DRAFT GUIDANCE NOTE

Transmission Service Target Performance Incentive Scheme

Data period for calculation of Market Impact Component performance target

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AUSTRALIAN ENERGY REGULATOR

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1 Introduction and purpose

This guidance note has been prepared in accordance with clause 6A.2.3 of the National Electricity Rules (NER) and provides information on how the Australian Energy Regulator (AER) will approach our assessment of the parameters for the purposes of the application of version 5 of the Service Target Performance Incentive Scheme (the Scheme) to Transmission Network Service Providers (TNSPs). This guidance note sets out the AER's view in relation to the data period to be used in calculating the Market Impact Component (MIC) performance target for the purposes of the Scheme and its expectations of TNSPs in this regard. This guidance note covers:

- context to the application of the Scheme to TNSPs and the framework in which it is applied (section 2)
- the requirements of the Scheme with respect to calculation of the MIC performance target, including our expectations in this regard (section 3)
- a worked example (section 4).

The purpose of this guidance note is to provide information about how the AER will assess the data period used for calculating the MIC target.

We expect that TNSPs will follow this guidance in preparing their revenue proposals (Revenue Proposals) under section 6A.4 of the NER.

1.1 Application of the guidance note

This guidance note applies to TNSPs which are subject to version 5 of the Scheme and are required to propose a MIC performance target in their Revenue Proposal.

The expectations in this guidance note are not binding on the AER. We intend to follow this guidance note in making decisions in relation to the application of the Scheme, unless we consider there are good reasons not to.

2 Context and framework

The AER is responsible for developing and publishing the Scheme.[1] The Scheme provides incentives for TNSPs to improve or maintain a high level of service for the benefit of participants in the National Electricity Market (NEM) and end users of electricity.

The Scheme is made up of three components, including the MIC, which is designed to encourage TNSPs to minimise the impact of outages on the dispatch of generation.

The MIC parameter uses financial incentives to encourage TNSPs to minimise the effect of transmission outages on the wholesale price of electricity. The MIC counts the number of dispatch intervals when outages in the TNSP's network result in network outage constraints[2] with a marginal value greater than $10/Mwh. Each TNSP's annual MIC count is measured against its performance target. A measure of the TNSP's performance against its target is used to calculate the reward/penalty under the Scheme.

Targets are set through the Revenue Determination process for each TNSP. The AER's Final Revenue Determination specifies, for the regulatory control period, the values that are to be attributed to each of the Scheme parameters, including the MIC.[3]

Version 5 of the Scheme was published on 17 September 2015.

1 Cl 6A.7.4(a) of the NER.

2 Network outage constraints are constraint sets that are applied in AEMO's market systems to manage power flows during outages so that the power system remains secure during an outage.

3 Cl 6A.4.2(5) of the NER.

3 Definition of the data period

In simple terms, the data to be used for the calculation of the MIC target are the most recent seven MIC annual performance measures at the time the TNSP submits its revenue proposal or revised revenue proposal (see section 4, which sets out a worked example).

TNSPs must measure their performance against the parameters and values applicable to it under the Scheme on a calendar year basis. For a TNSP to be able to include the annual performance measure for that calendar year in the calculation of the MIC target, this necessarily means both that:

- the calendar year must be complete in order to be able to determine the annual performance measure
- the AER must have carried out its annual compliance review in accordance with cl. 6.4 of the Scheme (Annual STPIS Review) for that year and approved the annual performance measure.

The AER usually conducts its Annual STPIS Review for a calendar year in mid-March of the following calendar year.

The next section steps out the Scheme requirements underpinning this position.

3.1 Calculation of the MIC performance target under the Scheme

Section 4 of the Scheme sets out the requirements relating to the MIC. In particular, clause 4.2 of the Scheme sets out the methodology for calculating the values for the MIC parameter.

Each TNSP is required to submit, in its Revenue Proposal, data in accordance with the MIC definitions set out at Appendix C for the preceding seven calendar years.[4]

Each TNSP must also submit, in its Revenue Proposal, proposed values for the MIC parameter, including a performance target.[5]

Data used to calculate the MIC parameter must be accurate, reliable and consistently recorded based on the parameter definition in Appendix C to the Scheme.[6]

Appendix C sets out the definition of the MIC.

