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Electricity transmission network service provider

Service target performance incentive scheme

Version 5

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AUSTRALIAN ENERGY REGULATOR

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1 Nature and Authority

1.1 Introduction

Consistent with the requirements of clause 6A.7.4 of the *National Electricity Rules* (NER), this publication sets out the Australian Energy Regulator's (AER) *service target performance incentive scheme.*

1.2 Authority

Clause 6A.7.4 of the NER requires the AER to develop, in accordance with the *transmission consultation procedures*, a *service target performance incentive scheme* that complies with the principles in clause 6A.7.4(b) of the NER.

1.3 Role of the *scheme*

a. This *scheme*:

   1. defines the performance incentive *scheme* parameters that specify how a transmission network service provider's (*TNSP*) network reliability and market impact is measured
   2. sets out the requirements with which the values to be attributed to the *parameters* must comply
   3. will be used by the AER to decide the service target performance financial reward or penalty component of a *transmission determination*
   4. provides guidance about the approach the AER will take in reviewing a *TNSP*'s service target performance and explain how this will affect a *TNSP*'s *maximum allowed revenue* (MAR).

b. The obligation of a *TNSP* to comply with this *scheme*:

   1. is additional to any obligation imposed under any other law applying to a *TNSP*
   2. does not derogate from such an obligation.

1.4 AER objectives

a. AER objectives for this *scheme* are that it:

   1. contributes to the achievement of the *national electricity objective*
   2. is consistent with the principles in clause 6A.7.4(b) of the NER
   3. promotes transparency in:

i. the information provided by the *TNSP* to the AER

ii. the decision made by the AER

4. assists in the setting of efficient capital and operating expenditure allowances in its *transmission determinations* by balancing the incentive to reduce actual expenditure with the need to comply with regulatory obligations and maintain reliability for customers, and reduce the market impact of transmission congestion.

1.5 Confidentiality

The AER's obligations regarding confidentiality and the disclosure of information provided to it by a *TNSP* are governed by the *Competition and Consumer Act 2010*, the National Electricity Law and the NER including the *confidentiality guidelines*. The *confidentiality guidelines* are binding on the AER and each *TNSP*.

1.6 Definitions and interpretation

a. In this *scheme*, the words and phrases presented in italics have the meaning given to them in:
   1. the glossary, or
   2. if not defined in the glossary, the NER.

b. Explanations in this *scheme* about why certain information is required are provided for guidance only.

1.7 Processes for revision

The AER may amend or replace this *scheme* from time to time in accordance with the *transmission consultation procedures.*

1.8 Version history and effective date

A version number and an effective date of issue will identify every version of this *scheme*.

2 The service target performance incentive *scheme*

2.1 General application of the *scheme*

a. The *parameters* for each *TNSP* and the maximum revenue increment or decrement that a *TNSP* can receive for a given level of performance are prescribed in this *scheme*.

b. In each *transmission determination* the AER will approve or set the values that will apply to the *TNSP*'s *parameters* for the *regulatory control period*.

c. The *maximum allowed revenue* that a *TNSP* can earn in each *regulatory year* will be adjusted according to its performance against the values included in its *transmission determination*, as assessed by the AER in accordance with this *scheme*.

2.2 Structure of the *scheme*

a. This *scheme* comprises the following three components, the:

1. *service component*
2. *market impact component*
3. *network capability component*.

The *service component* applies to each *TNSP* subject to the *scheme*.

The *market impact component* applies to each *TNSP* subject to the *scheme*.[1]

The *network capability component* applies to each *TNSP* subject to the *scheme* except Directlink and Murraylink.

b. The components set out the:

1. *parameters* that apply to each *TNSP*
2. requirements with which values to be attributed to the *parameters* must comply
3. maximum revenue increment or decrement that a *TNSP* may receive under each component of the *scheme*.

