



# Replacement of framework and approach 2022–27

## AusNet Services

September 2019

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# 1 Introduction

The Framework and Approach paper (F&A) is the first step in a process to determine efficient prices for electricity transmission services. The F&A facilitates early public consultation on the incentive schemes that will encourage efficient network expenditure.

AusNet Services' F&A will have a bearing on its next regulatory determination commencing 1 April 2022.

## 1.1 Why is the F&A important for consumers?

The F&A sets out information around incentive schemes that will apply to network service providers to encourage efficient investment and performance. It also sets out how the AER will apply the Expenditure Forecast Assessment Guidelines and the depreciation methodology for the next regulatory control period.

The F&A is important because it provides an opportunity for interested parties, including consumers, to have a say.

The sorts of issues we will consider in the F&A include:

- whether incentive schemes will apply, for example, to service quality, improvements in network reliability or capital and operating expenditure. The purpose of incentive schemes is to encourage network service providers to manage their business in a safe, reliable manner that serves the long term interests of consumers. The schemes provide network service providers with incentives to only incur efficient costs and to meet or exceed service quality targets. In some instances, network service providers may incur a financial penalty if they fail to meet set targets
- whether depreciation for establishing the regulatory asset base the network service provider's opening regulatory asset base for the next regulatory control period is to be based on actual or forecast capital expenditure.

We consider that consumers should be actively involved in the F&A process as the decisions made will apply for a five year period before they are reviewed.

Diagram 1 provides an overview of where the F&A sits in the reset processes for the regulatory control period of 1 April 2022 to 30 March 2027. Stakeholder consultation occurs throughout the process.

### Diagram 1: Reset process



## 1.2 Our decision

We consider it necessary to replace the F&A paper for AusNet Services for the next regulatory control period of 1 April 2022 to 31 March 2027. We expect to issue a preliminary positions F&A paper in February 2020 outlining preliminary views on the matters outlined in this decision. We must then publish the final F&A paper by 30 April 2020.

Appendix A lists the specific matters we will include in the F&A paper.<sup>1</sup> We will also consider any other relevant matters appropriate or convenient for us to address in the F&A paper.<sup>2</sup>

The 2017–22 F&A paper for AusNet Services was published on 1 March 2015.<sup>3</sup>

In accordance with the National Electricity Rules (NER), we intend to publish a replacement F&A paper for AusNet Services by 30 April 2020.<sup>4</sup> Before reaching this decision to replace AusNet Services' F&A paper, we issued a notice under the NER,<sup>5</sup> inviting submissions on whether it is necessary or desirable to amend or replace the current F&A paper for AusNet Services. Submissions closed on 30 August 2019. We received no submissions.

On 30 July, AusNet Services submitted a request to us to address a number of issues in its F&A paper that we are required to consider.<sup>6</sup> This is because the NER includes a provision that permits a network service provider to specify certain issues that must be addressed in its F&A.<sup>7</sup> A copy of AusNet Services request is published on our website alongside this decision.<sup>8</sup>

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<sup>1</sup> NER, cl. 6A.10.1A(c)(3).

<sup>2</sup> NER, cl. 6A.10.1A(g). The AER would consult appropriately on any additional matters it wishes to include in the F&A.

<sup>3</sup> See <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/ausnet-services-determination-2017-2022/initiation>.

<sup>4</sup> NER, cl. 6A.10.1A(e).

<sup>5</sup> NER, cl. 6A.10.1A(c)(2). We issued this notice on 2 August 2019.

<sup>6</sup> AusNet Services, *Letter to AER on Framework and Approach*, 30 July 2019. <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/ausnet-services-determination-2022-27/initiation>.

<sup>7</sup> AusNet Services written request was submitted in accordance with NER, cl. 6A.10.1A(c)(1).

<sup>8</sup> As required under NER, cl. 6A.10.1A(c)(3)(ii).

## 2 Our reasons

This section sets out our reasons for deciding to replace AusNet Services' F&A paper for the next regulatory control period of 1 April 2022 to 31 March 2027. The sections below correspond to the various components of the F&A.

