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Monday, 3 February 2025

Dr Kris Funston
Executive General Manager
Australian Energy Regulator
GPO Box 3131
Canberra, ACT, 2601

Lodged via email: transmissionSTPISreview@aer.gov.au

Dear Kris

AER's Draft Electricity Transmission STPIS

Transgrid welcomes the opportunity to respond to the Australian Energy Regulator's (**AER**) draft Electricity Transmission Network Service Provider (**TNSP**) Service Target Performance Incentive Scheme (**STPIS**). The review examines whether the STPIS remains fit for purpose, given the significant changes in generation across the NEM.

As the NSW TNSP, Transgrid must plan for, build, maintain and operate the backbone of this new grid while meeting our obligations to maintain the safety, reliability and security of the transmission system in accordance with the National Electricity Rules (NER). STPIS aims to maintain or improve TNSPs' service standards and we support the AER's review of this scheme especially as some of the current elements of the STPIS are no longer working as intended.

We broadly support the AER's draft STPIS position as it promotes fairness and strongly support:

- The suspension of the Market Impact Component (**MIC**) - the MIC in its current form is not working as intended given that TNSPs face maximum penalties regardless of their actions.
- Retaining the Network Capability Component (**NCC**) – NCC projects deliver significant consumer benefits with short payback periods.

Immediate application of STPIS changes

The AER has highlighted that the NER currently prevents the immediate application of any proposed changes to the STPIS and a rule change is required for any immediate application of the proposed changes.

We strongly encourage the AER to work with TNSPs to develop a rule change that would allow immediate application of the changes given:

- Stakeholders, including the AER, unanimously agree that the MIC in its current form is not fit for purpose and is not achieving any benefit for consumers.

- Immediate implementation would allow the AER to begin monitoring TNSP planned outage management performance through new data collection.
    - An earlier start to the monitoring as described above will result in greater confidence provided to consumers and generator stakeholders because of increased transparency.
- There are no benefits to stakeholders (including consumers and market participants) in delaying STPIS amendments to the next regulatory period.

Other options

We understand the AER received several submissions to the STPIS Issues paper. We encourage the AER not to make any material amendments to the proposed STPIS scheme without appropriately weighing up any changes and undertaking appropriate consultation.

Attachment A contains more detailed feedback on several key aspects of the draft STPIS.

We look forward to working with the AER to continue to ensure that any proposed amendments are fit-for-purpose and are in the best interest of consumers. If you or your staff require any further information or clarification on this submission, please contact Zainab Dirani, Policy and Advocacy Manager at zainab.dirani@transgrid.com.au.

Yours faithfully

Monika Moutos
General Manager of Regulation, Policy and Governance

Attachment A

Component	Status Quo	Proposed Change	Transgrid position
Service	Performance targets for ENS>0.05 and ENS>0.25 measures are currently rounded to the nearest integer.	The AER proposes to remove the requirement to round these targets, to allow decimal targets for the ENS measures.	We support this proposed amendment as it prevents the sudden jump in target due to rounding when moving from two to three events in the five-year sample period prior to the regulatory period.
Service	A zero target for the ENS>0.05 and ENS>0.25 measures results in zero incentive for a zero count, while a count of one or more results in the maximum penalty. This asymmetry results in this parameter effectively being a penalty only scheme eliminating the possibility of a reward, under a zero target.	The AER is not proposing any change to this practice.	We encourage the AER to adopt the following changes: • In the event of a zero target, a zero ENS count results in full reward rather than zero. • Under this recommendation, a count of one or more continues to result in the maximum penalty under a zero target (as is presently the case). We understand that the AER has outlined, in their explanatory document, that switching to decimal targets for the ENS measures is an *"effective way to address the asymmetry problem"*. We believe the above claim is only true when the target is greater than zero, however the asymmetry problem remains in the case of a zero target, so this parameter of the scheme continues to remain penalty-only under this circumstance. Furthermore: • this asymmetry is in violation of Clause 6A.7.4 (b) of the NER: That is "*The principles are that the service target*

