Draft Decision

AusNet Services electricity transmission determination 2027 to 2032

(1 April 2027 to 31 March 2032)

Attachment 7
Service target performance incentive scheme

June 2026

AUSTRALIAN ENERGY REGULATOR

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The STPIS provides incentives to TNSPs to improve or maintain a high level of service for the benefit of participants in the National Electricity Market and end users of electricity.

Version 6 of the STPIS came into effect on 16 April 2025. Version 6 comprises two parameters: the Service Component (SC) and the Network Capability Component (NCC). Under version 6 the Market Impact Component (MIC)[1] (present in version 5) has been suspended.

The SC is designed to encourage 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. This component is also designed to indicate potential reliability issues.

The NCC encourages TNSPs to examine their networks to identify suitable low cost one-off operational and capital expenditure projects that improve the capability of the transmission network at times when it is most needed.

Outcome of the review of the STPIS

Following a review which began with the release of an Issues Paper in December 2023[2], in April 2025, we published version 6 of the STPIS. Version 6 differs from Version 5 in the following ways:

- We have suspended the MIC.
- We have streamlined the application of the NCC, to:
  - Remove the Network Capability Incentive Parameter Action Plan (NCIPAP) and link the NCC to a TNSP's Transmission Annual Planning Report
  - Better align the incentive allowance with incentive allowance reductions.
- We have removed rounding from the loss of supply frequency parameter of the SC so that targets can be fractions of an event.

Reasons for our final positions can be found in our explanatory statement which accompanied our April 2025 Final Decision.[3]

7.1 Draft decision

We will apply version 6 of the STPIS to AusNet for the 2027–32 regulatory control period, which commences on 1 April 2027. Under version 6, only the SC and NCC apply to AusNet.

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1 The MIC was designed to provide an incentive to TNSPs to minimise the impact of transmission outages that can affect wholesale market outcomes.

2 AER, *Issues Paper – Transmission STPIS Review – MIC and NCC*, December 2023.

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

Table 7.1 sets our draft decision on the floors, targets, and caps for each SC parameter that will apply to AusNet for the 2027–32 period. Our draft decision is based on AusNet's most recent five years of historical performance data (2020–2024 calendar years).[4] AusNet is required to include the 2025 STPIS actual performance data in its revised revenue proposal.

Our draft decision differs from AusNet's proposal. The reasons for the differences are explained in section 7.6.1. Our final decision will be calculated based on the 2021–2025 actual performance data.

Table 7.1 Draft decision – Service Component floors, targets and caps for 2027–32

Parameter	Floor	Target	Cap
Unplanned outage circuit event rate (%)			
Lines event rate – fault	21.68	11.32	1.14
Transformer event rate – fault	24.63	11.01	4.35
Reactive plant event rate – fault	26.76	13.17	1.41
Lines event rate – forced	29.38	8.24	0.57
Transformer event rate – forced	14.12	9.28	4.47
Reactive plant event rate – forced	15.17	9.24	2.93
Loss of supply event frequency			
No. of events > 0.05 system minutes	3.00	0.80	0.00
No. of events > 0.2 system minutes	1.00	0.20	0.00
Average outage duration			
Average outage duration	188	63	3
Proper operation of equipment			
Failure of protection system	29	9	0
Material failure of SCADA	5	2	0
Incorrect operational isolation of primary or secondary equipment	7	2	0

Source: AER analysis.

Network Capability Component

Under version 6 of the STPIS, TNSPs are no longer required to submit a NCIPAP as part of their revenue proposal. Instead, they are required to identify the projects in their Transmission Annual Planning Report (TAPR) that should be subject of the NCC. This will apply to AusNet from the beginning of the 2027-32 regulatory period.

[4] STPIS cl. 3.2(f)

7.2 AusNet's proposal

Consistent with our April 2025 Framework and Approach, AusNet proposed to apply version 6 of the STPIS as follows:

- the SC parameter targets are set equal to average historic performance, with caps and floors are set at the 5th and 95th percentiles, respectively, of average historic performance (actual data from 2020-24) using the most appropriate statistical distribution.
- the proposed performance targets for the loss of supply events sub-parameters of the SC are unrounded
- the MIC has been suspended
- it has not proposed any projects under the NCIPAP. Instead, future priority projects will be identified in the TAPR (the Victorian Annual Planning Report). [5]

Table 7.2 shows AusNet's proposed targets, floors and caps and preferred distributions.