### 2.1 Application of incentive schemes

We have developed several mechanisms that provide incentives for network service providers to invest efficiently and therefore be more likely to operate in the long term interests of consumers. These schemes include the service target performance incentive scheme, efficiency benefit sharing scheme and capital expenditure sharing scheme. The overall objectives of the schemes are to:<sup>9</sup>

- incentivise network service providers to spend more efficiently on capital and operating expenditure
- reduce the risk of consumers paying for unnecessary capital expenditure
- share efficient improvements and losses between network service providers and consumers
- encourage appropriate levels of service quality
- maintain network reliability as appropriate.

AusNet Services has set out their preliminary views on the matters requiring consideration relating to the application of incentive schemes.<sup>10</sup> These are as follows:

- Service Target Performance Incentive Scheme (STPIS)

While AusNet Services remains supportive of the transmission STPIS to provide incentives to efficiently improve the reliability of the TNSPs to the benefit of consumers, it sought to clarify whether the AER intends to consult on the current version of the scheme (Version 5). AusNet Services considers this consultation could inform whether a review of the scheme is warranted to ensure it remains fit for purpose, prior to its application at the next round of transmission determinations.

The AER will consider the application of the STPIS scheme in its F&A preliminary positions paper in February 2020.

- Small-scale Incentive Schemes

AusNet Services requests that the AER indicate, in its F&A positions paper, whether it is considering developing a Small-scale Incentive Scheme for application at the forthcoming transmission determination. AusNet Services are exploring the possibility of a scheme with its transmission consumer advisory panel.

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<sup>9</sup> AER, *Electricity distribution network service providers, Service target performance incentive schemes*, June 2008, p. 2; AER, *Better Regulation, Draft expenditure incentives*, 9 August 2013.

<sup>10</sup> AusNet Services, *Letter to AER on Framework and Approach*, 30 July 2019. <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/ausnet-services-determination-2022-27/initiation>.

The development of a customer service incentive scheme (CSIS) is currently being explored through AusNet Services' electricity distribution review as part of the 'New Reg' Trial. The AER published an Issues Paper on 22 July and should the AER choose to develop a CSIS, it intends to publish this in February 2020.<sup>11</sup> However, the Issues Paper did not consider a CSIS for transmission and at this stage, this is yet to be considered by the AER.

- Demand Management Incentive Scheme and Innovation Allowance

The AEMC is currently considering a proposal from Energy Networks Australia to introduce a Demand Management Incentive Scheme and Demand Management Innovation Allowance to apply to transmission networks. Both schemes currently apply to distribution networks. AusNet Services supports Energy Network Australia's proposal and consider both schemes should be applied to AusNet Services at the forthcoming transmission determination if they are introduced by AEMC.

In light of the issues raised above, we consider that the application of all incentive schemes should be reviewed in AusNet Services' F&A paper.<sup>12</sup>

## 2.2 Other matters

AusNet Services considers the AER's current approach of applying forecast depreciation for establishing the regulatory asset base, as at the commencement of the forthcoming regulatory period, should apply during the 2027–32 regulatory period.

The NER require us to consider these matters in developing the F&A for AusNet Services for the next regulatory control period. However, we may consider it unsuitable to state a specific position on matters in the F&A paper. This may be because, for example, our position may be dependent on information that will only become available once AusNet Services submits its regulatory proposal.

AusNet Services also raised concerns with the overlap of its current distribution and transmission regulatory determination processes. AusNet Services is currently considering the length of the regulatory period it will propose for the next period, including the potential to defer its revenue proposal by a period of 12–15 months. This issue is outside the scope of the F&A and is included here for information purposes only.

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<sup>11</sup> See: <https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/customer-service-incentive-scheme>.

<sup>12</sup> NER, cl. 6A.10.1A(b)(1)-(5).

## Appendix A – Matters to be addressed in the F&A

The replacement AusNet Services F&A paper will address the following matters:

- application of a range of incentive schemes that encourage things like service quality, improvements in network reliability or efficient capital and operating expenditure. This includes application of the:
  - service target performance incentive scheme
  - efficiency benefit sharing scheme
  - capital expenditure sharing scheme
  - small-scale incentive scheme
  - expenditure forecast assessment guidelines
  - whether depreciation for establishing the regulatory asset base the network service providers opening regulatory asset base for the 2028–2032 regulatory control period is to be based on actual or forecast capital expenditure.