



# RULE CHANGE

**Australian Energy Market Commission**

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## **CONSULTATION PAPER**

### **National Electricity Amendment (Early Implementation of Market Impact Parameter) Rule 2009**

**Rule Proponent(s)**

Grid Australia

6 August 2009

This Consultation Paper has been prepared by the staff of the Australian Energy Market Commission (AEMC) to facilitate public consultation on the Rule change proposal and does not necessarily represent the views of the AEMC or any individual Commissioner of the AEMC.

Submissions due: 2 October 2009  
Reference: ERC0093

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## **Citation**

AEMC 2009, *Early Implementation of Market Impact Parameters*,  
Consultation Paper, 6 August 2009, Sydney

## **About the AEMC**

The Council of Australian Governments, through its Ministerial Council on Energy, established the Australian Energy Market Commission (AEMC) in July 2005 to be the Rule maker for national energy markets. The AEMC is currently responsible for Rules and policy advice covering the National Electricity Market and elements of the natural gas markets. It is a statutory authority. Our key responsibilities are to consider Rule change proposals, conduct energy market reviews and provide policy advice to the Ministerial Council of Energy as requested, or on AEMC initiative.

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## Purpose

This Consultation Paper provides a summary of, and background to, the Early Implementation of Market Impact Parameters Rule change proposed by Grid Australia. A set of questions to facilitate the consultation on this Rule change proposal and the process for lodging submissions are also outlined.

## Summary of the Rule Change Proposal

On 30 April 2009, the Australian Energy Market Commission (Commission) received a Rule change proposal from Grid Australia.<sup>1</sup> The Rule change proposal relates to Clause 6A.7.4 of the National Electricity Rules (Rules), which requires the Australian Energy Regulator (AER) to publish a service target performance incentive scheme for regulating the revenues of transmission network service providers (TNSPs). The Rules provide that any amendment or replacement of the incentive scheme will not apply to a TNSP in respect of a regulatory control period that has commenced before, or that will commence within 15 months of, the incentive scheme coming into operation. The Rule change proposes to insert a new savings and transitional clause in Chapter 11 of the Rules to allow one component, the market impact component, of the incentive scheme to be implemented earlier.

## Background

Clause 6A.7.4 of the Rules requires the AER to publish a service target performance incentive scheme (the incentive scheme) for regulating the revenues of TNSPs. This Rule was introduced in 2006 as a part of the amendments to the Rules following the Commission's Review of Electricity Transmission Revenue and Pricing Rules.<sup>2</sup>

Incentive schemes are part of the overall economic regulatory regime established in Chapter 6A of the Rules. They are designed to operate alongside the revenue cap form of regulation. The revenue cap form of regulation allows TNSPs to earn up to a maximum allowed revenue (MAR) each regulatory year. TNSPs can maximise their profits by reducing their costs below the forecast levels. Cost reductions could be achieved through improved efficiency, however, they could also potentially result from reduced service quality. The aim of the incentive scheme is to link regulated revenues to the TNSPs' performance. The incentive scheme addresses this by providing incentives for TNSPs to improve their performance by rewarding them when performance standards increase and penalising them when performance standards decline. That is, the MAR in each regulatory year would be adjusted in accordance with the provisions in the incentive scheme to reflect the TNSPs' performance.

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<sup>1</sup> A copy of the Rule change proposal is available on the Commission's website at [www.aemc.gov.au](http://www.aemc.gov.au).

<sup>2</sup> AEMC 2006, *National Electricity Amendment (Economic Regulation of Transmission Services) Rule 2006, Rule Determination*, 16 November 2006, Sydney, and AEMC 2006, *National Electricity Amendment (Economic Regulation of Transmission Services) Rule 2006 No. 18*, 16 November 2006, Sydney.

The AER published its final decision on the incentive scheme in March 2008. The final scheme includes two components:

- a service component which provides incentives for TNSPs to minimise the number and duration of loss of supply events, and to maximise circuit availability; and
- a market impact component which provides incentives for TNSPs to minimise the market impact of transmission outages (implemented through the application of “market impact parameters”).

The Rules provide that any amendment or replacement of the incentive scheme will not apply to a TNSP in respect of a regulatory control period that has commenced before, or that will commence within 15 months of, the incentive scheme coming into operation. In effect, the final incentive scheme will not be introduced for some TNSPs until 2014.

## **Details of the Rule Change Proposal**

The Rule change proposed by Grid Australia is to insert a clause, clause 11.6.9A, in Chapter 11 of the Rules which would provide for the market impact component of the incentive scheme under Rule 6A.7.4 to be implemented earlier than currently provided.

