



Ref. A2034904

28 August, 2014

Mr Slavko Jovanoski
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Mr Jovanoski,

ERC0173 – Early application of Service Target Performance Incentive Scheme (STPIS) components for transmission businesses

Powerlink is pleased to make this submission in response to the AEMC's Consultation Paper on ElectraNet's Rule change proposal for early application of STPIS components for transmission businesses. The proposed Rule change seeks to allow a transmission business to apply to the AER for a recently introduced component of the STPIS, the network capability component, to apply to the transmission business that is already part way through a regulatory control period.

Incentives to improve capacity of the existing network

Under the NEM regulatory arrangements, a TNSP's revenue is determined with reference to meeting minimum standards for network performance and capability, such as quality of supply and customer supply reliability standards. Powerlink agrees that there should be incentives on TNSPs to investigate improvements to the capability of the network beyond these minimum standards, when there are identifiable benefits in doing so. As these investments go beyond the minimum standards such incentives need to be sufficient to fund these network improvements. Powerlink understands that the new network capability component of the STPIS is directed toward achieving this.

In relation to operating expenditure, Powerlink considers that the Efficiency Benefit Sharing Share (EBSS) operates as a disincentive to these sorts of improvement investments. This is because the benefits to network users are not netted off the additional expenditure and counts as additional expenditure under the EBSS.

Changing revenue arrangements within regulatory control periods

Powerlink acknowledges that there have been a number of changes to the economic regulatory framework for regulating TNSPs in recent years, particularly in 2012. These changes have allowed for improved consumer engagement in the regulatory determination process, greater time for AER decision making and emphasis on the holistic nature of a revenue determination rather than focussing on component elements. A

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fundamental part of the AEMC's considerations throughout this process was that it is important for investors, service providers and consumers to have confidence in the regulatory framework and that it provide regulatory certainty.

As a general regulatory practice principle, Powerlink considers that incentives established at the start of a regulatory control period should not be changed within-period unless there are clear and demonstrated benefits in doing so which would enhance the National Electricity Objective.

Powerlink also recognises the specific circumstances that ElectraNet finds itself in, having effectively 'fallen between two stools' in terms of not having received allowances in its last regulatory determination and not being able to adopt early application of the new network capability component in the absence of a Rule change. Provided the adoption of the network capability component of the STPIS is only initiated at the discretion of the TNSP, which has to be able to secure appropriate resources to pursue such projects, Powerlink supports the Rule change proposal.

If you have any questions with respect to this submission please call Jennifer Harris on (07) 3860 2667.

Yours sincerely,



Garry Mulherin

EXECUTIVE MANAGER INVESTMENT AND PLANNING

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