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			performance incentive scheme should ***provide incentives*** *for each Transmission Network Service Provider to provide* ***greater reliability*** *of the transmission system that is owned, controlled or operated by it…".* • Transgrid's proposed change is in consumers interest because under the current scheme, having one ENS>0.25 within a five year sample period for the subsequent regulatory period results in a more favourable financial outcome for the TNSP compared to having zero (through the avoidance of a zero target and the consequent penalty-only asymmetry). This results in there effectively being an incentive for the TNSP to allow one ENS>0.25 to occur rather than keep it at zero during the five year sample period. • To consider quantitatively, in six of the last ten years, Transgrid has had zero loss of supply events exceeding the Y threshold. As a result, it is reasonable to assume that the probability of incurring zero events exceeding the Y threshold in any given year is 60%. Assuming a discount rate equal to the rate of MAR increase, the probabilistic NPV resulting from incurring one event exceeding the Y threshold in a regulatory period compared to zero under the current scheme is: -0.15% of MAR (the cost of one event in the current regulatory period) + 5*0.6*0.15% (the probabilistic benefit of avoiding the zero target in the subsequent regulatory period) = +0.3% of MAR. • According to the current configuration of the scheme, it is rewarding performance that results in one loss of supply exceeding the Y threshold in a regulatory period compared to zero. Incurring a single loss of supply event over the regulatory period (as opposed to zero) could be

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			perceived as an investment with a probabilistic ROI of 200%. • Transgrid does not believe that it is in the consumer interest to configure the scheme to deter TNSPs from achieving a perfectly clean record with respect to loss of supply events exceeding the Y threshold (i.e. a zero count over the regulatory period) and significantly reward the TNSP for incurring one event in the regulatory period, as the scheme is currently doing. • Even incurring two events exceeding the Y threshold in the current regulatory period is economically more favourable than zero, resulting in an NPV of +0.15% of MAR and an ROI of 50% under the current scheme. • The revision suggested above alleviates these issues.
Market	The incentive weighting associated with the STPIS Market Component is currently ±$1% of MAR.	The AER proposes to make this component of the scheme have a zero weighting (i.e. remove the financial rewards and penalties). In lieu of the existing Market Component incentive scheme the AER will seek to gather, for the purpose of transparency, detailed	Transgrid strongly supports a zero weighting i.e. removal of the final reward and penalty. All stakeholders, including the AER, TNSPs, generators, AEMO, and consumer advocates, acknowledge that this component is not fit for purpose in its present form, and do not support retaining the status quo. In practice, the scheme consistently results in a maximum penalty outcome – i.e. -1% of MAR for all mainland TNSPs since 2021. The MIC is not fit for purpose as an incentive scheme while the NEM is rapidly changing as part of the renewable transition, which is expected to continue over the coming decades. However, it is unclear from the revised changes whether the AER will continue to require the reports provided to them under the

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		information regarding TNSP planned outage management decision making practices, including but not limited to the scheduling, postponement and recall of outages.	current Market Component, and if so, for how long. We would welcome further clarity on this point.
Market	There is no conduct obligation in the NER at present regarding outage management practices.	The AER is seeking to introduce a conduct obligation in the NER, with the objective of having the TNSPs undertake best endeavours to minimise the impact of transmission outages on the market. The AER is seeking stakeholder on whether a conduct obligation should be added to the NER immediately or only after a period of	We support this proposal under the appropriate conditions. We believe a conduct obligation should only exist following a period of review, if material and systemic issues relating to planned outage management are identified from the transparency data reported (or otherwise) that can be demonstrated to be within the reasonable control of the TNSP. We also make the following points for AER consideration: • Pre-empting a compliance requirement prior to collecting transparency data to identify and monitor any material/systemic issues, is likely to result in misdirected obligations. • For each compliance obligation developed, it is recommended that the AER assesses the associated potential market benefits against potential increases to expenditure or works delivery lead-times, the impact of which is ultimately borne by consumers.

