU comments regarding the introduction of new parameters and the use of rolling performance targets for all service component parameters, we do not propose to make any such amendments at this time. The current arrangements in the SC were introduced in version 4. We consider that there has not been enough time yet for these lead indicators to develop sufficiently, as they have not yet been subject to extensive application by TNSPs or comments by stakeholders. We may however consider moving to rolling performance targets for service component parameters in future reviews.

4 Proposed changes to the market impact component

This chapter sets out our proposed amendments to the MIC.

4.1 Reasons for review

In the recent Framework and Approach papers of Powerlink and AusNet Services, we stated that a review of the STPIS would be undertaken in 2015. Any revisions made to the STPIS would apply to both TNSPs in their upcoming regulatory control periods.⁴

At the time the MIC was introduced, demand and network congestion were both expected to increase. Given the maturity of the MIC, improvements to TNSP operating practices and the cost of responding to the MIC being rolled into operating expenditure, the current revenue at risk (0 to 2 per cent) and the bonus-only nature of the scheme may no longer be warranted.

The one-sided nature of the incentive and significant variation in incentive rewards resulting from extreme swings in performance has been highlighted by some stakeholders and observed by AER staff.

Version 4 removed the ability to exclude planned third party outages in the MIC to encourage TNSPs to actively negotiate with third parties to both select connection options that would reduce the impact of potential outages on the shared network. However, we have received feedback suggesting that this change has not worked as intended: TNSPs have responded by shifting the risk of outage impacts to third parties through commercial contractual arrangements.

4.2 Stakeholder consultation

AER staff sought stakeholder feedback on these issues.

4.2.1 Stakeholder forum

Feedback from a number of generator and retail participants indicated general support for the efficacy of the scheme in improving maintenance planning of TNSPs and the value of providing a mechanism linking TNSP behaviour to market outcomes.

Powerlink questioned whether the change to the bonus-only nature of the scheme was necessary given the amendments to the MIC made in version 4. ElectraNet noted that owing to the physical nature of its network and the variation of market outcome with highly unpredictable wind generation, in the long run, it did not consider that an annual 2 per cent return is achievable.

⁴ AER, 31 March 2015, *Final framework and approach for AusNet Services*, p.5;
AER, 5 March 2015, *Preliminary framework and approach for Powerlink*, p.4.

AusNet Services suggested that the MIC had produced substantial benefits for customers. Their intention was to continue to improve their performance so that they would continue to receive MIC incentive payments. AusNet Services referred to TransGrid's analysis showing the MIC had resulted in benefits to customers several times greater than the MIC incentive payments. It recognised that overall congestion was decreasing in the network, but noted there was increasing congestion across interconnectors.

APA Group (Murraylink and Directlink) noted that the nature of maintenance on interconnectors requires co-ordination of outages with connected TNSPs to minimise market costs. When a TNSP changes its outage time close to the scheduled co-ordinated outage time, APA may incur mobilisation costs. The costs (such as to re-schedule contractors) can exceed the potential MIC benefits. Under a reward/penalty MIC, APA may be subject to further penalties for events outside its control. ElectraNet agreed with APA that a TNSP would incur costs if there was a short term cancellation of co-ordinated outages between two TNSPs. AusNet Services considered that outages were difficult to co-ordinate between TNSPs caused by different project drivers. ElectraNet and AusNet Services commented that, in contrast to APA, coordinated outages constitute only a small part of their total outages.

APA commented that, because the net benefits of the scheme exceed the cost of the scheme, then it may not matter that the TNSPs have a positive-only incentive. APA requested that the AER undertake a quantitative assessment of the benefits of the MIC. In contrast, members of consumer advocacy groups considered that the scheme was producing lop-sided outcomes in favour of the TNSPs, and questioned why consumers should have to pay for asymmetric outcomes, such as the mobilisation costs referred to by APA. GDF Suez considered that the benefits of the scheme derived by customers may not off-set the scheme costs.

The MEU observed that all the incentive schemes (STPIS and the efficiency benefit sharing scheme (EBSS)) should work together; when there is no penalty on the MIC, then there is an overt incentive to reduce operational expenditure and retain benefits under the EBSS. The MEU supported a reward/penalty incentive for the MIC. It further noted that, as TNSPs will have had a cycle of the MIC, then the additional costs to generate the MIC rewards are now embedded into actual operating expenditure which will influence future operating expenditure allowances.

