

Rule change Request

Early application of a revised transmission
Service Target Performance Incentive Scheme

August 2025

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Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601
Email: aerinquiry@aer.gov.au
Tel: 1300 585 165

AER reference: 30435480

Shortened forms

Shortened form	Extended form
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
MIC	market impact component
NEO	National Electricity Objective
NEL	National Electricity Law
NER	National Electricity Rules
NCC	network capability component
NCIPAP	network capability incentive parameter action plan
SC	service component
STPIS	service target performance incentive scheme
TNSP	transmission network service provider
TAPR	transmission annual planning report

Contents

- 1 Summary1**
- 2 Rule change proposal3**
 - 2.1 Name and address..... 3
 - 2.2 Description of proposed rule 3
 - 2.3 How the proposed rule change request addresses the issue to be addressed ... 5
 - 2.4 How the proposed rule change contributes to the achievement of the NEO 6
 - 2.5 The potential impacts and costs and benefits..... 8
 - 2.6 Reasons for proposed rule change to be fast tracked 8
- 3 Proposed draft rule10**

1 Summary

In April 2025, the Australian Energy Regulator (AER) completed a review of version 5 of the transmission service target performance incentive scheme (STPIS). The review addressed stakeholder concerns that elements of the STPIS were no longer working as intended and was not fulfilling the objectives of the STPIS. Largely, this is a consequence of the transition to renewable energy sources, which is changing the way electricity is generated and transported. The move from more centrally located thermal generation to more geographically dispersed and weather dependent fuel sources has created new demands on the transmission network with implications for how transmission network service providers (TNSPs) manage their assets.¹

To address these concerns, in April 2025, we published version 6 of the STPIS, which amended version 5 of the STPIS to amongst other things:

- suspend the market impact component (MIC) of the STPIS, on the basis it is no longer fit for purpose
- streamline the administration of the network capability component (NCC) by no longer requiring a TNSP to submit a network capability incentive parameter action plan (NCIPAP) as part of their revenue proposal, but rather to identify projects annually from its transmission annual planning report (TAPR); and
- amend the service component (SC) of the STPIS to remove rounding in setting targets for the loss of supply frequency parameter.

However, under the National Electricity Rules (NER) the AER can only decide to apply version 6 of the STPIS to a TNSP as part of making a revenue determination.² Therefore, version 5 of the STPIS will continue to apply to most TNSPs for some years, until the commencement of each TNSP's next regulatory control period.

This rule change proposal will address this issue by allowing the AER to reopen (on the AER's own initiative or upon application from a TNSP) a revenue determination to apply a revised STPIS to a TNSP during a regulatory control period. This will then allow the AER to apply version 6 and future revised versions of the STPIS to all TNSPs as soon as possible, instead of having to wait until the commencement of each TNSP's next regulatory control periods. The rule change proposal would therefore allow the AER to apply any future revised version of the STPIS to a TNSP during a regulatory control period.

We consider that this rule change proposal should qualify for the AEMC's fast track process. During our recent review of the STPIS, stakeholders generally supported us submitting a rule change proposal to allow for the application of version 6 of the STPIS as soon as possible. Further, the AEMC has already twice considered the issues raised in this rule change

¹ AER, *Electricity Transmission Network Service Providers, Service Target Performance Incentive Scheme, Final Amendments, Explanatory Statement*, April 2025, pp. 1-4.

² NER, cl. 6A.14.1(1)(iii).

proposal, in 2010 and 2015, when it respectively made rules to allow for early application of the MIC and the NCC.³

³ AEMC, *Rule Determination: National Electricity Amendment (Early Implementation of Market Impact Parameters) Rule 2010*, 11 March 2010; AEMC, *Rule Determination: National Electricity Amendment (Early application of service target performance incentive scheme (STPIS) components to transmission businesses) Rule 2015*, 19 February 2015.

2 Rule change proposal

2.1 Name and address

The AER submits this request for the Australian Energy Market Commission (AEMC) to make a Rule pursuant to section 91 of the National Electricity Law (NEL).

The name of the person lodging this request is:

Australian Energy Regulator
Contact: Dr Kris Funston, Executive General Manager, Network Regulation.