The MIC parameter is the number of dispatch intervals where an outage on the TNSP's prescribed transmission network results in a network outage constraint with a marginal value greater than $10/Mwh.[7]

4 AER, Final – Service Target Performance Incentive Scheme, October 2015, cl. 4.2(a).
5 Cl 4.2(b) of the Scheme.
6 Cl 4.2(c) of the Scheme.
7 Appendix C to the Scheme.

For the purposes of calculating the financial incentive the annual performance measure is compared to the target, which is set in the Revenue Determination.

The mechanism for calculating the MIC performance target depends on whether the TNSP has had version 5 of the Scheme applied to it in previous regulatory periods. All TNSPs currently operating within the NEM have been subject to version 5 of the Scheme during their current regulatory control period. This therefore means that the MIC performance target is to be calculated in accordance with clause 4.2(g), where the TNSP is applying version 5 of the Scheme for a second regulatory control period.[8]

Clause 4.2(g) of the Scheme sets out that the performance target will be calculated in accordance with Appendix C and example 2 in Appendix F as follows:

(1) The performance target is the TNSP's average of the median five out of seven of the preceding seven calendar years of the annual performance measure. For clarity this is shown in example 2 in Appendix F.

(2) If the performance target calculated in clause 4.2(f)(5) is less than 100 counts, the performance target will be adjusted to a minimum performance target of 100 counts.

Example 2 in Appendix F shows how the MIC performance target is calculated under version 5 of the Scheme, based on the annual performance measure. Example 2 sets out that the calculations for the target are performed in accordance with clause 4.2(g). Example 2 in Appendix F lists the information to be submitted by TNSPs in their Revenue Proposals. This includes the four years of performance measure data for the current regulatory control period and the last three years of performance measure data for the previous regulatory control period; the performance target; the unplanned outage event limit; and the dollar per dispatch interval.

Table 6-2 in Example 2 in Appendix F to the Scheme sets out the calculation of the parameters required to be submitted by the TNSP in its proposal. The data used to calculate the target is the top seven lines of data, that is, the four years of performance measure data for the current regulatory control period and the last three years of performance measure data for the previous regulatory control period. Footnote 4 provides that the last year of the performance measure data for the current regulatory control period is not included in the calculation of the performance target.

3.2 Our expectations

When calculating the MIC performance target in accordance with Appendix C and example 2 in Appendix F, the AER expects that TNSPs will base their calculations on performance history data up to the year ending immediately prior to the submission of the revenue proposal. That is, the 'preceding seven calendar years' refers to the seven years of annual performance measure data completed before the financial year in which a TNSP submits its revenue proposal to the AER.

For example, this means that when a TNSP submits its Revenue Proposal in the financial year ended 30 June 2021 (currently either October 2020 or January 2021), the preceding

8 Clause 4.2(f) does not apply, as this is for when a TNSP first transitions to version 5 of the STPIS.

seven years of annual performance measure data will include data up to and including 2019. This is because if the TNSP is submitting its Revenue Proposal in October 2020, the 2020 calendar year is not complete and the AER will not have completed the Annual STPIS Review for the 2020 calendar year. If the TNSP is submitting its Revenue Proposal in January 2021, while the 2020 calendar year is complete, the AER will not have completed the Annual STPIS Review for the 2020 calendar year.

When the TNSP submits its revised Revenue Proposal in the financial year ended 30 June 2022 (currently either September 2021 or December 2021), the preceding seven years of annual performance measure data will include data up to and including 2020. This is because if the TNSP is submitting its Revenue Proposal in September 2021 or December 2021, the 2021 calendar year is not complete and the AER will not have completed the Annual STPIS Review for the 2021 calendar year.

We set out in section 4 below a further worked example of the way in which the AER expects TNSPs to calculate the MIC performance target.

In this respect, we note that the obligations on the TNSP under clauses 4.2(a) and 4.2(b) of the Scheme to submit MIC performance measure data for the preceding seven calendar years, and to submit a proposed value for a MIC performance target, apply at the time the TNSP submits its Revenue Proposal. Example 2 in Appendix F also refers to the performance measure data that the TNSP would submit in its Revenue Proposal for the forthcoming regulatory control period.

Version 5 of the Scheme does not contemplate the updating of performance measure data following the TNSP's submission of its Revenue Proposal (or revised Revenue Proposal). Nor does it allow the AER to approve or require a MIC performance target to be based on a different time period if it is satisfied that the use of a different period is consistent with the objectives in clause 1.4 of the Scheme (for example, in contrast to clause 3.1(g) of the Scheme).