A key concern raised by AusNet Services and ElectraNet was the potential volatility of the MIC incentive, and that long outages could significantly affect annual performance (some of which may be uncontrollable). AusNet Services commented that the application of the third party exclusion and passing this onto customers was in accordance with their understanding of its intended consequence.

ERM considered that the annual performance targets for TNSPs should be published via the AER website and where possible, actual monthly MIC data for each TNSP year to date. ERM considered that this increased transparency would assist participants in better understanding TNSP behaviour. ERM also noted that future STPIS reviews should consider the quality and usefulness to participants of AEMO's published Network Outage Schedule (NOS) information. TNSPs are currently not rewarded for timeliness and accuracy of network element outages nor are they punished for poor network outage planning outcomes. ERM

provided examples of short notice outages and considered that these should incur a greater penalty than that currently allowed for in the current MIC as participants have no ability to undertake risk management prior to the short notice outage commencing.

4.2.2 Other stakeholder comments

We invited participants to set their initial thoughts out in writing, following the forum. A number of participants at the stakeholder forum followed up with their views.

4.2.2.1 TasNetworks

TasNetworks has no concern with reduced revenue at risk and noted that the rolling three and two year averages for target and measure have already reduced revenue at risk in most cases. TasNetworks set out that the bonus-only nature of the MIC is currently driving good behaviours and that it does not appear any TNSP has yet achieved the efficiency frontier for this measure. It suggested that, to move to a reward/penalty scheme is not preferred due to the volatility inherent in the MIC, and the influence of other parties on the achievement of MIC management. TasNetworks would like third party planned outages excluded for consistency with the application of exclusions with other measures as, despite a TNSPs best efforts, it ultimately has no control over a third party's activities.

4.2.2.2 Consumer representatives

The MEU noted that the work that TNSPs do to limit the amount of congestion through better scheduling provides a benefit to consumers. Consumers expect TNSPs to deliver the service using "best industry practice". They noted that the bulk of the work is covered by allowed operating expenditure.

Both the MEU and the CCP raised concerns that Powerlink has consistently received a near maximum bonus. The CCP submitted some analysis to demonstrate the bonus-only outcomes of the scheme, showing that Powerlink has been the major beneficiary of the scheme. The CCP stated that Powerlink is achieving these outcomes with minimal effort and suggested that Powerlink have achieved historical returns on their incremental costs of over 2000/1. The CCP outlined its deep concerns that these returns achieved by Powerlink are not in consumers' long-term interests.

The MEU observed there are two elements to this:

1. The actual "efficient year" operating expenditure has grown to allow the additional costs to provide the improved service, so roll forward of the efficient operating expenditure would include costs incurred by TNSPs—thus the reward is funded by consumers.
2. An efficient scheme would ensure that the target changes to reflect the actual performance (in this case reduces over time) so that there is a continual push to have to earn the bonus.

Both the MEU and CCP representatives cautioned that TNSPs should not be allowed to reduce operating expenditure to claim an EBSS bonus, and that the MIC should not be considered in isolation from other incentive schemes.

The CCP representative proposed that the bonus be set at no more than ± 1 per cent of operating expenditure, or ± 1 per cent of an appropriate component of operating expenditure (for example, outage management costs).

4.2.2.3 APA Group

APA Group operates the Directlink and Murraylink interconnectors. APA submitted that the MIC impacts interconnectors more than other TNSPs – first by requiring more effort to obtain the incentive, and second by the size of the incentive payment. In contrast to other TNSPs, every outage by an interconnector impacts another TNSP and must be coordinated with two TNSPs, one on each end. This adds additional complexity and coordination effort to interconnectors' outage and maintenance planning.

APA identified the beneficiary of the MIC incentive scheme is the customers, and stated that the cost of the scheme is far exceeded by the pool price reductions. APA does not support a reduction in the value of this incentive by either reducing its maximum, or making it a reward/penalty scheme. APA says this will reduce the incentive for the interconnectors to coordinate their outages, and potentially cause the incentive to fail to meet its objectives.

4.3 AER position

The changes we are proposing are consistent with the NEO, STPIS objectives and principles in clause 6A.7.4 (b).

In the past, we have considered various options to make the MIC a reward/penalty scheme. In the 2012 review, we noted that upon the introduction of the MIC, TNSPs may have incurred additional operating expenditure by changing their maintenance procedures in order to minimise the impact of outages on the market. For example, by scheduling maintenance during off-peak periods or conducting live-line work. However, this issue is one of transition now that the MIC applies to all TNSPs and allowances have been built into operating budgets to accommodate enhanced maintenance timing.

