

11 August 2015

Mr Craig Oakeshott
Wholesale Markets Branch
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Dear Craig

Development of the Service Target Performance Incentive Scheme Version 5

Thank you for the opportunity to respond to the Australian Energy Regulator's (AER) review of the Service Target Performance Incentive Scheme (STPIS), with a view to applying an amended scheme to the next round of transmission determinations. The revised scheme would apply to TasNetworks' transmission network operations from 1 July 2019.

As part of the review, representatives of TasNetworks participated in a forum conducted by the AER on 18 May 2015 to seek stakeholder feedback on the changes to the scheme being contemplated by the AER. Following that forum, we provided written comments to the AER and supported the Grid Australia submission regarding the changes being proposed to the STPIS.

Further to our discussions last week, TasNetworks would like to take the opportunity to make additional Tasmanian-specific comments about the proposed changes to the scheme's Market Impact Component (MIC). Thank you for the opportunity to make these comments.

The MIC is intended to provide an incentive to transmission network service providers (TNSPs) to improve the availability of those elements of the transmission system which are most important in determining spot prices, at times when transmission network users place greatest value on the reliability of the network. We support this objective and note that since the introduction of the MIC, there is evidence to suggest that TNSPs have, to varying degrees, been able to respond positively to the incentive, to the benefit of generators and the market as a whole.

We consider that it would be premature to commit to any future introduction of an MIC penalty to TasNetworks, when the market impact parameter has only applied in Tasmania since the regulatory period that commenced on 1 July 2014.

In a submission to the Expert Panel review of the Tasmanian Electricity Supply Industry in 2012, the AER expressed concerns regarding the dominance of Hydro Tasmania in the Tasmanian region of the National Electricity Market, and the influence Hydro Tasmania's bidding behaviour was having on spot prices.

The AER also observed that Hydro Tasmania had the ability to drive counter price flows across Basslink, thus limiting the ability of competitors to manage their spot market risk.

Given our circumstances, in a purely Tasmanian context, TasNetworks can neither agree with the AER's assessment that the MIC is mature nor the view that the bonus-only nature of the scheme may no longer be warranted. The removal of the potential for penalties under the current MIC was a risk mitigation exercise for TasNetworks that was endorsed by the AER, and TasNetworks does not believe it has sufficient experience in working with the MIC to be comfortable with the removal of that risk mitigation. Retention of the current bonus only MIC is, therefore, our preferred position.

In the event that a penalty is introduced to the MIC in the future, rather than automatically applying such an arrangement to our next regulatory control period, we ask the AER reviews how the STPIS parameters apply in the context of the Tasmanian region before our next revenue determination. A decision about the application of an MIC penalty could then be informed by more data.

Thank you for the opportunity to provide further comment on the proposed changes to the STPIS. If you have any questions about the matters raised in this letter or require further clarification of our views, please do not hesitate to contact Kirstan Wilding via email kirstan.wilding@tasnetworks.com.au or on (03) 6271 6696.

Yours sincerely

A handwritten signature in black ink, reading "Bess Clark". The signature is written in a cursive, flowing style. The first part of the signature, "Bess", is more compact and stylized, while "Clark" is written in a more open, cursive script.

Bess Clark
GM Strategy and Stakeholder Relations