Table 7.2 AusNet's proposal – Service Component, floors, targets, caps and preferred distributions for 2027–32

Parameter	Floor	Target	Cap	Preferred distribution
Unplanned outage circuit event rate (%)				
Lines event rate – fault	5.30	11.32	18.25	Beta General
Transformer event rate – fault	4.80	11.01	19.84	Beta General
Reactive plant event rate – fault	0.95	13.17	25.75	Uniform
Lines event rate – forced	0.00	8.24	21.67	Exponential
Transformer event rate – forced	4.22	9.28	14.87	Uniform
Reactive plant event rate – forced	4.04	9.24	23.50	Inverse Gaussian
Loss of supply event frequency				
No. of events > 0.05 system minutes	0.0	1.2	3.0	Poisson
No. of events > 0.3 system minutes	0.0	0.2	1.0	Poisson
Average outage duration				
Average outage duration	36.97	70.29	188.08	Inverse Gaussian
Proper operation of equipment				

[5] In Victoria, VicGrid is the planner of the transmission network and is responsible for the Victorian Annual Planning Report (VAPR).

Parameter	Floor	Target	Cap	Preferred distribution
Failure of protection system	0.00	9.20	29.00	Geometric
Material failure of SCADA	0.00	2.00	5.00	Geometric
Incorrect operational isolation of primary or secondary equipment	0.00	2.00	7.00	Geometric

Source: AusNet's revenue proposal

7.3 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.[6] 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).[7] We have assessed AusNet's proposal for the 2027-32 period against version 6 of the STPIS.

7.3.1 Service component

We assessed whether AusNet's proposed performance targets, caps and floors comply with the STPIS requirements for:

- unplanned outage circuit event rate, with 6 sub parameters[8]
- loss of supply event frequency, with two loss of supply event sub-parameters[9]
- average outage duration[10]
- proper operation of equipment, with 3 sub-parameters[11]

Under clause 3.2(a) of the STPIS:

- a TNSP must submit in its revenue proposal, proposed values for the parameters applicable to it under the service component.
- the AER must accept the proposed values if they comply with the requirements of clause 3.2 and the scheme.

Under clause 3.2(b), for each parameter that applies to a TNSP, it must provide a performance target, floor and cap.

6 NER, cl. 6A.4.2(a)(2).

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

8 AER, *Final – Service Target Performance Incentive Scheme,* April 2025, Appendix A, p. 25.

9 AER, *Final – Service Target Performance Incentive Scheme,* April 2025, Appendix A, p. 25.

10 AER, *Final – Service Target Performance Incentive Scheme*, April 2025, Appendix A, p. 29.

11 AER, *Final – Service Target Performance Incentive Scheme*, April 2025, Appendix A, p. 31.

We assessed AusNet's SC proposal against the relevant requirements of the STPIS. We also assessed the probability distributions applied by AusNet to calculate caps and floors to determine whether a sound methodology was used.

7.3.2 Market Impact Component and Network Capability Component

Under version 6 of the STPIS, the AER is not required to assess the MIC or NCC as part of a TNSP's revenue proposal as:

- the MIC has been suspended.
- TNSPs are not required to submit priority projects in a NCIPAP as part of their revenue proposal.

7.4 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 will interact 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.[12] In conjunction with the CESS and the EBSS, the STPIS will ensure that:

- any additional investments to improve service quality are based on prudent economic decisions
- reductions in capital and operating expenditure are achieved efficiently, rather than at the expense of service levels to the network users.

7.5 Submissions

We received no stakeholder submissions on the application of the STPIS to AusNet.

7.6 Reasons for draft decision

We will apply version 6 of the STPIS. The reasons for our draft decision are outlined below.

7.6.1 Service component

Under the STPIS, we must accept AusNet's proposed parameter values if they comply with the requirements of clause 3.2 and the STPIS.[13] We may reject the proposed values if we

12 STPIS, cl. 3.2(j)(2).

13 STPIS, cl. 3.2(a)

are of the opinion that they are inconsistent with the objectives listed in clause 1.4 of the STPIS.[14]

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.

