
A Rule change to enable early application of the Network Capability Component incentive

Who is ElectraNet?

ElectraNet is the principal transmission network service provider (TNSP) in South Australia. It owns and manages the State's regulated high-voltage transmission network which operates in the National Electricity Market. The network comprises approximately 5,600 km of transmission lines servicing 86 substations and covering a service area of approximately 200,000 km². Transmission costs represent a small (less than 10%) and declining share of retail electricity costs for households.

What is the Network Capability Component incentive?

The Service Target Performance Incentive Scheme (Scheme) administered by the Australian Energy Regulator (AER) provides financial incentives to network businesses to improve the performance of their networks, based on availability, reliability and market impact measures.

The Network Capability Component of the Scheme was introduced in December 2012 to provide an incentive for network businesses to fund low cost expenditures to improve the utilisation of the electricity network and release additional capacity to the benefit of end users.

This incentive recognises that transmission networks generally have neither the obligation nor the funding to undertake such works at present. This measure provides an incentive equivalent to 1.5% of annual regulated revenue to fund a program of investments of up to 1% of annual revenue that has been subject to review by the Australian Energy Market Operator (AEMO) and approved by the AER.

Why is a Rule change needed?

The Network Capability Component will apply to the majority of eligible TNSPs by mid-2014. However, without the proposed Rule change, it will not apply to some TNSPs until some years later. In ElectraNet's case, this component will not apply until 2018, given the timing of its regulatory cycle.

If a Rule change was made to enable the early application of the Network Capability Component, this would enable ElectraNet to undertake a range of low cost projects on South Australia's transmission network to benefit consumers. However, ElectraNet is not funded under its current revenue determination to undertake such works, and the incentives it currently faces act to penalise such expenditure.

With the support of the AER and in the long-term interests of end-users, ElectraNet is therefore proposing a Rule change to allow for early application of the Network Capability Component. Ideally in ElectraNet's case, this would enable the commencement of the Network Capability Component by 1 July 2014.

How will the Rule change benefit consumers?

The Rule will enable an eligible TNSP to put forward to the AER for formal assessment an action plan to improve network capability, known as a Network Capability Incentive Parameter Action Plan (NCIPAP). In South Australia for example, this would provide additional funding for ElectraNet to invest up to \$3 million per annum in such projects over the next 4 years.

Before submitting a plan to the AER, an eligible TNSP will be required to have AEMO independently review the merits of the plan to ensure it will deliver best value for money for consumers. The AER's assessment will then involve a public consultation process, and require the TNSP to demonstrate that each of its proposed initiatives meet defined criteria and improve the capability of the network at times most needed.

To illustrate, the types of projects ElectraNet has identified in the South Australian region are summarised as follows:

Network Capability Incentive Parameter Action Plan proposals

Initiatives	Benefit: Cost Ratio	Cost (\$m)	Customer Benefits
Transmission line uprating works	2:1 to 70:1	9.0	Line uprating works in the Riverland, Taillem Bend to South East and Mid-North transmission corridors that will improve power flows, enable lower generation costs and reduce supply risks
Minor plant limit fixes	3:1 to 130:1	1.6	Fixing limits on minor 275 kV assets in the Mid-North region and 132 kV assets in the Mid-North and Riverland will release transfer capacity, improving power flows and enabling lower generation costs
Investigation and monitoring projects	Positive	0.9	More accurate representation of major loads in planning studies potentially unlocks greater network capacity. Also increased monitoring of transmission line tension and transformers potentially enables rating increases, releasing network capacity

When is a decision needed?

In order for such a plan to be formally reviewed and approved by the AER for early commencement, a Rule change needs to be in place as soon as practicable.

The AER has recently consulted on this issue and issued a final position in early December 2013 supporting the early application of the Network Capability Component, but concluded that sufficient power does not presently exist under the Rules for it to bring forward the application of the scheme. This Rule change proposal will provide the AER with this explicit authority it considers is lacking under the current Rules.