2.3 Addition, removal or variation of parameters

a. In accordance with clause 6A.7.4 of the NER and the *transmission consultation procedures*, the AER may amend this *scheme* to:

[1] The market impact component currently applies to TransGrid, Powerlink, ElectraNet, AusNet Services, Murraylink and TasNetworks. It will apply to Directlink from 1 July 2015.

1. add, remove or vary a *parameter*
2. vary the definition of a *parameter* in Appendix A, Appendix B or Appendix C.

The *parameters* and definitions can vary between *TNSP*s.

2.4 Timing of performance

a. *TNSP*s must measure their performance against the *parameters* and values applicable to it under this *scheme* on a *calendar year* basis within the *regulatory control period.* Unless stated otherwise in this *scheme*, the *calendar year* for each *TNSP* will run between 1 January and 31 December during a *regulatory control period*.

b. Where a *TNSP*'s *regulatory control period:*

    1) commences after 1 January (the beginning of the *calendar year*), the *TNSP* must measure its performance for that *calendar year* from the commencement of the *regulatory control period* until 31 December of that year

    2) ceases before 31 December (the end of the *calendar year*), the *TNSP* must measure its performance for that *calendar year* from 1 January until the end of the *regulatory control period.*

2.5 Adjustments to *maximum allowed revenue*

a. The maximum revenue increment or decrement that a *TNSP* can receive for a given level of performance against its *parameters* and values is set out in clauses 3.3, 4.3 and 5.3 of this *scheme*.

b. The *s-factor* and *financial incentive* adjustment to the *maximum allowed revenue* for each *TNSP* will be calculated and approved annually by the AER in accordance with Appendix D.

c. This *scheme* does not operate retrospectively. An adjustment to a *TNSP*'s *maximum allowed revenue* can only be made as a result of its performance in a period where *parameters* and values have been established under the *scheme* for the *TNSP* in advance of the relevant period.

3 Service component

3.1 Performance incentive *scheme*

a. Appendix A contains the definitions of the following parameters:
   1. unplanned circuit outage event rate
   2. loss of supply event frequency
   3. average outage duration
   4. proper operation of equipment.

b. Appendix B prescribes and defines the *parameters* applicable to individual *TNSP*s under this *service component*. Appendix B may specify that no *parameters* apply to a *TNSP* under this *service component*.

c. If a *TNSP* is not referred to in Appendix B, the *parameters* and standard definitions in Appendix A apply to that *TNSP* under this *service component*.

3.2 Values for parameters

a. A *TNSP* must submit, in its *revenue proposal*, proposed values for the *parameters* applicable to the *TNSP* under this *service component*. The AER must accept these proposed values if they comply with the requirements specified in this clause 3.2 and this *scheme*.

b. For each *parameter* applying to the *TNSP* under this *service component*, the *TNSP* must propose the following values, a:
   1. *performance target*
   2. *floor*
   3. *cap*.

c. A proposed *performance target* may take the form of a *performance deadband*.

d. Data used to calculate proposed values must be accurate and reliable.

e. The proposed *floors* and *caps* must be calculated by reference to the proposed *performance target*s and using a sound methodology. Adjustments to the proposed *performance target*s may result in adjustments to the proposed *floors* and *caps*.

f. A proposed *floor* and *cap* may result in symmetric or asymmetric incentives for the *TNSP*.

g. Subject to clause 3.2(h) to 3.2(l) below, proposed *performance target*s must be equal to the *TNSP*'s average performance history over the most recent five years. The data used

to calculate the *performance target* must be consistently recorded based on the *parameter* definitions that apply to the *TNSP* under this *service component* of the *scheme*.

h. The AER may require a *performance target* to be based on a different period if it is satisfied that the use of a different period is consistent with the objectives in clause 1.4 of this *scheme*.

i. If the performance history information described in clause 3.2(g) is not available, the AER may accept a *performance target* proposed by the *TNSP* if the AER is satisfied that the *performance target* is based on an appropriate benchmark or methodology.

j. Where the performance history information described in clause 3.2(g) is available, the AER may approve a *performance target* based on an alternative methodology proposed by the *TNSP* if it is satisfied that:

   1. the methodology is reasonable
   2. the *TNSP*'s performance as measured by the relevant *parameter* has been consistently very high over every *calendar year* of the previous five years
   3. it is unlikely that the *TNSP* will be able to improve its performance during the next *regulatory control period* (or any potential improvement would be marginal), or any further improvements are likely to compromise the *TNSP*'s other *regulatory obligations*
   4. where applicable, the *TNSP*'s proposed *performance targets* are not a lower threshold than the *performance targets* that applied to an identical *parameter* in the previous *regulatory control period*
   5. the proposed methodology is consistent with the objectives in clause 1.4 of the *scheme*.

k. Proposed *performance targets* may be subject to reasonable adjustment to allow for:

   1. statistical outliers
   2. the expected effects on the *TNSP*'s performance from any increases or decreases in the volume of capital works planned during the *regulatory control period* (compared with the volume of capital works undertaken during the period used to calculate the *performance target*)
   3. the expected material effects on the *TNSP*'s performance from any changes to the age and ratings of the assets comprising the *TNSP*'s *transmission system* during the *TNSP*'s next *regulatory control period* (compared to the age and ratings of the *TNSP*'s assets comprising the *TNSP*'s *transmission system* during the period used to calculate *performance targets*)

4. *material changes* to an applicable *regulatory obligation*.

l. Unless a *performance deadband* is applied, *performance targets*, *floors* and *caps* for loss of supply event frequency parameters must be rounded to the nearest integer number.

m. The AER may reject the proposed values where it forms the opinion that they are inconsistent with the objectives listed in clause 1.4 of this *scheme*.

3.3 Adjustments to *maximum allowed revenue*

a. The maximum revenue increment or decrement that a *TNSP* may earn against its parameters and values under this *service component* is 1.25 per cent of the *TNSP*'s *maximum allowed revenue* for the relevant *calendar year*.

b. The maximum revenue increment or decrement that a *TNSP* may earn against its *parameter* and values under this *service component* will be determined by the performance measure and the *weighting* attributed to the parameter.

c. The performance measure for the loss of supply event frequency and the proper operation of equipment *parameters* is the annual performance of the *TNSP* against the values of the *parameters*.

d. The performance measure of the unplanned outage circuit event rate and the average outage duration *parameters* will be calculated on a rolling average basis as set out in Appendix E of this *scheme*.

3.4 Weighting of parameters

a. Table 1 and Table 2 detail the *weightings* for each of the *service component parameters*, and how the *weighting* is apportioned to each of the sub-parameters. Table 1 provides the weightings for all *TNSP*s except Murraylink and Directlink, whose *weightings* are provided in Table 2.

b. Where there is insufficient accurate and reliable data available for determining the values of a *parameter* or sub-parameters applying to a *TNSP* under this *service component*, the AER may reduce the *weighting* for that *parameter* or sub-parameter to zero. The *weightings* for other *parameters* or sub-parameters will not be altered as a result.

Table 1: Parameter *weighting*, except Murraylink and Directlink

Parameter	Weighting (MAR %)
Unplanned outage circuit event rate:	**0.75**
Lines event rate – fault	0.20
Transformer event rate – fault	0.20
Reactive plant event rate – fault	0.10
Lines event rate – forced	0.10
Transformer event rate – forced	0.10
Reactive plant event rate – forced	0.05
Loss of supply event frequency:	**0.30**
> (x) system minutes	0.15
> (y) system minutes	0.15
Average outage duration	**0.20**
Proper operation of equipment	**0.00**

Table 2: Parameter *weighting*, Murraylink and Directlink

Parameter	Weighting (MAR %)
Unplanned outage circuit event rate:	**1.25**
Circuit event rate – fault	0.75
Circuit event rate – forced	0.50
Proper operation of equipment	0.00

4 Market impact component

4.1 Performance incentive *scheme*

Appendix C contains the definition of the market impact *parameter*. The *parameter* is applicable to all *TNSP*s subject to this *market impact component*.