Performance targets

Performance targets must equal the TNSP's average performance history over the past five years unless they are subject to an adjustment under clause 3.2(i) or (j) of the STPIS. We have determined performance targets that are equal to the arithmetic mean of the past 5 years' performance data.

We do not accept AusNet's performance targets for:

- Loss of supply event frequency (No. events >0.05 system minutes)
- Average outage duration
- Proper operation of equipment (failure of protection system)

Loss of supply event frequency and average outage duration

AusNet's proposed targets for number of events greater than 0.05 minutes per annum and average outage duration are 1.2 and 70.29, respectively. Our draft decision is 0.08 and 63, respectively.

In February 2023, AusNet identified an error in relation to its reported performance data for number of events greater than 0.05 minutes per annum and average outage duration. As a result, AusNet resubmitted its quarter 2 2022 SC data as part of its annual compliance review process.

However, in calculating its performance targets for the 2027-32 regulatory period, AusNet used the 2022 SC data prior to resubmission. We have discussed this issue with AusNet since it submitted its proposal, and AusNet has confirmed (via email)[15] that its proposed targets incorrectly included its original quarter 2 2022 SC data.

We have thus calculated AusNet's SC targets using 5 years of compliance-reviewed actual performance data (from 2020**–**2024).

Caps and Floors

Proposed caps and floors must be calculated with reference to the proposed performance targets using a sound methodology.[16] In arriving at our draft decision, we calculated AusNet's cap and floor values using our @risk model. Our approach used 5 years of performance data to determine a statistical distribution that best fits that data— with the caps and floors set at 2 standard deviations either side of the mean (using a normal distribution); or at the 5th and

14 STPIS, cl. 3.2(k)

15 Email from AusNet to the AER, 12 February 2026

16 STPIS, cl. 3.2(e)

95th percentiles (if using a distribution other than the normal distribution). This approach is consistent with our previous transmission determinations.

Table 7.3 Draft decision – Distribution, Floors and Caps for 2027–32

Parameter	Distribution	Floor (95th percentile)	Cap (5th percentile)
Unplanned outage circuit event rate (%)			
Lines event rate – fault	Uniform	21.68	1.14
Transformer event rate – fault	Pearson5	24.63	4.35
Reactive plant event rate – fault	Uniform	26.76	1.41
Lines event rate – forced	Pearson6	29.38	0.57
Transformer event rate – forced	Weibull	14.12	4.47
Reactive plant event rate – forced	LogLogistic	15.17	2.93
Loss of supply event frequency			
No. of events > 0.05 system minutes	Geometric	3.00	0.00
No. of events > 0.3 system minutes	Poisson	1.00	0.00
Average outage duration			
Average outage duration	Exponential	188	3
Proper operation of equipment			
Failure of protection system	Geometric	29	0
Material failure of SCADA	Poisson	5	0
Incorrect operational isolation of primary or secondary equipment	Geometric	7	0

Source: AER Analysis

We do not accept AusNet's proposed SC caps and floors for the following reasons:

- AusNet mislabelled Caps and Floors columns in its proposal. As a result, none of AusNet's proposed cap and floor values accord with our draft decision. In correspondence since lodging its proposal AusNet stated that it had become aware of this issue.[17]
- Notwithstanding the above, while AusNet's preferred distributions for Unplanned outage circuit event rate (Reactive plant event rate – fault) (Uniform), Loss of supply event frequency (Number of events greater than 0.30 minutes per annum) (Poisson), Proper operation of equipment (Failure of protection system and Incorrect operation isolation of

[17] Email from AusNet to the AER 12 February 2026.

primary or secondary equipment) (both Geometric) accord with our preferred distributions. However, we don't consider what they have proposed to be a sound methodology. Table 7.4 below shows the AER's preferred distributions for the sub-parameters where we differ from AusNet and the reasons why we have chosen them.

