

30 September 2013

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Sent via email to [AERinquiry@aer.gov.au](mailto:AERinquiry@aer.gov.au)

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Dear Tom

### **Early application of version 4 of the Transmission Service Target Performance Incentive Scheme (STPIS)**

AEMO welcomes the opportunity to provide comments on the AER's draft decision in relation to the timing of the introduction of Version 4 of the transmission STPIS. Our comments relate to the:

- Interaction between the network capability incentive and TNSPs' operating and capital expenditure allowances, and
- Timing of the introduction of the network capability incentive.

#### **1. Interaction between network capability incentive and TNSPs' expenditure allowances**

During its consultation on version 4 of the transmission STPIS, the AER recognised that the regulatory framework creates incentives for TNSP to meet their reliability obligations via major capital investment. The network capability incentive is designed to reward TNSPs for pursuing innovative and creative low cost projects which provide net benefits to customers by materially improving network capability.<sup>1</sup>

A key benefit of the scheme, therefore, is that it drives lower capital expenditure through more efficient use of existing assets.

Electranet has sought permission to apply the network capability incentive during the course of their regulatory period, rather than as part of a regulatory determination. Unless appropriate arrangements are put in place, there is a risk that part of the benefits of the incentive scheme will not flow through to customers since Electranet's forecast expenditure is already fixed.

Where the network capability incentive is introduced mid-period, the relevant TNSP will still need to ensure that the projects funded under the network capability improvement parameter action plan (NCIPAP) provide net benefits to customers, even though there is limited scope to offset the TNSP's revenue requirements in the short term. The NCIPAP projects ought to involve activities over and above those activities that a prudent TNSP would carry out during the ordinary course of managing their network. Net benefits to customers could be provided through reduced congestion, improved reliability or deferred investment during the next regulatory period.

<sup>1</sup> AER, *Explanatory Statement Electricity transmission network service providers, Draft Service Target Performance Incentive Scheme*, September 2012, pg 35

## 2. Timing of the introduction of the network capability incentive

Under the network capability component of the revised STPIS, a TNSP must consult with AEMO in developing its NCIPAP. AEMO's role includes prioritising the projects that will deliver best value for money for consumers and ranking those priority projects.

AEMO's review and engagement process with TNSPs is to occur before the TNSP submits its NCIPAP proposal to the AER. Accordingly, under the AER's draft decision:

- our engagement with TransGrid and Transend will occur prior to 31 January 2014 and
- our engagement process with ElectraNet will occur prior to 1 February 2014.

Powerlink may also choose to submit a NCIPAP proposal by no later than 1 July 2014.

AEMO is committed to making a constructive contribution to the AER's regulatory determination processes. We are working collaboratively with the TNSPs to ensure that we are able to undertake a robust process in accordance with the proposed deadlines. Our assessments of TransGrid and Transend's draft NCIPAPs have already commenced, and we have held preliminary discussions with ElectraNet.

We note that the AER's timetable means that AEMO will find it difficult to complete the required analysis unless it undertakes a significant proportion of the work before the AER's final decision is published. We would be very grateful if the AER could inform us as soon as possible if it becomes likely that the timetable or the AER's preliminary position will be subject to change.

If you have any queries or comments, please don't hesitate to contact Reena Kwong on 03 9609 8492.

Yours sincerely



David Swift  
**Executive General Manager, Corporate Development**