The address of the person making this request is:

GPO Box 3131
Canberra ACT 2601
Email: aer inquiry@aer.gov.au
Tel: 1300 585 165

2.2 Description of proposed rule

This section describes the rule that is proposed to be made.

This rule change proposal seeks to amend the NER to provide the AER with the ability to apply a revised version of the STPIS to a TNSP during a regulatory control period.

Currently, the AER can only apply the STPIS to a TNSP at the time of making a revenue determination. Specifically, the AER's final decision on a TNSP's revenue proposal includes a decision by the AER that either approves or refuses to approve "the values that are to be attributed to the performance incentive scheme parameters for any [STPIS] that is to apply in respect of the regulatory control period".⁴ As such, as part of making its final decision on a TNSP's revenue proposal, the values the AER decides on must be linked to a STPIS that will apply to the TNSP in respect of the regulatory control period, being the version of the STPIS in force at the time of the AER's final decision.

There is currently no ability under the NER to reopen a TNSP's revenue determination during a regulatory control period for the purpose of allowing a new version of the STPIS to apply. This means the version of the STPIS in place at the time of a revenue determination will continue to apply until the start of each TNSP's next regulatory control period.

To allow the AER to apply a revised version of the STPIS to a TNSP during a regulatory control period, we propose introducing a new rule to allow the AER, on its own initiative or upon application from a TNSP, to reopen a revenue determination for this purpose.

The ability of the AER to reopen a revenue determination for this purpose during a regulatory control period would first require the AER to revise the STPIS after conducting a review of the STPIS in accordance with the transmission consultation procedures, and to then reach

⁴ NER, cl. 6A.14.1(1)(iii).

the conclusion that applying a revised STPIS to a TNSP during a regulatory control period would result in better giving effect to the principles specified in clause 6A.7.4(b) of the NER.

We consider that this rule change proposal should qualify for the AEMC's fast track process. During our recent review of the STPIS, stakeholders generally supported us submitting a rule change proposal to allow for the application of version 6 of the STPIS as soon as possible. Further, the AEMC has already twice considered the issues raised in this rule change proposal, in 2010 and 2015, when it made rules to allow for early application of the MIC and the NCC, respectively.⁵

2.2.1 Background

Pursuant to clause 6A.7.4(a) of the NER, the AER is required to develop and publish the STPIS. The STPIS should provide incentives to a TNSP to:⁶

- provide greater reliability of the transmission system that is owned, controlled or operated by it at all times when transmission network users place greatest value on the reliability of the transmission system; and
- improve and maintain the reliability of those elements of the transmission system that are most important to determining spot prices.

In April 2025, the AER completed a review of version 5 of the STPIS. The review addressed stakeholder concerns that components of the STPIS were no longer working as intended and that it was not providing the incentives consistent with the objectives of the NER. Largely, this is a consequence of the transition to renewable energy sources, which is changing the way electricity is generated and transported. The move from more centrally located thermal generation to more geographically dispersed and weather dependent fuel sources has created new demands on the transmission network with implications for how TNSPs manage their assets.⁷

To address these concerns, in April 2025, we published version 6 of the STPIS, which amended version 5 of the STPIS to amongst other things:

- suspend the MIC, on the basis it is no longer fit for purpose
- streamline the administration of the NCC by no longer requiring a TNSP to submit a NCIPAP as part of their revenue proposal, but rather to identify projects annually from its TAPR; and
- amend the SC to remove rounding in setting targets for the loss of supply frequency parameter.

⁵ AEMC, *Rule Determination: National Electricity Amendment (Early Implementation of Market Impact Parameters) Rule 2010*, 11 March 2010; AEMC, *Rule Determination: National Electricity Amendment (Early application of service target performance incentive scheme (STPIS) components to transmission businesses) Rule 2015*, 19 February 2015.

⁶ NER, cl 6A.7.4(b)(1).

⁷ AER, *Electricity Transmission Network Service Providers, Service Target Performance Incentive Scheme, Final Amendments, Explanatory Statement*, April 2025, pp. 1-4.

The amendments recalibrate incentives so that TNSPs operate their networks in the best interests of market participants and consumers.