The proposed Rule is set out in Grid Australia’s Rule change proposal. The main features of the proposed Rule are that:

- TNSPs may propose parameters to the AER that would apply under the market impact component of the incentive scheme at least three months prior to the commencement of the regulatory year;
- the AER would make a written determination the proposal within 30 business days. If the AER rejects the proposed parameters, the AER would determine amended values. If the AER does not provide a response within this time, the parameters proposed by the TNSP would be deemed to be accepted;
- TNSPs would not be obliged to accept the AER’s amended values; and
- any amendments to the Revenue Determination as a result of the operation of the market impact component of the incentive scheme would not include any other amendments and would not be retrospective.

Grid Australia submits that the Rule change proposal seeks to bring forward a component of an incentive scheme that was designed to deliver network benefits to market participants. It believes the earlier introduction of the market impact component of the incentive scheme would:

- provide improved incentives to ensure that the transmission system is available at times most valued by the market; and

- encourage improvements in the quality and reliability of the transmission network experienced by network users.

## **Consultation Questions**

The questions below are raised to facilitate consultation on this Rule change proposal. Stakeholders are requested to consider these questions and the information as set out in Grid Australia’s Rule change proposal when preparing their submissions.

The questions outlined are provided for guidance. Stakeholders are encouraged to comment on these questions and any other aspects of the Rule change proposal.

### **Regulatory control period**

The current implementation timeframe provisions for Chapter 6A of the Rules were established to ensure regulatory certainty and, in effect, provide for the incentive scheme to be introduced in the next regulatory control period for each TNSP. The Rule change proposal seeks to allow the market impact component of the incentive scheme to be implemented during the current regulatory control period.

- What would be the impacts on TNSPs and the AER to make such a change part-way through a regulatory control period? What are some of the issues that would need to be resolved?
- Would other aspects of the Revenue Determination be affected?
- Would any imbalances in the current regulatory control period/Revenue Determination be created?
- What would be the impact on TNSPs if the Rule change proposal was not implemented and/or what would be the net benefits of implementing the Rule change proposal?
- Should this be a permanent feature to allow any future refinements of the incentive scheme to be implemented within a shorter timeframe?

### **Data requirements**

The market impact component of the incentive scheme requires TNSPs to collect and provide specific data to the AER to allow incentive payments to be calculated.

- Would TNSPs be able to provide the required data in a shortened timeframe?
- What are the factors that the TNSP would need to consider?

### **Implementation costs**

As the incentive scheme is an existing requirement in the Rules, TNSPs and the AER will incur costs in implementing the incentive scheme.

- Would implementation costs that would in any case be incurred be brought forward or would there be additional costs?

### **Implementation process**

To allow the market impact parameters to be implemented early, in the current regulatory control period, a process would need to be established to provide for TNSPs to make proposals or applications to the AER. The AER would then need to assess and respond to the proposals.

- What are the factors that should be included in the TNSPs proposals?
- What factors would the AER need to consider in its assessments?
- What specific process steps would be appropriate (including what would be the appropriate timeframes that should apply)?

### **Lodging a Submission**

The Commission has published a notice under section 95 of the National Electricity Law (NEL) for this Rule change proposal inviting written submissions. Submissions are to be lodged online or by mail by **5pm, 2 October 2009** in accordance with the following requirements.

Where practicable, submissions should be prepared in accordance with the Commission's Guidelines for making written submissions on Rule change proposals.<sup>3</sup> The Commission publishes all submissions on its website subject to a claim of confidentiality.

All enquiries on this project should be addressed to Anita Lai on (02) 8296 7800.

#### **Lodging a submission electronically**

Electronic submissions must be lodged online via the Commission's website, [www.aemc.gov.au](http://www.aemc.gov.au), using the "lodge a submission" function and selecting the project reference code "ERC0093". The submission must be on letterhead (if submitted on behalf of an organisation), signed and dated.

Upon receipt of the electronic submission, the Commission will issue a confirmation email. If this confirmation email is not received within three business days, it is the submitter's responsibility to ensure the submission has been delivered successfully.

#### **Lodging a submission by mail**

The submission must be on letterhead (if submitted on behalf of an organisation), signed and dated. The submission should be sent by mail to:

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<sup>3</sup> This guideline is available on the Commission's website.

Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

Or by Fax to (02) 8296 7899.

The envelope must be clearly marked with the project reference code: ERC0093.

Except in circumstances where the submission has been received electronically, upon receipt of the hardcopy submission the Commission will issue a confirmation letter. If this confirmation letter is not received within 3 business days, it is the submitter's responsibility to ensure successful delivery of the submission has occurred.