3.3 Reasons for this position

The Scheme requirements mirror the revenue determination process requirements, which are based on a 'propose and respond' model. This provides transparency in the decision-making process. It enables stakeholders to make submissions in response to the TNSP’s proposal, which may influence the AER’s decision.

Further, it provides for the AER to carry out its Annual STPIS Review in the appropriate manner and timeframe, without any curtailment pressure in order to meet the final decision deadline. Currently, the TNSPs submit their completed annual Scheme Regulatory Information Notices (RINs) to the AER at the end of January of each calendar year. By this time, AEMO has usually finalised the manual updates of binding dispatch intervals in its data system. The AER conducts its compliance checks of the annual Scheme RINs by mid-March and approves the Scheme performance measures.

We note that the data period used to calculate the MIC target for some revenue determinations in the past has not been consistent with the Scheme requirements, as set out

above. We do not consider that the past practice is the preferable approach and propose to adopt the approach set out above going forward.

4 Worked example

'TNSP A' first applied version 5 of the Scheme for the regulatory period 1 July 2015 to 30 June 2020.

Table 4-1 below sets out the AER's views as to the correlation between the regulatory control period and the years for which performance data is to be used in calculating the MIC target in this worked example.

Table 4-1 Timing of regulatory period with annual Scheme review

Regulatory control period (RP) / Year of regulatory control period (y)	Scheme calendar year	Timing of Annual STPIS Review	Data used in calculation of MIC performance target for regulatory control period 2015-2020	Data to be used in calculation of MIC performance target for regulatory control period 2020-2025
RP0y3 (1 July 2007 - 30 June 2008)	2007		2007	
RP0y4 (1 July 2008 - 30 June 2009)	2008		2008	
RP0y5 (1 July 2009 - 30 June 2010)	2009		2009	
RP1y1 (1 July 2010 - 30 June 2011)	1H 2010 (from prev reg period) 2H 2010	March 2011	2010	
RP1y2 (1 July 2011 - 30 June 2012)	2011	March 2012	2011	
RP1y3 (1 July 2012 - 30 June 2013)	2012	March 2013	2012	2012
RP1y4 (1 July 2013 - 30 June 2014)	2013	March 2014	2013	2013
RP1y5 (1 July 2014 - 30 June 2015)	2014	March 2015		2014
RP2y1 (1 July 2015 - 30 June 2016)	1H 2015 (from prev reg period) 2H 2015	March 2016		2015
RP2y2 (1 July 2016 - 30 June 2017)	2016	March 2017		2016

RP2y3 (1 July 2017 - 30 June 2018)	2017	March 2018	2017
RP2y4 (1 July 2018 - 30 June 2019)	2018	March 2019	2018
RP2y5 (1 July 2019 - 30 June 2020)	2019	March 2020	

For the transition to the first application of version 5 of the Scheme, its MIC target was calculated[9] using the annual performance measure data between 2007 and 2013 (see Table 4-2 below).

Table 4-2 First application of version 5 of STPIS

9 Proposed by the TNSP in the revised proposal and approved by the AER in the final decision.

Regulatory period (RP)	Year	Year being reviewed at Scheme annual review	Target set in RCP	Raw performance count			Capped unplanned count	Adjusted performance count
			Target	Planned	Unplanned	Total (Planned + Unplanned)	Min of Raw Unplanned or 0.17x(M)	Planned + capped unplanned
		(RP)	(T)	(a)	(b)	(a)+(b)	(d)	(e)
RP0 FY08	1	2007		20	10	30	10	30
RP0 FY09	2	2008		120	60	180	49	169
RP0 FY10	3	2009		40	55	95	49	89
RP1 FY11	4	2010		38	77	115	49	87
RP1 FY12	5	2011		50	12	62	12	62
RP1 FY13	6	2012		1000	0	1000	0	1000
RP1 FY14	7	2013		700	321	1021	49	749
RP1 FY15	8	2014						
RP2 final decision:			Min			30		30
			Max			1021		1000
			Average of 5 median			290		231
			Unplanned outage event limit			49		39

The raw unplanned outage event limit is calculated as 0.17 x average of the median five (of seven) raw annual performance measures (180, 95, 115, 62, 1000), yielding 49 dispatch intervals (DIs). The minimum (30) and maximum (1021) are excluded. The raw unplanned performance count is capped by the raw unplanned outage event limit of 49 DIs.