However, because under the NER the AER can only decide to apply version 6 the STPIS to a TNSP as part of making a revenue determination, version 5 of the STPIS will continue to apply for most TNSPs for some years, until the commencement of each TNSP's next regulatory control period. Specifically, Table 1 sets out the commencement dates for the next regulatory control period for each TNSP.

Table 1. Commencement dates for the next regulatory control period for each TNSP

TNSP	Commencement of next regulatory control period
AusNet	1 April 2027
Powerlink	1 July 2027
Transgrid	1 July 2028
ElectraNet	1 July 2028
Murraylink	1 July 2028
TasNetworks	1 July 2029
Directlink ⁸	1 July 2030

2.3 How the proposed rule change request addresses the issue to be addressed

This section sets out a statement of the nature and scope of the issue concerning the existing rules that is to be addressed by the proposed rule change request and an explanation of how the proposed rule change request would address the issue.

The issue now is that the AER is unable to apply version 6 of the STPIS to most TNSPs for some time. More broadly the issue is that the AER lacks the ability to apply revised STPIS in a timely way to respond to the continually changing circumstances of the energy transition.

As we noted above, in April 2025, we completed a review that concluded that version 5 of the STPIS is no longer working as intended. More broadly in light of the energy transition, if going forward, the AER does not have the ability to apply a revised STPIS that takes account of changed circumstances, until each TNSP's next regulatory control period, this is not likely to be in the long-term interests of consumers.

Only providing for the AER to apply the STPIS to a TNSP at the time of making a revenue determination provides certainty for the TNSP about how the STPIS will be applied during the regulatory control period. As such the issue is whether the benefits of that certainty

⁸ The AER has already applied version 6 of the STPIS to Directlink: see AER, *Final Decision: Directlink Electricity Transmission Determination 2025 to 2030 (1 July 2025 to 30 June 2030)*, pp. 20 and 21.

outweigh the flexibility the AER needs to ensure that transmission STPIS continues to provide appropriate and effective incentives in response to changing circumstances. In our view, the answer to this question is no. This is because any amended STPIS should still provide sufficient certainty as it only applies to the remaining years of a regulatory control period, while at the same time providing the benefits of enabling the amended STPIS to be applied in a more timely manner.

The regulatory landscape at the time the STPIS was first conceived in 2007 is markedly different to that of today. This means the AER needs to have the flexibility to respond to changing market circumstances to best promote the NEO. This rule change proposal will address this issue by allowing the AER to apply version 6 of the STPIS and any subsequent versions of the STPIS to TNSPs as soon as possible.

Further, we consider that the AER should have the power to reopen a revenue determination to apply a revised STPIS on its own initiative, and also to do so upon application by a TNSP, as this flexibility is more likely to promote the NEO. We have therefore included two pathways in the proposed rule for the AER to have the power to reopen a revenue determination to apply a revised STPIS – on its own initiative and upon application by a TNSP.

2.4 How the proposed rule change contributes to the achievement of the NEO

This section sets out reasons the proposed rule change request will or is likely to contribute to the achievement of the NEO.

The proposed rule change request will or is likely to contribute to the achievement of the NEO for two reasons.

Firstly, it will provide the AER the flexibility to apply revisions to the STPIS in a timely manner, particularly in response to the changing circumstances that have arisen as a result of the energy transition. Right now, it will allow the AER to apply version 6 of the STPIS to TNSPs as soon as possible, instead of having to wait until the commencement of each TNSP's next regulatory control period.

To reiterate, our review concluded that version 5 of the STPIS was no longer working as intended. Continuing to apply version 5 of the STPIS does not lead to an outcome that contributes or is likely to contribute to achieving the NEO. It is also at odds with the AEMC's recommendation for the AER to:⁹

... with stakeholders, including through its review of the NCC component of the STPIS, to improve processes and incentives to identify and progress efficient, low-cost transmission augmentation projects that could alleviate local congestion.

⁹ AEMC, *Final Report: Volume 1 of 3 Transmission Access Review, Final Recommendations*, September 2024, p. vii

We also sought views from stakeholders during our review about submitting a rule change proposal to the AEMC to allow for version 6 of the STPIS to be applied as soon as possible. Stakeholders supported us submitting a rule change proposal.¹⁰

Secondly, the issue this rule change proposal addresses has previously been before the AEMC.