At the stakeholder forum, APA Group raised the issue of mobilisation costs. APA expressed concern that mobilisation costs and coordination costs with connecting TNSPs exceed any MIC benefits. Where a co-ordinating TNSPs cancels the works, APA was concerned that it would incur penalties for issues outside its control. We note that using a rolling performance target means that performance is measured relative to past performance level. Improvements, relative to past performance, would be rewarded and a relative decline in performance would be dis-incentivised.

We explored the issue of the TNSPs risk exposure to volatility under a reward/penalty scheme design, particularly given that capital works program can be lumpy in nature. In this respect, we are proposing to introduce a cap on the number of counts that can occur as a result of a single outage event of 17 per cent of the annual target. The capped counts are then used for the calculation of the performance measure and target.

4.3.1 Rewards, penalties, and revenue at risk

Given that, over the last 8 years, the MIC has provided an effective reward for TNSPs to improve their performance, we consider that the MIC may now be able to provide a reward/penalty, providing the mechanisms discussed earlier are incorporated to ameliorate volatility and manage risk. Using the work done by the AEMC on Optional Firm Access as a lead, the introduction of nested or simple caps would reduce the volatility and potential risk. We explored two options regarding the MIC incentive:

Option 1: Retain the bonus-only design of the scheme but reduce available bonus

Retaining a "bonus-only" design while reducing the available bonus would reduce payment levels and reduce the cost to customers. However, this does little but reduce its financial leverage. This is not our preferred option.

Option 2: Introduce a penalty/reward scheme design

This design will reduce the cost of the scheme to customers while still rewarding TNSPs for ongoing reductions against their targets. We propose a MIC scheme with the following features:

- ± 1 per cent revenue at risk, for which a performance measure:
 - of zero delivers a 1 per cent reward (+1 per cent)
 - double the performance target delivers a 1 per cent penalty (-1 per cent)
- the number of counts from an individual event is capped at a maximum of 17 per cent of the performance target
- the capped results are used in the calculation of targets and performance measures
- implementing a minimum performance target of 100 counts.

This scheme would be equivalent in process to STPIS version 4.1.

This scheme addresses performance volatility with relatively simple changes to the design. The introduction of caps would mitigate the risk of unforeseen events, significant capex projects or major outages dramatically changing the measure and target. We modelled a range of potential behaviours and circumstances to establish the single event maximum cap at 17 per cent of the performance target. Our modelling showed that a cap in the range of 15 – 20 per cent mitigates potential volatility in the target and performance measures while maintaining flexibility in the outcomes and minimising the impact of single adverse events. Furthermore there has been some concern regarding the potential for the value per individual performance count to become excessive. By setting a minimum performance target, TNSPs that achieve a performance measure below this level will receive an incentive payment but the value per count does not become excessive. Based on historical MIC performance and the current revenue at risk for TNSPs, we consider that that a minimum performance target of 100 is appropriate.

Most TNSP operating expenditure allowances now effectively incorporate efficient maintenance practice costs and MIC targets are based on historical performance reflecting those improved practices and will be recalculated to incorporate the cap approach. An

efficient TNSP under this scheme should be “in balance” while a TNSP that improves its performance should receive additional incentives.

4.3.2 Planned third party outages

Third party outages are outages taken or caused by third party owners of non-prescribed assets which are connected to a TNSP’s prescribed network or by the failure or outages on third party equipment. These arrangements are usually governed by connection agreements between the parties. When undertaking new connections or maintenance of their non-prescribed asset, third parties may typically request that associated prescribed assets are taken out of service. The TNSP has some influence over the timing of any outage of its prescribed assets and, therefore, the timing of the third party’s planned outage.

In earlier versions of the scheme all third party outages were excluded from the TNSP’s MIC count. In version 4 the ability to exclude planned third party outages from TNSPs’ performance under the MIC was removed. This was intended to provide an incentive for TNSPs to actively negotiate with third parties to select connection options that would reduce the impact of potential outages in the future on the main network, and to ensure that both parties considered the timing of works to minimise the market impact.

Subsequently, some TNSPs have been advising third parties (including AEMO) that foregone MIC incentive payments for third party planned outages represents a project cost to be recovered from those customers. This is an outcome which makes the TNSP indifferent to the market impact of the outage by transferring the associated risk onto third parties. Third parties:

- may not be sufficiently aware of either the impact on the market or the details of the scheme to negotiate these charges, or
- have projects of sufficient financial resilience to support the additional costs and risks that the obligation to "make the TNSP whole" may impose.