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		review if reports show material and systemic issues with outage management practices.	
Network Capability	Projects are currently submitted to the AER under a NCIPAP, which TNSPs are required to develop for each revenue proposal, and update annually in the event that one or more project is added, removed or modified.	The AER proposes that instead of specifying projects via a NCIPAP document, that they instead be specified within the annual TAPR document.	Transgrid supports this change as it will consolidate the information to a single source i.e. TAPR.
Network Capability	The incentive reduction (i.e. penalty) for not completing a project according to the requirements of the scheme is currently calculated based on a percentage of MAR divided by the number of projects.	The AER proposes to change the penalty calculation to be one and a half times the project's actual expenditure instead.	Transgrid supports this change as: • It is reasonable and prudent for the penalties to be in proportion to their dollar value per the AER's proposal, rather than an arbitrary percentage of MAR as is currently the case. However, we do not agree that it should be based on actual expenditure. We encourage the AER to base the penalties on estimated expenditure rather than actual expenditure as: • Using actual rather than estimated expenditure may result in a disproportionately higher penalty where the reason for the penalty is being delivered over-budget, and at the

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			same time a disproportionately low penalty where the reason for the penalty is time delays or non-achievement of the project's improvement target. • The disproportionalities described above may lead to sub-optimal outcomes for consumers, as the incentive is biasing the TNSP to deliver the project either late or with incomplete scope, in preference to over-budget (when faced with a situation where a choice has to be made between these three options). • Making the penalty based on estimated rather than actual expenditure eliminates the bias described above. This removes the impediment to TNSPs selecting the option which is actually in the best interest to consumers (least detriment), rather than being incentivised to select one particular option irrespective of the circumstances.
Network Capability	The total NCC allowance for each project is currently calculated as being one and half times the project's estimated expenditure.	The AER's current position is to leave this unchanged however the AER is seeking stakeholder feedback in regard to whether making the NCC allowance based on actual rather than	We do not support any further change to this provision. This is because: • Changing the NCC payment to be based on actual rather than estimated expenditure deters the TNSP from implementing cost efficiencies in the delivery of the projects. It rewards the TNSP for spending more to complete the project, if it still delivers a net benefit to the consumer, thereby not delivering optimal outcomes to the consumer.

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		estimated expenditure is prudent.	• There is no evidence to suggest that cost estimates are being inflated. In the FY19-23 regulatory period, Transgrid spent 91% of its total estimated expenditure on NCIPAP projects, when looking at all projects delivered within budget. • Using actual rather than estimated expenditure adds undue administrative complexity and unpredictability to the incentive outcomes.
Network Capability	AEMO's review and endorsement is currently required for projects that Transgrid proposes for the NCC.	The AER is proposing to remove the requirement for AEMO to be involved in reviewing and endorsing the NCC.	We support the AER's proposed changes as: • It is ultimately up to the AER to determine what level of oversight is necessary for the approval of proposed projects. • It removes administrative hurdles that do not sufficiently add value to the overall process.
Network Capability	NCC payments are for each project are currently phased between the time period between the commencement of the project and the end of the regulatory period. NCC projects are required to be completed prior to the end of	The AER is proposing to allow flexibility for the TNSP to select an end year for the project which does not necessarily have to be the final year of the regulatory period (could potentially be	We support this proposed change given it is beneficial for both the consumer and TNSPs as it will improve the flexibility with which the timing of the project can take place, which is efficient and prudent.

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	the regulatory period, to prevent penalties. The assessment of whether to apply a penalty for the project, only takes place in the final year of the regulatory period.	in the next regulatory period). Under this arrangement, NCC payments are phased over the time period between the commencement and expected completion of the project. The assessment of whether to apply a penalty for the project, will take place in the year of the expected completion for the project.	
Network Capability	Clause 5.3(d) does not precisely specify the criteria by which NCC penalties can be waived by the AER. It is not clear from the document which precise combination of clauses 5.3(d)(1)-(4) need to be	The AER is not proposing any change to this.	We encourage the AER to: • Add text to clarify that satisfying either one of the clauses 5.3(d)(1)-5.3(d)(2) is sufficient to waive the penalty. • This suggested change reflects Transgrid's understanding of the process currently undertaken by the AER to determine whether a NCC penalty applies.

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	satisfied in order to be exempt from the penalty.		• Our above understanding is informed by our experience with the AER in assessing whether to apply a penalty for the Yass SmartWire project (in our FY19-23 NCIPAP). • Despite Transgrid having informed the AER that clause 5.3(d)(2) was not met for the above project, the AER suggested that it would still waive the penalty if clause 5.3(d)(1) was satisfied. • Codifying this practice in the scheme definition prevents ambiguity, uncertainty, and potential inconsistency in the future application of the process for determining whether to apply the penalty.