On 11 March 2010, the AEMC made a preferable rule to provide a TNSP with the opportunity to apply to the AER for the early implementation of the MIC during a regulatory control period. The MIC only became part of the STPIS when the AER published version 2 of the STPIS on 7 March 2008. The MIC provides incentives for TNSPs to improve both planned and unplanned network outage management.

Similarly, on 19 February 2015, the AEMC made a preferable rule to afford a TNSP with the same opportunity to apply for the early implementation of the NCC during a regulatory control period.¹¹ The NCC only became part of the STPIS when the AER published version 4 of the STPIS on 20 December 2012.¹²

The preferable rules made in 2010 and 2015 address the issues similar to that which has arisen now: the revised STPIS at the time could not be applied to all TNSPs for some time despite the merits of the revised STPIS applying.

Changes and refinements to the transmission STPIS are likely to be required more often going forward as the regulatory regime adapts and responds to the ongoing energy transition. For example, as stated in the Explanatory Statement, we will shortly be convening a working group to explore a replacement for the MIC.

Noting the above, we consider that the benefits of providing the AER a level of regulatory flexibility, including being able to apply a revised STPIS during a regulatory control period, outweigh the certainty provided by the current arrangements which only allow the AER being able to apply the STPIS to a TNSP at the time of making a revenue determination. To achieve these benefits, the AER needs an express power, and the once off transitional arrangements granted in 2010 and 2015 do not provide this.

It therefore also follows that a rule which provides the AER this level of flexibility will or is likely to contribute to the achievement of the NEO.

¹⁰ AER, *Electricity Transmission Network Service Providers, Service Target Performance Incentive Scheme, Final Amendments, Explanatory Statement*, April 2025, p. 27.

¹¹ NER, r 11.76. AEMC, National Electricity Amendment (Early application of service target performance incentive scheme (STPIS) components to transmission businesses) Rule 2015.

¹² AER, *Final Decision, Electricity transmission network service providers, Service Target Performance Incentive Scheme*, December 2012.

2.5 The potential impacts and costs and benefits

This section sets out the expected potential impacts of the proposed change to the rules on those likely to be affected, including costs and benefits.

Allowing the AER to apply a revised STPIS during a regulatory control period will result in the benefit of the AER being able to tailor the application of the STPIS in a timely manner in response to the changing circumstances that are a consequence of the energy transition.

There is also the immediate benefit that the AER will be able to apply version 6 of the STPIS to a TNSP prior to the commencement of the TNSP's next regulatory control period. This will allow for the MIC to be suspended, and the administration of the NCC to be streamlined and amended incentives to apply. It will also allow the AER to apply a revised MIC if one is developed that may be informed by the working group.¹³

The costs associated with a rule that would provide the AER with flexibility to apply a revised STPIS during a regulatory control period are minor and administrative in nature. The benefits of the proposed rule are expected to significantly outweigh these costs by enabling improved incentives to be introduced consistent with the objectives of the STPIS.

2.6 Reasons for proposed rule change to be fast tracked

This section sets out the reasons for, and a summary of the consultation conducted so far in support of this rule change request being fast tracked.

The AEMC may fast track a rule change proposal, where there has been previous consultation on a rule change proposal by a regulatory market body.¹⁴ The AER requests this rule change proposal be “fast tracked” under Division 3 of the NEL following consultation already undertaken with stakeholders on the basis of consultation on the nature of the problem during our recent review of the STPIS.

The AER consulted extensively before amending the STPIS, in accordance with the transmission consultation procedures. The review commenced on 6 December 2023, and involved the AER publishing an Issues Paper, an Explanatory Statement with proposed amendments and public forums and seeking submissions from stakeholders at each stage.

In developing the revised STPIS, the AER ran a 16-month consultation process consistent with the transmission consultation procedures.¹⁵ The steps in the process are set out in Table 2.

¹³ AER, *Electricity Transmission Network Service Providers, Service Target Performance Incentive Scheme, Final Amendments, Explanatory Statement*, April 2025, pp. 3 and 4.