We further understand that passing on the cost of foregone revenue to third parties cannot be done consistently. That is, some existing connection agreements do not allow for these costs to be "passed through", while new connection applicants are currently negotiating clauses around these costs in their connection agreements.

We considered potential enhancements to mitigate this outcome and accordingly we propose to reintroduce exclusion for planned third party outages.

4.3.3 Other changes

4.3.3.1 Introduction of new exclusion clauses

We have redrafted parts of the scheme to reflect current practice. We introduced two exclusion clauses for clarity; both address circumstances which have not been included in the scheme historically. Thus the introduction of these exclusion clauses should not impact the continuity of performance targets or measures.

We introduced an exclusion to address ramping constraints (clause 10). This clause excludes network constraints that are invoked by AEMO prior to the commencement of a planned network outage for the purpose of transitioning of one level of network flow to another to reduce the impact of that outage.

We introduced an exclusion for transmission connection agreements where a lower service standard has been negotiated giving the TNSP the right to disrupt service (supply) under certain network conditions (clause 11). This clause relates to specific T-connection agreements for some wind-farms in South Australia which have not been included in the scheme.

4.3.3.2 References to Directlink fire

We removed the references to the Directlink fire that were introduced in version 4.1 as these clauses will not be relevant when Directlink moves into its next regulatory control period and it adopts version 5.

4.3.3.3 Statistical outlier adjustment

We introduced new clauses 4.2(e) and 4.2(f), to enable us to make adjustments to performance targets to allow for statistical outliers or for performance where we consider the objectives of the scheme will not be met. We envisage that these clauses would be used for unusual circumstances, such as the Directlink fire, without requiring a scheme amendment such as was the subject of version 4.1.

4.3.3.4 Editorial amendments

We made editorial amendments and updated references to contemporary versions of the NER.

4.3.3.5 Other proposed changes

Regarding ERM's proposal to publish annual TNSP performance targets and monthly performance data, we note that annual performance targets are available on the AER website.⁵ The data and computational burden to produce monthly or year-to-date performance measures is quite significant for both the participants and the AER and while transparency is of value, it is unclear how these figures would benefit customers or change behaviour. Consequently we do not propose to pursue such reporting requirements. We would consider exploring more detailed reporting and publication of MIC performance if doing so would be promote the objectives and principles of the STPIS. We welcome further submissions from interested parties on this issue.

⁵ The performance targets for TNSPs which are subject to version 4 or version 4.1 of the MIC are calculated as part of the annual STPIS compliance reviews, see <http://www.aer.gov.au/node/484>. The performance targets of TNSPs which are subject to earlier versions of the MIC can be found in their revenue determinations.

5 Proposed changes to the network capability component

This chapter sets out our proposed amendments to the NCC.

5.1 Reasons for the review

When first introduced in 2012, the NCC was intended to apply to TNSPs for one regulatory period, with a review after one regulatory cycle to determine whether an ongoing NCC is appropriate.⁶ Currently, 4 of the 5 eligible TNSPs have applied the NCC, with Powerlink the only eligible TNSP which has not yet applied the NCC. If no change is made to the STPIS, AusNet Services will apply the NCC for a second time when it commences its 2017–22 regulatory control period.

Since its introduction, stakeholders have raised concerns during the revenue determination process about the value which the NCC provides for consumers.

In light of these issues, it is appropriate we review the NCC and whether an ongoing incentive of this nature is appropriate.

5.2 Stakeholder consultation

5.2.1 Stakeholder forum

At the stakeholder forum, AER staff recognised the concerns which stakeholders had expressed about the NCC and sought views on whether the component should be discontinued. AER staff also sought feedback on potential changes which could be made to the NCC to provide better value for consumers, including whether to:

- make the incentive scheme allowance proportionate to the total proposed cost of the approved priority projects.
- require consideration of the payback period of a priority project when assessing whether there is a material benefit.
- strengthen the ex-post assessment of priority projects by allowing the AER to penalise a TNSP where a priority project has been completed but no benefits have been realised. AEMO could have a role in assisting the AER with this ex-post assessment.
- clarify the information to be provided to AEMO by TNSPs to assist in the development and assessment of priority projects.

