

2 March 2023

Sebastian Roberts
Network Expenditure
Australian Energy Regulator
GPO Box 3131
Canberra, ACT, 2601

Dear Mr Roberts,

Re: Review of incentive schemes for regulated networks – Draft Decision

TasNetworks is the Tasmanian Transmission and Distribution Network Service Provider and is focused on delivering safe, secure and reliable electricity network services to our customers at the lowest sustainable prices. TasNetworks is supportive of changes to the regulatory framework that improves customer outcomes.

TasNetworks welcomes the opportunity to respond to the Australian Energy Regulator's (AER) review of incentive schemes Draft Decision.

TasNetworks supports the Energy Networks Australia (ENA) submission to the Draft Decision and provides the following additional comments for consideration.

As previously proposed in our submission to the Incentive Scheme Review Discussion Paper, large transmission projects should have the option to be excluded from incentive scheme targets if they will materially impact incentive scheme outcomes to the detriment of customers. For example, a small percentage capital expenditure under/over spend on an actionable Integrated System Plan project or contingent project could significantly impact a Transmission Network Service Providers' (TNSP) Capital Expenditure Sharing Scheme (CESS) outcomes. This would not be consistent with the objective of the scheme to incentivise efficiencies across all capex categories. TasNetworks therefore supports the AER's draft decision to determine if the CESS should be applied to large transmission projects as part of assessing contingent project and regulatory reset proposals.

TasNetworks also supports the AER's assessment that a review of the Market Impact Component (MIC) is prudent. The current design of the MIC is not suited to the current and future network operational conditions in Tasmania. The flow of energy over TasNetworks' transmission network is highly variable because of the operating behaviour of hydro-electric generation. This variability is expected to increase moving forwards with the Australian Energy Market Operator forecasting significant increases of variable renewable energy resources in Tasmania. This means it is inherently difficult to schedule planned outages at times of lower network constraints. TasNetworks collaborates with market participants and other stakeholders likely to be affected by a network outage to find the most convenient and efficient

time for works. The nature of Tasmania’s electricity system means it is difficult to forecast actual flows on the day of the outage making the use of predicted MIC impacts to influence the timing of planned outages a lottery.

A scheme similar to the MIC was historically used in the United Kingdom to incentivise the system operator to manage network outages. Following a review of incentives, a change was made in 2018 to base reward or penalty payments on a largely qualitative assessment of the outage management performance, measured against a forward plan. In our 2024-2029 Combined Proposal, TasNetworks proposes that similar changes be made to the MIC. Under our proposed scheme, a TNSP would be able to avoid a MIC penalty in respect to an outage if it has consulted with affected market participants and delivers on an outage during the time agreed to.

TasNetworks considers that a review of the MIC should commence as soon as practicably possible so that the revised MIC can apply to TasNetworks’ 2024-2029 regulatory period.

If you have any questions on this submission, please contact [REDACTED] Leader Regulation, by email at: [REDACTED]

Yours sincerely

[REDACTED]

Chantal Hopwood
Head of Regulation