

28 August 2014

Mr John Pierce
Chairman
Australian Energy Market Commission
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Dear John,

Consultation Paper – Early Application of Service Target Performance Incentive Scheme (STPIS) Components for Transmission Businesses

AusNet Services welcomes this opportunity to provide input into the AEMC's consultation on ElectraNet's Rule Change Request to enable the early application of the Network Capability Component (NCC) of the STPIS to transmission businesses.

AusNet Services supports the proposed Rule Change. This submission makes the following points:

- The NCC is designed to fund projects that are expected to deliver substantial benefits to consumers. Delaying the application of the NCC delays the network and consumer benefits that can be realised through this component.
- The proposed Rule should be generalised beyond the application of the NCC; that is, where a TNSP and the AER agree to early application of a new STPIS component, there should be the opportunity for it to apply mid-period without the need for a specific Rule Change.

AusNet Services was the first transmission business to which the NCC applied. The NCC was established in 2012 to provide an incentive for businesses to deliver minor capex and opex projects that improve the capability of existing assets when most needed.

As AEMO is responsible for planning Victoria's transmission network, AusNet Services' Network Capability Parameter Action Plan (NCIPAP) was developed in collaboration with AEMO. As required by the scheme, AEMO quantified the expected benefits of delivering the NCIPAP projects. The net present value of benefits was estimated to be around \$80m, which is more than five times the total cost of delivering these projects.

These benefits include a lower risk of generation dispatch being constrained and the deferral of network augmentations. Both of these will ultimately benefit consumers through reducing energy prices. This illustrates that potentially substantial benefits can be realised through undertaking minor opex and capex projects of this type. Preventing the early application of the NCC to other TNSP's will prevent consumers from realising potentially substantial benefits from relatively low cost projects until the commencement of its next regulatory period in 2018.

Where NCC-type projects were not funded through a TNSP's regulatory allowance, the TNSP would incur a penalty under the Efficiency Benefit Sharing Scheme if it were to deliver these projects in the absence of the NCC. TNSPs do not have an adequate incentive to invest in

NCC-type projects and recoup the benefits through the Service and/or Market Impact Component of the STPIS. These incentives existed prior to the development of the NCC.

During its previous regulatory period AusNet Services sought early application of the Market Impact Component (MIC). This was enabled by a Rule Change¹. The mid-period application of the MIC has greatly benefitted consumers due to the improvements AusNet Services has made to outage management practices. This has reduced the number of network constraints with a marginal value exceeding \$10 from 3,322 in 2011 to 1,347² in 2013. This reduction has meant that consumers have benefitted from lower wholesale prices than would otherwise have been the case. Without early application of the MIC, these consumer benefits in 2012 and 2013 would not have been realised.

There have now been two cases (both the MIC and the NCC) where transmission businesses have been required to propose Rule Changes to allow the early application of components of the STPIS. In the case of the NCC, the AER undertook a consultation process and agreed with the early application of this component, subject to a change to the Rules. AusNet Services considers that a more generalised Rule Change could be made which would allow the early application of a new STPIS component to a transmission business subject to the AER's assessment of the compatibility of early participation and the transmission business' willingness. This would provide a more streamlined and efficient process in future.

Please contact Charlotte Coster, Regulatory Economist on 03-9695-6309 if you have any questions in relation to this submission.

Sincerely,



Kelvin Gebert
Regulatory Frameworks Manager
AusNet Services

¹ AEMC, *Early implementation of the market impact parameters rule change*, 2010

² Calculated in accordance with version 4 of the STPIS