Representatives of the MEU and the CCP supported the continuation of the NCC subject to scheme changes to ensure the component provided better value for consumers. The three key changes which the consumer representatives supported were:

⁶ AER, 4 September 2012, *Explanatory statement - electricity transmission network service providers draft service target performance incentive scheme*, p.36.

- linking the incentive allowance to the total cost of approved priority projects
- approving priority projects only when there is a payback period of two to three years
- not approving a priority project if it is a project which the TNSP should be funding from its normal capital expenditure and operational expenditure allowances.

AEMO noted that if the incentive allowance was made pro-rata, by not "searching" for projects to make up 1 per cent of proposed MAR, fewer projects with long payback periods will be needed. Under the fixed incentive allowance, projects with longer payback periods have been included to ensure value for money was provided for consumers.

ElectraNet queried whether exploratory projects (i.e. planning studies or research projects) could be included if there was a mandatory payback period for priority projects. ElectraNet commented that determining payback periods for projects such as load research was problematic, but that these projects materially improved their overall planning and expenditure. The MEU considered that benefits could still be quantified using a sensible long term assessment approach.

ElectraNet noted that the assessment of benefits after the fact were problematic for a range of projects. As the projects are very small scale assessment should be limited to "was the project completed" or "was the increase in rating achieved" rather than seeking to establish the actual market benefits delivered versus the relatively large "noise level".

Powerlink asked whether consumers thought the NCC should be continued and noted that the component required TNSPs to undertake a significant amount of work. The MEU reiterated its support for the NCC to continue provided changes are made to ensure better the component provides value for money is provided for consumers. The MEU noted that despite the work involved for TNSPs, the incentive allowance provided a generous return for TNSPs, especially compared to other industries. The MEU did not have any objections to a TNSP earning such a generous return provided the projects it was undertaking could be shown to provide substantial benefits to consumers.

ERM raised concerns that some priority projects possibly form part of TNSP normal expenditure approval processes. Specifically, ERM gave an example of certain priority projects in ElectraNet's NCIPAP, which seek to increase the transfer capacity of the Heywood interconnector. It considered that these projects should have formed part of the Heywood interconnector regulatory investment test. In addition ERM raised concerns that TNSPs may game the NCC, due to the lack of transparency in network limit adjustments and re-rating of transmission elements by TNSPs. While ERM was not aware of this happening under the NCC, it provided an example of a line de-rating by TransGrid which affected the cost-benefit assessment of the Queensland–NSW interconnector regulatory investment test.

Several TNSPs raised concerns about our proposal for an ex-post assessment of whether the benefits of a priority project have been achieved. Their two main concerns were:

- this may result in a TNSP being penalised unfairly by changes in circumstances outside of its control
- it was unclear how an ex-post assessment of benefits could be undertaken in a robust manner.

AEMO suggested that the AER may be able to provide further specific guidance for TNSPs in this area. The MEU suggested that for priority projects which are designed to prevent the occurrence of high impact-low probability events, one ex-post assessment method could be to compare the impact of a similar event in another part of the TNSP's network.

In the relation to the proposal for AEMO to have a role in the ex-post assessment of priority projects, Powerlink noted the current NEM governance review and it was important for the AER not to derogate its responsibilities under the STPIS to other bodies (AEMO).

5.2.2 Other stakeholder comments

Written comments were received after the forum from TasNetworks and the MEU.

TasNetworks agreed with the proposal to pro-rata the incentive allowance and introduce explicit consideration of priority project payback periods by the AER and had no concerns with amendments to clarify information requirements between AEMO and TNSPs. However TasNetworks considered that increased ex-post assessment of priority projects was unnecessary due to the thorough project development process involving both the TNSP and AEMO as the AER's technical reviewer. It also noted that it did not have any concerns with AEMO having a role in the ex-post assessment of priority projects.

The MEU agreed with the changes proposed by AER staff and elaborated on some of the points it raised at the stakeholder forum.

The MEU reiterated that the NCC should ideally only be applied to projects which cannot be funded through a TNSP's operating and/or capital expenditure allowance. However an exception may be made for projects which the TNSP can fund from its operating and/or capital allowance but is not incentivised to undertake. These projects would be required to have a payback set at a lower value less than the payback for projects which cannot be funded from a TNSPs operating and capital expenditure allowance.

The MEU considered that priority projects should have a payback period of no more than 4 years. The inputs for the ex-ante calculation of those benefits should be based on real and observable data as far as possible, as well as the likelihood of the benefit being realised within a reasonable period. This includes an assessment of the likelihood of the conditions leading to the benefit occurring (i.e. the likelihood of bushfires occurring in a particular area). If the likelihood of occurrence is greater than the payback period limit of 4 years then it should not be included. Customers should not pay for projects that will deliver a benefit well beyond the immediate timeframe.