4.2 Values for parameter

a. Each *TNSP* subject to this *market impact component* is required to submit, in its revenue proposal, data in accordance with Appendix C for the preceding three *calendar years*.

b. Each *TNSP* subject to this *market impact component* is required to submit data annually in accordance with Appendix C for each subsequent *calendar year*.

c. Data used to calculate the *market impact component* must be accurate and reliable and must be consistently recorded based on the parameter definition in Appendix C.

d. Subject to clauses 4.2(e)-(h), the *performance target* for the market impact *parameter* is equal to the *TNSP*'s average performance history over the preceding three *calendar years* of the performance measure as calculated in accordance with Appendix F of this *scheme*.

e. The AER may adjust *performance targets* to allow for statistical outliers or for performance that the AER considers is inconsistent with the objectives listed in clause 1.4 of the *scheme*.

f. The AER may reject the proposed values where it forms the opinion that they are inconsistent with the objectives listed in clause 1.4 of this *scheme*.

g. In calculating the *performance target* and *performance measure*, a *cap* will apply to *single outage events* such that no *single outage event* will exceed 17 per cent of the relevant annual *performance target*. The formula for capping *single outage events* is set out in Appendix F of this *scheme*.

h. The AER will impose a *minimum performance target* such that the value of the *performance target* is no lower than 100 counts.

4.3 Adjustments to *maximum allowed revenue*

a. A *TNSP* will receive a *financial incentive* which falls within a range of -1 per cent and 1 per cent of the *TNSP*'s *maximum allowed revenue*.

1. The maximum revenue increment that a *TNSP* may earn against its parameter and values under this *market impact component* is 1 per cent of the *TNSP*'s *maximum allowed revenue* for the relevant *calendar year*.

2. The maximum revenue decrement that a *TNSP* may earn against its parameter and values under this *market impact component* is -1 per cent of the *TNSP*'s *maximum allowed revenue* for the relevant *calendar year*.

b. The maximum revenue increment or decrement that a *TNSP* may earn against a *parameter* under this *market impact component* will be determined by the performance measure, as set out in Appendix F of this *scheme*.

5 Network capability component

5.1 Network capability incentive parameter

The network capability incentive *parameter* is applicable to all *TNSP*s subject to the *network capability component*.

5.2 Requirements for the parameter

a. The network capability incentive parameter facilitates improvements in the capability of transmission assets through operational expenditure and minor capital expenditure on a *TNSP*'s network which results in:

   1. improved capability of those elements of the transmission system most important to determining spot prices, or

   2. improved capability of the transmission system at times when Transmission Network Users place greatest value on the reliability of the transmission system.

b. A *TNSP* must submit, in the STPIS component of its revenue proposal, a network capability incentive parameter action plan (NCIPAP):

   1. identifying for every transmission circuit and injection point on its network, the basis and cause for the limit for each transmission circuit and injection point.

   2. proposing the *priority project*s to be undertaken in the regulatory control period to improve the limit of the transmission circuits and injection points listed above through operational and/or minor capital expenditure projects. This proposal must include:

      i. the total operational and capital cost of each *priority project*

      ii. the proposed value of the *priority project* improvement target in the limit for each *priority project*

      iii. the current value of the limit for the transmission circuits and/or injection points which the *priority project* improvement target is seeking to improve

      iv. the ranking of the *priority project*s in descending order based on the likely benefit of the *priority project* to customers or on wholesale market outcomes

   in which the average total expenditure of the *priority project*s outlined in each regulatory year must not be greater than 1 per cent of the *TNSP*'s average annual *maximum allowed revenue* proposed in its revenue proposal for the *regulatory control period*.

c. The *priority project* improvement target must result in a material benefit.

d. Capital expenditure for a project will be considered to be minor capital expenditure if it has an estimated capital cost less than the cost threshold for the *proposed transmission investment* to be subject to the *regulatory investment test for transmission* in chapter 5 of the NER.

