Draft decision on Electricity Transmission Determination for Basslink 2026 to 2030

(1 July 2026 to 30 June 2030)

Attachment 6
Service target performance incentive scheme

September 2025

AUSTRALIAN ENERGY REGULATOR

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Amendment record

Version	Date	Pages
1	12 September 2025	4

Note

This attachment forms part of the Australian Energy Regulator's (AER's) draft decision on the transmission determination that will apply to Basslink for the 2026–30 period. It should be read with all other parts of the draft decision.

The draft decision includes the following attachments:

Overview

Attachment 1 – Opening regulatory asset base

Attachment 2 – Capital expenditure

Attachment 3 – Operating expenditure

Attachment 4 – Efficiency benefit sharing scheme

Attachment 5 – Capital expenditure sharing scheme

Attachment 6 – Service target performance incentive scheme

Attachment 7 – Pricing methodology

Attachment 8 – Negotiated services

Attachment 9 – Pass through events

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6 Service target performance incentive scheme

The service target performance incentive scheme (STPIS) provides a financial incentive to transmission network services providers (TNSPs) to maintain and improve service performance. It comprises of three elements, the Service Component (SC), the Market Impact Component (MIC), and the Network Capability Component (NCC).

The SC provides a reward/penalty of +/- 1.25 per cent of maximum allowed revenue (MAR) for the relevant calendar year to improve network reliability, by focussing on unplanned outages. The SC is designed to encourage Transmission Network Service Providers (TNSPs) to seek to reduce the number of unplanned network outages and to promptly restore the network in the event of unplanned outages that result in supply interruptions.

The MIC provides an incentive to TNSPs to minimise the impact of transmission outages that can affect wholesale market outcomes. We suspended the application of the MIC in the latest version of the STPIS (Version 6).[1]

The NCC provides incentives for TNSPs to undertake low-cost projects which improve capability of the transmission system at times when users place the greatest value on the system. Approved NCC projects receive an incentive payment of 1.5 times the project's proposed expenditure and if a project's improvement to network capability is not achieved, the incentive payment may be adjusted downwards by 1.5 times the project's proposed expenditure.

6.1 Our draft decision on the application of the STPIS to Basslink

Version 6 of the STPIS, published in April 2025, is the version of the STPIS currently in force.[2] Our draft decision is to not apply the STPIS to Basslink for the 2026–30 regulatory control period.

In respect of the SC, the historical data needed to set the parameter values is not available. In the 2026–30 regulatory control period, we propose to collect from Basslink (through a regulatory information instrument) data consistent with the sub-set of SC parameters that apply to Directlink and Murraylink (parameters 1 and 4). We propose to limit our data collection to parameters 1 and 4 because Basslink, as an interconnector, has less circuits and connection points than non-interconnectors such that the remaining parameters (parameters 2 and 3) are unlikely to be meaningful in terms of providing incentives for the reliable operation of the 'network'.

In respect of the MIC, we have suspended the application of the MIC for all TNSPs in version 6 of the STPIS.

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1 AER, *Electricity Transmission Service Target Performance Incentive Scheme (Version 6)*, April 2025, cl. 4.1A.

2 NER, cl. 6A.7.4(e).

In respect of the NCC, version 6 of the STPIS requires TNSPs to identify NCC projects from their Transmission Annual Planning Report (TAPR). We consider the NCC could not meaningfully apply to Basslink as Basslink has limited connection points and is not a meshed network. This means that the opportunity to identify low-cost high value NCC projects to address network congestion is limited. This is also evidenced by Basslink's revenue proposal, which has not identified any NCC projects for the 2026–30 regulatory control period.

6.2 Basslink's proposal

In its revenue proposal, Basslink proposed to provide data on the SC over the 2025–30 regulatory control period using the parameters adopted in the STPIS for Directlink and Murraylink. The SC would then apply to the 2030–35 regulatory control period.[3]

Basslink proposed to apply the MIC and NCC.

6.3 Assessment approach

A revenue determination for a TNSP is to specify, amongst other things, the annual building block revenue requirement for each regulatory year of the regulatory control period. In turn, the annual building block revenue requirement must be determined using a building block approach, under which one of the building blocks is the revenue increments or decrements (if any) for that year arising from the application of any STPIS (and other schemes)[4].

