

Draft Decision

Murraylink Transmission Determination 2023 to 2028

(1 July 2023 to 30 June 2028)

Attachment 10 Service target performance incentive scheme

September 2022

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Version	Date	Pages
1	30 September 2022	10

Note

This attachment forms part of the AER’s draft decision on Murraylink’s 2023–28 transmission determination. It should be read with all other parts of the draft decision.

The draft decision includes the following documents:

Overview

Attachment 1 – Maximum allowed revenue

Attachment 2 – Regulatory asset base

Attachment 3 – Rate of return

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

Attachment 8 – Efficiency benefit sharing scheme

Attachment 9 – Capital expenditure sharing scheme

Attachment 10 – Service target performance incentive scheme

Attachment 11 – Pricing methodology

Attachment 12 – Pass through events

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10 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. The current version of the STPIS, version 5, will apply to Murraylink, including two of the three standard components of the STPIS—the service component (SC) and the market impact component (MIC).

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 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.¹

The MIC provides an incentive to TNSPs to minimise the impact of transmission outages that can affect wholesale market outcomes. The MIC measures performance against the market impact parameter which is the number of dispatch intervals where an outage on the TNSP's network results in a network outage constraint with a marginal value greater than \$10/MWh (MIC count).²

Each TNSP's annual MIC count is measured against its target, where the target is calculated by averaging the median five of the last seven years' performance. Further, the dollars per dispatch interval (\$/DI) associated with the reward/penalty for each count can be directly calculated for the regulatory control period from the MIC target, and the MAR. Both the target and the \$/DI are fixed for the regulatory control period.³

Under the MIC, TNSPs receive a reward or penalty of up to +/- 1 per cent of MAR for the relevant calendar year. Under clause 4.2(a) of version 5 of the STPIS, a TNSP must submit 7 calendar years of data to calculate the target as noted above.

10.1 Draft decision

We will apply the SC and MIC of version 5 of the STPIS to Murraylink for the 2023–2028 regulatory control period. Under this version of the scheme, the network capability component (NCC) does not apply to Murraylink.⁴

The draft decision components are outlined in the tables below. Our draft decision is based on Murraylink's 5 years of historical performance data including the 2021 calendar year.⁵

¹ AER, Final – Service Target Performance Incentive Scheme, October 2015, cl. 2.2(a)(1–3).

² AER, Final – Service Target Performance Incentive Scheme, October 2015, Appendix C

³ The target will be calculated from the average of the five values remaining from the last seven years of data excluding the largest and smallest annual values.

⁴ AER, Final – Service Target Performance Incentive Scheme, October 2015, cl. 2.2(d).

⁵ Under STPIS, performance target calculations must be based on performance history data up to the year ending immediately prior to the submission of the revenue proposal (2021).

Table 10.1 Draft decision — Service Components caps, floors and target for 2023–28

Parameter	Floor	Target	Cap
Unplanned outage circuit event rate:			
Circuit event rate – fault	5	2	0
Circuit event rate - forced	3	1	0

Source: AER analysis

Table 10.2 Draft decision — Market Impact Component parameter values for 2023–28

Parameter	
Target	1258
Unplanned outage event limit	214
Dollar per dispatch interval	127

Source: AER Analysis

10.2 Murraylink’s proposal

Murraylink’s revenue proposal did not provide any STPIS targets or incentive rates for the 2023–28 regulatory period. In accordance with the scheme⁶, we have calculated these values for the 2023–28 regulatory period using the historical data they have provided.⁷

10.3 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.⁸ 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).⁹ We have assessed Murraylink’s proposal for the 2023–28 regulatory period against the requirements of version 5 of the STPIS.

10.3.1 Service component

We are required to assess whether Murraylink’s proposed performance targets, caps and floors comply with the STPIS requirements. However, as discussed above, Murraylink did not submit these parameters and we have calculated these values based on historical data.

Under the STPIS, we must accept Murraylink’s proposed parameter values if they comply with the requirements of the STPIS. We may reject them if they are inconsistent with the

⁶ AER, Final – Service Target Performance Incentive Scheme, October 2015, cl. 3.2 and 4.2(g).

⁷ Murraylink, Revenue Proposal 2023–28, 31 August 2022, Attachment 3: RIN workbook 1: Forecast and historical.

⁸ NER, cl. 6A.4.2(a)(2).

⁹ NER, cl. 6A.5.4(a)(5), 6A.5.4(b)(5) and 6A.7.4.

objectives of the STPIS.¹⁰ We measure actual performance for the 'average circuit outage rate' and 'average outage duration' parameters on a two-calendar year rolling average in accordance with appendix E of the STPIS.

We are required to assess Murraylink's SC proposal against the requirements of the STPIS—that is, whether:¹¹

- Murraylink's data recording systems and processes produce accurate and reliable data and whether the data is recorded consistently based on the parameter definitions under the STPIS
- the proposed performance targets were equal to the average of the most recent five years of performance data
- any adjustments to the proposed targets are warranted and reasonable
- Murraylink applied a sound methodology, with reference to the performance targets, to calculate the proposed caps and floors
- any adjustment to a performance target was applied to the cap and floor of that parameter.