In relation to the ex-post review of priority projects, the MEU stated that this should be a review based on whether the assumptions are still valid. It is important to reflect that the project might be done ahead of the end of the regulatory period when the review is being carried out. This review would also inform whether a TNSP is good at assessing the value of projects and expected benefits.

5.3 AER position

5.3.1 Continuation of the NCC

There is broad support from both TNSPs and consumer representatives for an incentive of this nature to continue. While stakeholders have raised concerns about the NCC, the majority of these concerns relate to certain design elements of the NCC and not the rationale for having an incentive for TNSPs to improve network capability. We therefore propose to retain the NCC but with some amendments to address stakeholder concerns.

The rationale for the introduction of the NCC was to incentivise TNSPs to deliver efficient levels of network capability from existing assets when it is most needed. While TNSPs are best placed to identify the limitations on their network which can be improved through low cost measures, the current regulatory framework does not promote or provide scope for TNSPs to undertake such projects. The NCC incentivises TNSPs to reveal the capability of parts of their existing network and to identify low cost measures to improve network capability that would provide greater value to generators and customers. This promotes the achievement of the principles set out in clause 6A.7.4 (b) of the NER and the National Electricity Objective (NEO)⁷, and is consistent with the STPIS objectives set out in clause 1.4 of this draft scheme.

Our review of the application of the NCC to TNSPs has shown that the component is meeting these objectives. However we recognise that the value of the NCC could be enhanced. We note that the fixed incentive allowance of 1.5 per cent of MAR has made it difficult to ensure that customers derive the most benefit from the implementation of the component. The experience to date has shown that at times it has been difficult to identify a sufficient number of valuable projects during the NCIPAP process to meet the 1 per cent of proposed MAR threshold. As a result, network users would have derived better value for money from an incentive pro-rated to the cost of projects rather than a fixed 1.5 per cent incentive payment.

5.3.2 Proposed changes to the NCC

Amendments to improve value for customers and better promote the NEO

We propose the following changes to the NCC to improve the value for customers. The draft scheme now:

- pro-rates the incentive allowance to 1.5 times the total cost of the priority projects (capped at 1.5 per cent of the TNSP's MAR)
- introduces a specific requirement for the AER to consider the payback period of a priority project and whether an efficient TNSP would undertake the project absent the NCC when considering the material benefits of a priority project
- strengthens the AER's ability to reduce the incentive allowance in the final year of the regulatory control period where there is a material change in circumstances which results in the implementation of the priority project no longer having any material benefits

⁷ Defined in section 7 of the National Electricity Law as 'to promote efficient investment in , and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to- (a) price, quality, safety, reliability and security of supply of electricity; and (b) the reliability, safety and security of the national electricity system.

- provides greater flexibility for TNSPs to propose additional priority projects during the regulatory control period.

By linking the incentive allowance to the total cost of the priority projects, this will ensure customers only pay an amount proportionate to the priority projects which the TNSP will implement during the regulatory control period. This, in addition to clarifying the AER's ability to exclude priority projects, will ensure customers receive better value for money and promote TNSPs to deliver efficient levels of network capability.

In relation to ElectraNet's comments, despite the difficulty of quantifying some classes of projects, this does not necessarily exclude them from being approved as a priority project. For example, a TNSP could show that a planning study could reveal important information which would likely assist in the development of a low cost project to alleviate a network constraint with a high annual market impact. This may be sufficient for the planning study to be approved as a priority project.

The introduction of additional explicit factors for the AER to consider when assessing the material benefits associated with priority projects will ensure only projects which are high value and could not be funded under the chapter 6A framework are approved. This addresses concerns raised by consumer representatives that in previous NCC decisions, we have approved priority projects which have long payback periods or should have been funded through the TNSP's capital and/or operating expenditure allowance. Similarly, these changes should also address ERM's concerns that NCIPAP projects form part of larger capital projects by TNSPs. Combined with a pro-rata incentive allowance, this will promote a more stringent assessment of proposed priority projects.

We do not accept the MEU's proposal for priority projects to have minimum payback period requirements. A minimum payback period may exclude worthwhile projects which just fall outside the period and at this stage, it is difficult to determine what an appropriate minimum payback period should be. We consider that the additional explicit factors introduced in the NCC should be sufficient to ensure that proposed projects with long payback periods are not included in the scheme.