¹⁴ AEMC, *The rule change process: A guide for stakeholders*, 20 June 2017, p.5

¹⁵ NER, r 6A.20.

Table 2 STPIS Amendment Consultation Process

Date	Step in consultation process	Comment
December 2023	Issues Paper	
March 2024	Public forum	60+ attendees
April 2024	Submissions close	13 submissions
June/July 2024	Focus group sessions	Participation from TNSPs, consumers and generators.
November 2024	Proposed Amendments	
December 2024	Public forum	60+ attendees
February 2025	Submissions close	12 submissions
April 2025	Final Amendments	

3 Proposed draft rule

National Electricity Amendment (Early application of revised service target performance incentive scheme (STPIS) to transmission businesses) Rule 2025 No. [X]

1. Title of Rule

This Rule is the National Electricity Amendment (Early application of revised service target performance incentive scheme (STPIS) to transmission businesses) Rule 2025 No. [#].

2. Commencement

This Rule commences operation on ##### 2025.

3. Amendment of the National Electricity Rules

The National Electricity Rules are amended as set out in Schedule 1.

Schedule 1 Amendment of the National Electricity Rules

6A.7.# Reopening of revenue determination to apply a revised service target performance incentive scheme

(a) Subject to paragraph (b), where:

- (1) the *AER* has amended or replaced the *service target performance incentive scheme* in accordance with the *transmission consultation procedures*; and
- (2) applying the amended or replacement *service target performance incentive scheme* will result in better giving effect to the principles specified in clause 6A.7.4(b),

the *AER* may propose in relation to a *Transmission Network Service Provider*, or a *Transmission Network Service Provider* may apply to the *AER*, to revoke and substitute a *revenue determination* that applies to the *Transmission Network Service Provider* during that *Transmission Network Service Provider's regulatory control period*.

- (b) A proposal, or an application, referred to in paragraph (a) must not be made within 90 *business days* prior to the end of a *regulatory year*.
- (c) Following a proposal made by the *AER*, or its receipt of an application, referred to in paragraph (a), the *AER* must:
 - (1) consult with the *Transmission Network Service Provider* and such other persons as it considers appropriate in relation to the proposal or the application; and
 - (2) make its decision on the proposal, or on the application, within 40 *business days* from the later of the date the *AER* makes its proposal or

receives an application, and the date the *AER* receives any information required by the *AER* under paragraph (f).

- (d) The *AER* must, and must only, revoke a *revenue determination* following a proposal or an application made in accordance with paragraphs (a) and (b) if the *AER* is satisfied of each of the matters referred to in paragraph (a).
- (e) If the *AER* revokes a *revenue determination* under paragraph (d), the *AER* must make a new *revenue determination* in substitution for the revoked determination to apply for the remainder of the *regulatory control period* for which the revoked determination was to apply.
- (f) The substituted *revenue determination* must only vary from the revoked *revenue determination* to the extent necessary to apply the amended or replacement *service target performance incentive scheme* for the remainder of the *regulatory control period*.
- (g) A *Transmission Network Service Provider* must provide the *AER* with such additional information as the *AER* requires for the purpose of making a decision on whether to apply the amended or replacement *service target performance incentive scheme* and, if so, how the amended or replaced *service target performance incentive scheme* will be applied in a substituted *revenue determination* within the time specified by the *AER* in a notice provided to the *Transmission Network Service Provider* by the *AER* for that purpose.

Extension of time limit

- (h) If the *AER* is satisfied that the revocation and substitution of a revenue determination under paragraphs (d) and (e) involves issues of such complexity or difficulty that the time limit fixed in subparagraph (c)(2) should be extended, the *AER* may extend that time limit by a further period of up to 60 *business days*, provided that it gives written notice to the *Transmission Network Service Provider* of that extension not later than 10 *business days* before the expiry of that time limit.
- (i) If the *AER* extends the time limit under paragraph (h), it must make available on its website a notice of that extension as soon as is reasonably practicable.

Revocation and substitution of revenue determination

- (j) If the *AER* revokes and substitutes a *revenue determination* under paragraph (e), that revocation and substitution must take effect from the commencement of the next *regulatory year*.