



Application of incentive scheme to transmission businesses

Stakeholder submissions invited on new rule change request

The AEMC has commenced consultation on a rule change request that proposes to permit eligible transmission businesses to apply to the Australian Energy Regulator (AER) for early application of a component of the Service Target Performance Incentive Scheme (STPIS) within a current regulatory control period.

Details of the rule change request

ElectraNet (rule proponent) is proposing a change to the National Electricity Rules (NER) so as to permit an eligible transmission business to:

- apply to the AER to seek early application of one of three possible components (that is, the “network capability component”) of version four of the STPIS, where it would not otherwise apply until the commencement of its next regulatory control period; and
- submit a network action plan (or NCIPAP) to the AER for approval, following review of the plan by the Australian Energy Market Operator (AEMO) and consultation with customers.

ElectraNet considers that such a rule change would provide benefits to electricity consumers by incentivising transmission businesses to undertake low cost network optimisation projects which may otherwise be deferred until requisite funding is approved by the AER as part of the relevant transmission business’s subsequent regulatory determination.

Issues relevant to this rule change request

In 2010, the AEMC made a rule allowing the early application of a STPIS component within a transmission business’s regulatory control period. In that instance, the rule change related to the early application of the “market impact component” in a superseded version (three) of the STPIS.

Since then, a number of enhancements have been made to the approach to regulating network service providers, including through changes to the NER and the limited merits review regime. Accordingly, careful consideration is required when assessing any potential change to the NER that would have the effect of revisiting specific decisions made by the AER in regulatory determinations during an existing regulatory control period.

In light of these enhancements, questions arise as to whether transmission businesses should be allowed to apply to have their STPIS amended for application part-way through a regulatory control period, or whether all STPIS components should potentially be amended at the same time. Reasons for this include:

- there may be less consumer consultation because, under the National Electricity Law, the AER is required to consult with relevant persons as appropriate over a period of many months before making a revenue determination;
- the AER’s STPIS decision is not eligible for merits review because it is not part of the broader regulatory determination process; and
- the AER is unable to consider the amended component of the STPIS as a package in conjunction with other aspects of the revenue determination, because the AER may be unable to take into account any interactions between the components.

Consultation process

A consultation paper has been prepared to facilitate public consultation and assist stakeholders in providing submissions on the rule change request. The consultation paper and ElectraNet's rule change request are both available on the AEMC website.

Stakeholders are invited to make written submissions in response to issues raised in the consultation paper and the rule change request by no later than **28 August 2014**.

Background on the STPIS

The Service Target Performance Incentive Scheme (or STPIS) is an incentive scheme developed by the AER under clause 6A.7.4 of the National Electricity Rules for application to network businesses. The objective of the scheme is to assist the AER in balancing the incentive on transmission businesses to reduce actual expenditure, with the need to maintain and improve reliability for customers and minimise the wholesale electricity market impact of transmission congestion.

The first version of the STPIS was introduced by the AER in August 2007. ElectraNet's rule change request pertains to version four, which was introduced in December 2012.

There are currently three components to the STPIS:

- service component – this component targets transmission network outages that have an adverse impact on wholesale spot market dispatch outcomes;
- market impact component – this component is designed to provide an incentive to transmission businesses to reduce the impact of planned and unplanned outages on wholesale market outcomes; and
- network capability component – this component incentivises transmission businesses to deliver benefits through increased network capability, availability or reliability through the development of one-off projects that can be delivered through low cost operational and capital expenditure.

Under the network capability component, a transmission business is required to submit a network action plan (the Network Capability Incentive Parameter Action Plan, or NCIPAP). The plan must outline the key network capability limitations for the transmission business's network. The business must also include a list of priority projects designed to improve, through operational and/or minor capital expenditure, some of the network capability limitations identified and their impacts on customers and wholesale market outcomes.

AEMO plays a role in this process by reviewing and prioritising the transmission business's projects that it considers will deliver the most efficient outcomes for consumers and ranking those priority projects.

The AER approves the network action plan after being satisfied that completion of the priority projects would result in a material benefit to the market.

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