In relation to the MEU's proposal to draw a distinction between priority projects that can and cannot be included in a TNSP's revenue allowance, we consider this is unnecessary given the new requirement for consideration to be given to whether a proposed project could be funded under the chapter 6A framework.

The draft scheme allows us to reduce the incentive allowance where a priority project has been implemented but there is a material change in circumstances which results in the project no longer having material benefits. This will provide an incentive for TNSPs to monitor whether key forecast assumptions which underpin the quantified benefits change and suspend projects where there is a material change in forecast assumptions. Importantly, we will only be able to reduce the incentive allowance if the TNSP is in a position to respond to the change in circumstances but does not do so. If there is a material change in circumstances after the TNSP has commenced works to implement the project, it will not be penalised. This is broadly similar to the ex-post review approach proposed by the MEU as

both examine in part whether the assumptions used in the quantification of the benefits had changed since the project was implemented.

Lastly, the draft scheme proposes changes to provide greater flexibility for TNSPs to amend their approved NCIPAP during the regulatory control period. TNSPs now have greater scope to propose additional priority projects. This will encourage TNSPs to regularly update their network assessments and work with AEMO during the regulatory control period to identify projects which help deliver efficient levels of network capability. These projects can be added as additional projects or replace projects which have been removed from the NCIPAP.

We consider these changes enhance the NCC to provide better value for customers by better incentivising TNSPs to deliver efficient levels of network capability and respond to changes during the regulatory control period. This is consistent with the principles in clause 6A.7.4 (b) of the NER and better promotes the achievement of the NEO. In addition, these changes also promote the STPIS objectives, including assisting in the setting of efficient capital and operating expenditure allowances.

Amendments to clarify information requirements between AEMO and TNSPs

The draft scheme also proposes changes which clarify the exchange of information between AEMO and TNSPs during the preparation of a NCIPAP. The draft scheme now clarifies:

- that AEMO's role in the preparation of the NCIPAP is not just limited to the review of priority projects proposed by the TNSP and the potential for co-ordinated projects with other TNSPs, but also includes the review of the TNSP's assessment of its network and the identification of additional priority projects
- the information which the TNSP must provide AEMO during the preparation of the NCIPAP.

The proposed changes are a reflection of the interaction between AEMO and TNSPs to date in the application of the NCC. AEMO has not only reviewed the benefits of priority projects identified by TNSPs and consulted on the potential for co-ordinated TNSP projects, as it was required to under the NCC, but has also worked with TNSPs to identify additional priority projects. Thus, the new information requirements are largely a codification of the existing process between AEMO and TNSPs, and clarify AEMO's role in the NCC process. This will ensure that AEMO can provide value by ensuring it has sufficient information to undertake a review of the TNSP's proposed projects and explore the potential additional or alternative priority projects.

The proposed amendments would allow AEMO to obtain all the necessary information, including outage data, from TNSPs that it requires to undertake a thorough review of proposed priority projects and develop additional or alternative projects.

We consider that these proposed changes promote the achievement of the principles set out in clause 6A.7.4 (b) of the NER, the STPIS objectives and the NEO. It will help ensure that TNSPs are able to identify the low cost improvements which can be made to their transmission networks which would be valued by customers and other network users.

Other proposed changes

We do not propose to make additional changes to the NCC to address the concerns raised by ERM about the lack of transparency in network limit adjustments and re-rating of transmission elements by TNSPs. We consider that since the NCC requires the involvement of AEMO in the review of the TNSP's transmission circuits and injection point capabilities, and potential priority projects and their benefits. In addition, this information is often provided as part of a response to a regulatory information notice. We consider that these factors effectively mitigate the possibility of TNSPs de-rating equipment to create unwarranted projects.

6 Other amendments to the scheme

This chapter sets out other potential amendments to the scheme.

6.1 Current annual STPIS compliance reporting requirements

The STPIS currently requires that each TNSP's performance is measured and reported on over a calendar (rather than financial) year.

TNSPs are required to report their compliance with the scheme under the TNSP Information Guidelines (or a regulatory information notice, if applicable). The timeframes for reporting and information specifications are set out in the TNSP Information Guidelines. These requirements are based on calendar year performance.

The financial bonus or penalty is then applied to each TNSP's MAR in the following financial year. To ensure the financial bonus or penalty can be applied to each TNSP's MAR in the following financial year, the AER must complete its review of TNSP performance information before the TNSP finalises its network tariffs for the next financial year. This approach is taken to reduce the lag between the annual performance being measured and the financial incentive being added or subtracted from the MAR to six months.