e. A *priority project* may address multiple limiting elements across transmission circuits and/or injection points in the *TNSP*'s network.

f. Where a proposed *priority project* is a co-ordinated project between *TNSP*s, in the NCIPAP each *TNSP* should:

   1. only include the capital or operational costs it will incur in undertaking the project

   2. provide a copy of a written agreement between the *TNSP*s committing to undertaking the project.

g. The total combined capital cost of a co-ordinated project outlined in clause 5.2(f) must have an estimated capital cost less than the cost threshold for the proposed *transmission investment* to be subject to the *regulatory investment test for transmission* in chapter 5 of the NER.

h. The *TNSP* must consult with AEMO prior to submitting the NCIPAP about its review of the transmission circuits and injection points in its network, and the potential *priority project* which have been identified. This includes consultation with AEMO regarding:

   1. the potential for co-ordinated projects with other *TNSP*s

   2. the material benefit of the proposed *priority project* improvement targets for its projects

   3. the classification of *priority projects* based on their likely benefit to consumers or wholesale market outcomes

   4. the ranking of the *priority projects*.

i. AEMO may as part of its consultation with a *TNSP* under clause 5.2(h), review the *TNSP*'s assessment of the transmission circuit and injection points in their network and propose additional projects to include as *priority projects* in the *TNSP*'s NCIPAP.

j. The *TNSP* must, as part of the consultation outlined in clause 5.2(h), provide AEMO with:

   1. the limit for each transmission circuit and injection point on its network and the reason for the limit

   2. a copy of its capital expenditure program for the upcoming regulatory control period, and

3. any other information (i.e. network fault and outage data) which may be reasonably necessary to understand the nature of the transmission circuit and injection point network limits, and the potential value to consumers of addressing those limits.

k. If there is any disagreement between the *TNSP* and AEMO regarding the :

1. classification of a project as a *priority project*, or

2. material benefit resulting from a *priority project* improvement target , or

3. ranking the *priority projects*,

then the *TNSP* will include in its NCIPAP any disagreement with AEMO and the grounds for disagreement.

l. In determining if the *priority project* results in a material benefit, the AER may take into the account the following:

1. the likely effect of the *priority project* improvement target on wholesale market outcomes, including inter-regional outcomes

2. the likely effect of the *priority project* improvement target in ensuring that the transmission network can meet demand at an injection point without major network augmentation or replacement

3. whether the *priority project* improvement target is appropriate, taking into account the forecast changes in demand at a relevant injection point

4. the benefits to consumers resulting from the *priority project* improvement target being achieved

5. the extent to which a *TNSP* would be incentivised or required to undertake such a project under the NER or any other applicable regulatory obligations

6. the time taken for a project to have a net positive benefit

7. any relevant information contained in the *TNSP*'s most recent annual planning report.

m. The AER may amend a *priority project* improvement target proposed by the *TNSP* to ensure consistency with the objectives of the *scheme* where:

1. the AER considers the target would result in a material benefit and the *TNSP* agrees to the AER's amended improvement target; or

2. the AER considers the target would result in a material benefit and AEMO considers the improvement target can be achieved by the *TNSP* within the next regulatory control period.

n. The AER must approve the *TNSP*'s *priority project* if it is consistent with the requirements in this clause 5.2 and objectives of this *scheme*.

o. The AER must reject the *TNSP*'s proposed *priority project* if it is inconsistent with the requirements in this clause 5.2 and the objectives of the *scheme*.

p. The AER may amend the ranking of the *priority projects* to ensure consistency with the requirements in clause 5.2 and the objectives of the *scheme*.

q. If 1.5 per cent of the *TNSP*'s average *maximum allowed revenue* for the regulatory control period is less than 1 per cent of the *TNSP*'s average *maximum allowed revenue* proposed in its revenue proposal, then the AER must reduce the number of *priority projects* until the average annual cost of the *priority projects* is less than 1.5 per cent of the *TNSP*'s average *maximum allowed revenue* for the *regulatory control period*. In reducing the number of *priority projects*, the AER has discretion over which projects are to be removed.

