

TransGrid electricity transmission — Framework and Approach

Decision to amend

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.

TransGrid's F&A will have a bearing on its next regulatory determination commencing 1 July 2023.

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.

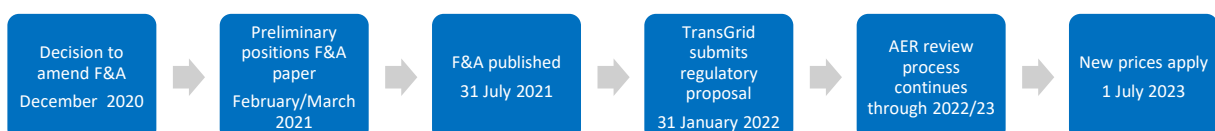
The sorts of issues we will consider in the F&A include:

- 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 TransGrid's revenue determination process for the 2023–28 regulatory control period, commencing 1 July 2023 to 30 June 2028. Stakeholder consultation occurs throughout the process.

Diagram 1: TransGrid's 2023–28 revenue determination process



Our decision to amend the F&A for TransGrid

We consider it necessary to amend the F&A paper for TransGrid for the next (2023–28) regulatory control period, commencing 1 July 2023 to 30 June 2028. This is due to the introduction of a new Demand Management and Innovation Allowance Mechanism (DMIAM).

On 5 December 2019, the AEMC published its final determination for a rule change to apply the DMIAM to TNSPs. As a result, the AER must develop and publish the first transmission DMIAM under the NER by 31 March 2021. Due to the COVID-19 interruption, we expect to finalise the transmission DMIAM by 30 June 2021 following stakeholder consultation on a draft guideline.

We expect to apply a DMIAM to TransGrid for the 2023–28 period in our determination.

Next Steps

The 2018–23 F&A paper for TransGrid was published on 28 July 2016.¹ In accordance with the National Electricity Rules (NER), we intend to publish an amended F&A paper for TransGrid by 31 July 2021.

We expect to issue a preliminary positions F&A paper in February/March 2021 outlining preliminary views on the matters outlined in this decision.

Our preliminary F&A paper will consider any 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 (STPIS)
 - efficiency benefit sharing scheme (EBSS)
 - capital expenditure sharing scheme (CESS)
 - small-scale incentive scheme (SSIS)
 - demand management innovation allowance mechanism (DMIAM)
 - expenditure forecast assessment guidelines
- whether depreciation for establishing the regulatory asset base for the network service provider's opening regulatory asset base for the 2028–2033 regulatory control period is to be based on actual or forecast capital expenditure.
- any other relevant matters appropriate or convenient for us to address in the F&A paper.

Background

A copy of TransGrid's request is published on our website alongside this decision.

¹ See <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/transgrid-determination-2018-23/aer-position>.