



Tuesday, 28 July 2015

Craig Oakeshott
Director, Wholesale Markets Branch
Australian Energy Regulator
GPO Box 922
Adelaide SA 5001

By electronic lodgement to AERInquiry@aer.gov.au

Dear Mr Oakeshott

RE: Draft Service Target Performance Incentive Scheme version 5

GDF SUEZ Australian Energy (GDFSAE) appreciates the opportunity to comment on the draft Service Target Performance Incentive Scheme (STPIS) version 5.

GDFSAE is generally supportive of the STPIS arrangements to the extent that they provide reasonable incentives for network businesses to ensure that they continue to design, develop, operate and maintain the transmission network to achieve appropriate reliability and availability outcomes.

GDFSAE notes that the draft STPIS includes changes to the Service Component (SC), Market Impact Component (MIC) and the Network Capability Component (NCC), however this submission provides comment on the MIC only.

GDFSAE notes that any incentive scheme needs to ensure an appropriate proportionality between the level of the incentive and the cost / benefit of the behaviour change that is being incentivised. It is also important that the parties that are effectively making the incentive payments are ultimately the potential beneficiaries of the behaviour that is being incentivised.

The MIC provides an incentive for network businesses to ensure that their network operations do not negatively impact on National Electricity Market outcomes.

GDFSAE believes that there are advantages in moving to a symmetrical MIC, where network businesses can receive incentive income for good outcomes, and can be asked to pay a penalty for poor outcomes.

The current asymmetrical MIC means that a network business can choose to take a passive approach to market outcomes safe in the knowledge that it will not be asked to make a penalty payment. It is true that having an incentive payment available might be sufficient to motivate the network business to ensure that its operations do not negatively impact on the market. However, the current asymmetrical MIC means that the incentive acts in one direction only, as an incentive to do more, but with no penalty for doing nothing.

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A symmetrical MIC would provide a more complete incentive / disincentive signal by ensuring both an incentive do strive to minimise market impacts, and a disincentive against not responding to market outcomes.

GDFSAE supports the symmetrical MIC as it more closely approximates the commercial drivers felt by businesses operating in a competitive environment, as they assess the risk / return trade off of their decisions and actions.

GDFSAE trusts that the comments provided in this response are of assistance to the Australian Energy Regulator in its deliberations. Should you wish to discuss any aspects of this submission, please do not hesitate to contact me on, telephone, 03 9617 8331.

Yours sincerely,



Chris Deague
Wholesale Regulations Manager