6.2 Change in TNSP network tariff timeframes

On 27 November 2014 the AEMC published its final determination on the National Electricity Amendment (Distribution Network Pricing Arrangements) Rule 2014.⁸ The rule change establishes new pricing objectives and principles for distribution businesses which we will that network prices reflect the efficient costs of providing network services.

As part of this change, the timeframe of the annual network pricing process will be moved forward to facilitate notification of approved annual network prices at least six weeks before they commence. For this timeframe to be met, all TNSPs, except for in Victoria, will be required to publish transmission prices by 15 March.⁹ This reduces the time for us to conduct our review of TNSPs' annual performance information.

6.3 Stakeholder consultation

At the stakeholder forum, AER staff sought participant views on changing STPIS measurement and reporting from a calendar year to financial year basis. None of the TNSPs present at the stakeholder forum voiced major concerns about the potential change to financial year measurement and reporting. AusNet Services noted that if financial year measurement and reporting was adopted, this would require transitional reporting arrangements for TNSPs.

⁸ <http://www.aemc.gov.au/Rule-Changes/Distribution-Network-Pricing-Arrangements#>

⁹ AEMC, 27 November 2014, *Final determination on Distribution Network Pricing Arrangements*, p56.

Following the stakeholder forum, TasNetworks also confirmed in its comments that it did not have any concerns with a change to financial year measurement and reporting.

6.4 AER position

We do not propose to move from a calendar year to financial year measurement and reporting of STPIS parameters at this time. The TNSP Information Guidelines specify reporting timeframes for TNSPs based on calendar year performance. The Guidelines as they currently stand do not facilitate a move to financial year performance measurement; the guideline is binding on TNSPs and the AER. Accordingly we do not propose to amend the scheme at this time but will address this issue in the next review of the scheme.

7 Consultation process and invitation for submissions

7.1 Consultation process

In accordance with the Rules, we may amend or replace the STPIS at any time. In amending the scheme, we must comply with the transmission consultation procedures set out in the NER.¹⁰ The transmission consultation procedures require us to publish a proposed STPIS and explanatory statement. Interested parties must be given at least 30 business days to provide submissions on the draft scheme. Within 80 business days of publishing the draft STPIS, we must publish the final decision which sets out (among other things) the final STPIS.¹¹ The AER may also publish issues, consultation and discussion papers and hold conferences and information session on the proposed scheme as it considers appropriate.¹²

We plan to amend the STPIS to apply to the next round of transmission determinations, commencing with AusNet Services.

Table 1 outlines the planned consultation process:

Table 1 Consultation process

Date	Action
16 June 2015	Publish explanatory statement and draft scheme and invite written submissions
28 July 2015	Close of written submissions on draft scheme and accompanying explanatory statement
17 August 2015	Publish final decision

7.2 Invitation for written submissions

Interested parties are invited to make written submissions to the AER on the amendments proposed in this explanatory statement by the close of business on **28 July 2015**.

Submissions should be addressed to Mr Craig Oakeshott, Director, Wholesale Markets Branch and can be sent electronically to AERinquiry@ aer.gov.au with the following title in the email "*Submission to AER - draft STPIS version 5*".

¹⁰ Clause 6A.7.4 (a), National Electricity Rules.

¹¹ Clause 6A.20, National Electricity Rules.

¹² Clause 6A.20 (d), National Electricity Rules.

Alternatively, submissions can be sent to:

Mr Craig Oakeshott
Director
Wholesale Markets Branch
Australian Energy Regulator
GPO Box 922
Adelaide SA 5001

The AER prefers that all submissions be sent in an electronic format in Microsoft Word or other text readable document form and publicly available, to facilitate an informed, transparent and robust consultation process.

Accordingly, submissions will be treated as public documents and posted on the AER's website, unless prior arrangements are made with the AER to treat the submission, or portions of it, as confidential. Those wishing to submit confidential information are requested to:

- clearly identify the information that is the subject of the confidentiality claim and
- provide a non-confidential version of the submission.

For further information regarding the AER's use and disclosure of information provided to it, see the *ACCC/AER Information Policy, 2014* available on the AER's website.

Any enquiries about this explanatory statement, or lodging submissions, should be directed to [AERinquiry@aer.gov.au](mailto:AERinquiry@ aer.gov.au).