Table 7.4 Draft decision – Reasons for AER preferred distributions for Floors and Caps for 2027–32

Parameter	AusNet preferred distribution	AER preferred distribution	Reason for AER preferred distribution
Unplanned outage circuit event rate (%)			
Lines event rate – fault	Beta General	Uniform	@Risk allows Beta General, but it uses 4 parameters, and we only have 5 data points.
Transformer event rate – fault	Beta General	Pearson5	@Risk allows Beta General, but it uses 4 parameters, and we only have 5 data points.
Lines event rate – forced	Exponential	Pearson6	Best fit of continuous distribution that is bounded from below at zero, based on K-S statistic; AusNet incorrectly applied to unbounded distributions.
Transformer event rate – forced	Uniform	Weibull	Best fit of continuous distributions that is bounded from below at zero, based on K-S statistic.
Reactive plant event rate – forced	Inverse Gaussian	LogLogistic	Best fit of continuous distributions that is bounded from below at zero, based on K-S statistic
Loss of supply event frequency			
No. of events > 0.05 system minutes	Poisson	Geometric	Different input value for 2022
Average outage duration			

Parameter	AusNet preferred distribution	AER preferred distribution	Reason for AER preferred distribution
Average outage duration	Inverse Gaussian	Exponential	Different input value for 2022
Proper operation of equipment			
Material failure of SCADA	Geometric	Poisson	Incorrect reporting by AusNet in proposal. AusNet's Appendix 7A found Poisson distribution as the best fit of discrete distribution.

Sources: AER Analysis and AusNet's proposal

7.6.2 Network capability component

Our draft decision is to apply the NCC to AusNet for the 2027–32 regulatory period.

Under version 6 of the STPIS, TNSPs will no longer be required to submit a network capability incentive parameter action plan (NCIPAP) as part of their revenue proposal. Instead, AusNet must identify priority projects from its TAPR and propose them annually for inclusion in the NCC, for our approval.

Approved NCC projects will receive an incentive allowance of 1.5 times the annual proposed expenditure of the priority projects. Incentives are adjusted down by up to 1.5 times of proposed expenditure, if improvement targets are not met.[18]

The total proposed expenditure of all priority projects in a single regulatory year must not exceed 1.5% of the maximum allowed revenue for that regulatory year. [19]

Annually, we will determine the eligibility for each proposed project according to the requirements specified in clause 5.2 of the STPIS.

7.6.3 Market Impact Component

Under version 6 of the STPIS the MIC has been suspended. As part of our review into the STPIS, we undertook to explore developing an alternative to the MIC by establishing a working group. To this end, the Network Market Impact Working Group, comprised of representatives from TNSPs, generators, consumers and users, as well as the Australian Market Operator (AEMO), the Australian Energy Market Commission (AEMC) and the AER, held its first meeting in October 2025. The working group has met monthly since then and the outcomes of the working group may inform the AER's replacement of the MIC of the STPIS.

18 STPIS, cl. 5.3(a)

19 STPIS, cl. 5.3(b)

On 14 May 2026, the Australian Energy Market Commission (AEMC) made a rule change to enable the early application of a revised STPIS.[20] The rule commenced on 21 May 2026. The Early application of a revised STPIS final rule, introduces the ability for the AER to apply a revised STPIS before a TNSP's next regulatory control period commences. After making a new scheme, the AER may consult on its proposed early application arrangements to allow the application of a revised STPIS before the end of a TNSP's regulatory control period. In light of this final rule, should a replacement for the MIC be found, version 7 of the STPIS may apply to AusNet before the end of the 2027-32 regulatory control period. The AER would consult on the early application of any revised STPIS in accordance with the Transmission Consultation Procedures.

20 AEMC, *Early application of a revised STPIS, Final Rule*, May 2026.

Glossary

Term	Definition
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
capex	capital expenditure
CESS	capital expenditure sharing scheme
EBSS	efficiency benefit sharing scheme
MAR	maximum allowed revenue
NCC	network capability component
NEL	national electricity law
NEM	national electricity market
NEO	national electricity objective
NER	national electricity rules
opex	operating expenditure
RIT-T	regulatory investment test for transmission
SC	service component
STPIS	service target performance incentive scheme
TAPR	transmission annual planning report
TNSP	transmission network service provider
MIC	market impact component