Our draft decision is to not apply version 6 of the STPIS to Basslink for the 2026–30 regulatory control period. Historical data against which to assess or determine SC parameter values is not available.

6.4 Interrelationships

The STPIS takes into account any other provisions in the NER that incentivise TNSPs to minimise capital or operating expenditure. One of the objectives of the STPIS is to assist in the setting of efficient capital and operating expenditure allowances by balancing the incentive to reduce actual expenditure with the need to maintain and improve reliability for customers and reduce the market impact of transmission congestion.

The STPIS interacts with the capital expenditure sharing scheme (CESS) and the operating expenditure efficiency benefit sharing scheme (EBSS). The STPIS allows us to adjust the performance targets of the SC for the expected effects on the TNSP's performance from any increases or decreases in the volume of capital works planned during the regulatory control period[5]. In conjunction with the CESS and the EBSS, the STPIS ensures that:

- any additional investments to improve service quality are based on prudent economic decisions

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3 APA, *Basslink Transmission Proposal: Attachment 10 - Incentive arrangements*, 15 September 2023, p 199.

4 NER, cll. 6A.5.4(a)(5), 6A.5.4(b)(5) and 6A.7.4.

5 AER, *Electricity Transmission Service Target Performance Incentive Scheme (Version 6)*, April 2025, cl. 3.2(j)(2).

- reductions in capital and operating expenditure are achieved efficiently, rather than at the expense of service levels to the network users.

6.5 Submissions

We received no submissions from stakeholders about application of the STPIS to Basslink.

6.6 Reasons for our draft decision

6.6.1 Service component

Historical data to set the parameter values that would be required to apply SC financial incentives to Basslink over the 2026–30 regulatory control period is not available. Basslink proposed to provide data over the regulatory control period to enable the SC parameters values to be determined in the 2030–35 regulatory control period.[6] We propose to collect data on the parameters 1 (unplanned outage circuit event rate) and 4 (proper operation of equipment) of the SC through a regulatory information instrument.

We propose to collect data for parameters 1 (unplanned outage circuit event rate) and 4 (proper operation of equipment) of the SC, but not parameters 2 (loss of supply event) and 3 (average outage duration). The reason for not proposing to collect data for parameters 2 and 3 is that these parameters only work effectively with a larger transmission network where loss of supply events occur reasonably often. By contrast Basslink, Directlink and Murraylink (as interconnectors) provide a point-to-point services using a direct current cable. The limited number of events does not provide a sound basis for setting targets and, therefore, parameters 2 and 3 are unlikely to be meaningful in terms of providing incentives for the reliable operation of the 'network'. This is recognised in the STPIS, which specifies that parameters 2 and 3 do not apply to Directlink and Murraylink.[7]

6.6.2 Market impact component

Version 6 of the STPIS has suspended the MIC and so is no longer in operation as part of version 6 of the STPIS.[8]

6.6.3 Network Capability Component

Version 6 of the STPIS requires that NCC projects be identified in a TNSP's TAPR. We consider the NCC could not meaningfully apply to Basslink as Basslink has limited connection points and is not a meshed network. This means that the opportunity to identify low-cost high value NCC projects to address network congestion is limited. This is consistent with the reasons why the STPIS currently excludes Directlink and Murraylink from the NCC.[9]

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6 APA, *Basslink Transmission Proposal: Attachment 10 – Incentive arrangements*, 15 September 2023, p 199.

7 AER, *Electricity Transmission Service Target Performance Incentive Scheme (Version 6)*, April 2025, Appendix B.

8 AER, *Explanatory Statement to the Electricity Transmission Service Target Performance Incentive Scheme (Version 6),* April 2025.

9 AER, *Electricity Transmission Service Target Performance Incentive Scheme*, October 2015, cl. 2.2(d).

Shortened forms

Term	Definition
AER	Australian Energy Regulator
CESS	Capital expenditure sharing scheme
EBSS	Efficiency benefit sharing scheme
MAR	Maximum allowed revenue
MIC	Market impact component
NCC	Network capability component
SC	Service component
STPIS	Service target performance incentive scheme
TAPR	Transmission annual planning report
TNSP	Transmission Network Service Provider