The performance target is calculated as the average of the median 5 (of 7) annual performance measures (that is, the annual adjusted performance measures) (169, 89, 87, 62, 749), yielding 231 DIs. The minimum (30) and maximum (1000) are excluded.

The unplanned outage event limit is calculated as 0.17 x performance target (231), yielding 39 DIs.

'TNSP A' submits its initial Revenue Proposal the 2020-25 Revenue Determination (1 July 2020 to 30 June 2025) on 31 January 2019. The MIC annual performance measure data includes 2011 to 2017 as set out in Table 4-3 below.

Table 4-3 Application of version 5 STPIS for the second regulatory period - revenue proposal

Regulatory period (RP)	Year	Year being reviewed at Scheme annual review (RP)	Target set in RCP Target (T)	Raw performance count Planned	Unplanned	Total (Planned + Unplanned)	Capped unplanned count Min of Raw Unplanned or 0.17x(M)	Adjusted performance count Planned + capped unplanned
RP0 FY08	1	2007						
RP0 FY09	2	2008						
RP0 FY10	3	2009						
RP1 FY11	4	2010						
RP1 FY12	5	2011		50	12	62	12	62
RP1 FY13	6	2012		1000	0	1000	0	1000
RP1 FY14	7	2013		700	321	1021	49	749
RP1 FY15	8	2014		150	2	152	2	152
RP2 FY16	9	2015	231	900	15	915	15	915
RP2 FY17	10	2016	231	10	120	130	39	49
RP2 FY18	11	2017	231	48	10	58	10	58
RP2 FY19	12	2018	231					
RP2 FY20	13	2019	231					
For RP3 revenue proposal:			Min					49
			Max					1000
			Average of 5 median					387
			Unplanned outage event limit					66

The placeholder[10] performance target is calculated as the average of the median five (of seven) annual performance measures (that is, the annual adjusted performance measures) (62, 749, 152, 915, 58), yielding 387 DIs. The minimum (49) and maximum (1000) are excluded.

The placeholder unplanned outage event limit is calculated as 0.17 x performance target (387), yielding 66 DIs.

The AER publishes its draft of the 2020-2025 Revenue Determination on 29 September 2019. It sets placeholder values for the MIC target as 387 DIs and the planned outage event limit as 66 DIs.

'TNSP A' then submits its revised Revenue Proposal for the 2020-25 Revenue Determination on 1 December 2019. The MIC annual performance measure data includes 2012 to 2018 as set out in Table 4-4 below.

Table 4-4 Application of version 5 STPIS for the second regulatory period - revised revenue proposal

10 It is a placeholder metric as it will be updated for the next year's STPIS data in the revised revenue proposal.

Regulatory period (RP)	Year	Year being reviewed at Scheme annual review	Target set in RCP	Raw performance count			Capped unplanned count	Adjusted performance count
			Target	Planned	Unplanned	Total (Planned + Unplanned)	Min of Raw Unplanned or 0.17x(M)	Planned + capped unplanned
		(RP)	(T)	(a)	(b)	(a)+(b)	(d)	(e)
RP0 FY08	1	2007						
RP0 FY09	2	2008						
RP0 FY10	3	2009						
RP1 FY11	4	2010						
RP1 FY12	5	2011						
RP1 FY13	6	2012		1000	0	1000	0	1000
RP1 FY14	7	2013		700	321	1021	49	749
RP1 FY15	8	2014		150	2	152	2	152
RP2 FY16	9	2015	231	900	15	915	15	915
RP2 FY17	10	2016	231	10	120	130	39	49
RP2 FY18	11	2017	231	48	10	58	10	58
RP2 FY19	12	2018	231	830	44	874	39	869
RP2 FY20	13	2019	231					
For RP3 revised revenue proposal: Min								49
			Max					1000
			Average of 5 median					549
			Unplanned outage event limit					390

The performance target is calculated as the average of the median five (of seven) annual performance measures (that is, the annual adjusted performance measures) (749, 152, 915, 58, 869), yielding 549 DIs. The minimum (49) and maximum (1000) are excluded.

The unplanned outage event limit is calculated as 0.17 x performance target (549), yielding 390 DIs.

The AER publishes its Final Decision on 28 April 2020 for the 2020-25 Revenue Determination. It set the MIC target as 549 DIs, using performance data from the period 2012 - 2018, and the planned outage event limit as 390 DIs.