10.3.2 Market impact component

We are required to assess Murraylink's MIC proposal against the requirements of the STPIS. However, as discussed above, Murraylink did not submit these parameters and we have calculated these values based on historical data.

We are required to assess whether:

- data used to calculate the market impact parameter is accurate and reliable, and consistently recorded based on the parameter definition in Appendix C¹²
- the proposed performance target was calculated in accordance with the requirements of clause 4.2(g) in version 5 of the STPIS
- the proposed unplanned outage event limit has been calculated in accordance with the requirements of clause 4.2(h) in version 5 of the STPIS
- the proposed dollar per dispatch interval has been calculated in accordance with clause 4.2(j) in version 5 of the STPIS.

Where Murraylink's proposed values for the market impact parameter do not comply with the requirements of the STPIS or is otherwise inconsistent with the objectives of the scheme¹³, we will reject the proposed values and provide substitute values which comply with the STPIS.

¹⁰ AER, Final – Service Target Performance Incentive Scheme, October 2015, cl. 3.2.

¹¹ AER, Final – Service Target Performance Incentive Scheme, October 2015, cl. 3.2.

¹² AER, Final – Service Target Performance Incentive Scheme, October 2015, clause 4.2(c).

¹³ AER, Final – Service Target Performance Incentive Scheme, October 2015, cl 4.2(d).

However, as discussed above, Murraylink did not submit these parameters and we have calculated these values based on historical data.

10.4 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.¹⁴ 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.

10.5 Submissions

We received no submission from stakeholders regarding the application of STPIS to Murraylink for the 2023–28 regulatory control period.

10.6 Reasons for draft decision

We will apply the STPIS with the AusNet MIC exclusions clarification to Murraylink and the reasons for our draft decision are outlined below.

10.6.1 Service Component

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.¹⁵ We generally approve performance targets that are the arithmetic mean of the past five years' performance data.

As Murraylink did not provide us the SC targets, we have calculated them using 2017–21 performance data. The results are outlined in Table 10.1.¹⁶

Caps and floors

¹⁴ Ibid, cl. 3.2(j)(2).

¹⁵ AER, Final – Service Target Performance Incentive Scheme, October 2015.

¹⁶ AER, Final – Service Target Performance Incentive Scheme, October 2015, cl 3.2(f).

Proposed caps and floors must be calculated with reference to the proposed performance targets using a sound methodology. In arriving at our draft decision, we calculated Murraylink's cap and floor values using our @risk model (Table 10.3).¹⁷ Our approach used five years of performance data to determine a statistical distribution that best fits that data—with the caps and floors set at two standard deviations either side of the mean (using a normal distribution); or at the 5th and 95th percentiles (if using a distribution other than the normal distribution). This is consistent with our other transmission determinations.

Our approved cap and floor values for Murraylink are set out in Table 10.3.

Table 10.3 Draft decision — Distribution, Floors and Caps for 2023–28

Parameter	Distribution	Floor (5 th percentile)	Cap (95 th percentile)
Unplanned outage circuit event rate:			
Circuit event rate – fault	Poisson	5	0
Circuit event rate - forced	Poisson	3	0

10.6.2 Market Impact Component

Performance target

Murraylink did not propose a MIC target and incentive rate.

Our draft decision is to apply the current STPIS with the AusNet MIC exclusions clarification to Murraylink for the 2023–28 regulatory period.

In our January 2022 final decision on the transmission determination for AusNet Services, released just prior to submission of Murraylink's proposal, we considered the impact changes in the energy mix within the NEM has had on the way semi-dispatch generators bid into the market. We recognised the potential for generator bidding behaviour to appear as a constraint when this is not within a transmission network service provider's control. In such cases, we considered these should be excluded from MIC performance.¹⁸

In its response to our information request, Murraylink informed that the clarification of constraint codes has not affected Murraylink. The clarification also confirms that there is no change to the performance data previously supplied to the AER.¹⁹

Consequently, as Murraylink did not provide MIC targets, we have calculated Murraylink's MIC target and incentive rate using its 2015–21 performance data. The results are outlined in Table 10.2.²⁰

¹⁷ Our @risk model has been used to set the cap and floor range in most of our recent determinations.

¹⁸ AER, Final Decision, AusNet Services Transmission Determination 2022 to 2027, Attachment 10 Service target performance incentive scheme, January 2022, pp. 12-19.

¹⁹ Murraylink, Response to AER information request #02 – STPIS, 8 April 2022.

²⁰ Murraylink, Revenue Proposal 2023–28, 31 August 2022, Attachment 3: RIN workbook 1: Forecast and historical; AER, Final – Service Target Performance Incentive Scheme, October 2015, cl. 4.2(g).

Glossary

Term	Definition
CESS	Capital expenditure sharing scheme
DI	Dispatch interval
EBSS	Efficiency benefit sharing scheme
MAR	Maximum allowed revenue
MIC	Market impact component
NCC	Network capability component
RIN	Regulatory information notice
SC	Service component
STPIS	Service target performance incentive scheme
TNSP	Transmission network service provider