   Note: This is to ensure that the *TNSP*'s *priority projects* in the regulatory control period can be funded solely via the incentive payments provided under clause 5.3 of this *scheme*.

r. The cost of the proposed *priority projects* must not be included:
   1. in the total forecast operating expenditure proposed by the *TNSP* in its revenue proposal to meet the operating expenditure objectives under clause 6A.6.6 of the NER, or
   2. in the total forecast capital expenditure proposed by the *TNSP* in its revenue proposal to meet the capital expenditure objectives under clause 6A.6.7 of the NER.

s. The *TNSP* must in each annual STPIS compliance review report on steps it has taken towards reaching the *priority project* improvement target against each project in the NCIPAP approved by the AER for each year or part year of the *regulatory control period*. The *TNSP* must include in this report:
   1. the current value of limit of the transmission circuit and/or injection points which each *priority project* seeks to address
   2. up-to-date actual operational and capital expenditure for each *priority project*
   3. the expected completion date for each *priority project*.

5.3 Adjustments to *maximum allowed revenue*

a. For each regulatory year, the *TNSP* will receive an annual network capability incentive allowance equal to 1.5 times the average annual proposed cost of the *priority projects* approved by the AER under clause 5.2. This annual allowance cannot be greater than 1.5 per cent of the average annual *maximum allowed revenue* of the *TNSP* over the *regulatory control period*.

In the final year of the *regulatory control period*, if the *TNSP* does not achieve all of the *priority project* improvement targets for each of its *priority project*, then the AER may reduce the incentive allowance in accordance with clauses 5.3(b) and (c) of the *scheme*.

b. If the *TNSP* does not achieve its *priority project* improvement target for a *priority project*, then the AER may reduce the incentive payment received by the *TNSP* under the network capability incentive parameter, taking into account the factors in clauses 5.3(e)-(f), in the final regulatory year by:

   1. for a *priority project* ranked in the top 50 percentile of *priority projects*, a reduction equal to 2.5 per cent of the *TNSP*'s *maximum allowed revenue* divided by the number of *priority projects* ranked in the top 50 percentile of *priority projects*

   2. for a *priority project* ranked in the bottom 50 percentile of *priority projects*, a reduction equal to 1 per cent of the *TNSP*'s *maximum allowed revenue* divided by the number of *priority projects* ranked in the bottom 50 percentile of *priority projects*.

   The maximum total *maximum allowed revenue* that can be reduced in this manner for a *TNSP* is 3.5 per cent. The AER's assessment of whether a reduction applies will be made in the annual STPIS compliance review following the end of the *regulatory control period*.

c. Where the AER reduces a *TNSP*'s incentive payment under clause 5.3(b), the incentive payment which will apply for the final year of the *regulatory control period* will be equal to the incentive allowance calculated in accordance with clause 5.3(a) minus the total sum of the reduction imposed by the AER under clause 5.3(b).

   Note: the lowest incentive payment that a *TNSP* can receive is a negative incentive payment of equal to the incentive allowance calculated in accordance with clause 5.3(a) minus 3.5 per cent of its *maximum allowed revenue* for the final year of the regulatory control period.

d. A *TNSP* will be taken not to achieve its *priority project* improvement target if:

   1. the target has been achieved through network augmentation or replacement of existing network assets with a capital cost greater than outlined in the *TNSP*'s proposal, or

   2. despite meeting the priority improvement target:

      i. there is a *material change* in circumstances during the regulatory control period which results in the implementation of the *priority project* no longer having a material benefit

      ii. the *TNSP* was aware, or ought to have been aware, of the *material change* in circumstances

iii. there was sufficient time for the *TNSP* to halt the development of the *priority project*.

e. In deciding whether to reduce a *TNSP*'s incentive payment under clause 5.3(b), the AER must take into account whether:

1. despite the *priority project* improvement target not being achieved, there has still been an improvement in network capability resulting in a material benefit
2. the failure to achieve the *priority project* improvement target has been due to factors or events outside the control of the *TNSP*
3. it is likely that, due to the actions undertaken by the *TNSP*, an improvement in the capability of the identified transmission circuit or injection point resulting in a material benefit will occur in the near future.

f. For avoidance of doubt, the AER may consider the factors outlined in clause 5.2(l) in assessing whether there is a material benefit.

g. If the AER amends the number of *priority projects* approved under the network capability incentive parameter during a *TNSP*'s *regulatory control period* under clause 5.4, then the *TNSP*'s annual incentive allowance will be amended to 1.5 times the new average annual proposed cost of the *priority projects* approved over the regulatory control period.

h. The amended annual incentive allowance will apply for the remainder of the *TNSP*'s regulatory control period unless the number of *priority projects* is subsequently amended by the AER.

i. The amended annual incentive allowance received by a *TNSP* under the network capability incentive parameter cannot be greater than 1.5 per cent of its average annual *maximum allowed revenue* over the *regulatory control period*.

5.4 Amendment of *priority projects*

a. At the time a *TNSP* submits its annual STPIS compliance report, it may also propose to remove a *priority project* approved by the AER in accordance with clause 5.2. The AER may remove the *priority project* if:

1. due to changes outside the control of the *TNSP*, the completion of the *priority project* will no longer likely result in a material benefit
2. taking into account the objectives of the *scheme* and the circumstances, it is reasonable to remove the *priority project*.

b. At the time a *TNSP* submits its annual STPIS compliance report, it may also propose one or more new *priority projects*. For each proposed new *priority project*, the AER may accept the proposed replacement if it considers that:

1. the associated *priority project* will likely result in a material benefit
2. the *priority project* is consistent with the requirements of clause 5.2 and this *scheme*
3. taking into account the objectives of the *scheme* and the circumstances, it is reasonable to accept the replacement *priority project*.

For avoidance of doubt, the AER may consider the factors outlined in clause 5.2(l) in assessing whether there is a material benefit.

c. The AER can only accept a new *priority project* if the average total expenditure of all the *TNSP*'s *priority projects*, including the new *priority project*, in each regulatory year is not greater than 1 per cent of the *TNSP*'s average *maximum allowed revenue* proposed in its revenue proposal for the *regulatory control period* or 1.5 per cent of the *TNSP*'s average *maximum allowed revenue* (whichever amount is lessor).

d. The AER may amend the new *priority project* improvement target proposed by the *TNSP* to ensure consistency with the objectives of the *scheme* and requirements set out in clause 5.2, where the AER considers the target would result in a material benefit and:
   1. the *TNSP* agrees to the AER's amended improvement target; or
   2. AEMO considers the improvement target can be achieved by the *TNSP* within the current *regulatory control period*.

e. The *TNSP* must consult with AEMO about the removal of any *priority projects* and/or the inclusion of any new *priority projects* prior to making any proposal to the AER under clause 5.4. This includes consultation with AEMO regarding:
   1. whether it is appropriate to remove a *priority project* approved by the AER
   2. the material benefit of the proposed *priority project* improvement targets for any projects which are being considered as new *priority projects*
   3. the classification of any projects which are being considered as new *priority projects* based on their likely benefit to consumers or wholesale market outcomes
   4. the ranking of any projects which are being considered as new *priority projects*
   5. whether there are any other potential projects which should be considered as a new *priority project*, including co-ordinated projects with another *TNSP*.

f. The AER may amend the ranking of the *priority projects* to ensure consistency with the requirements in clause 5.2 and the objectives of the *scheme*.

g. If there is any disagreement between the *TNSP* and AEMO as to:
   1. whether there has been a change in circumstances outside the control of the *TNSP*, or

2. whether the completion of a *priority project* will no longer likely result in a material benefit, or

3. whether the *priority project* improvement target of a new *priority project* will likely result in a material benefit,

then the *TNSP* will include in its proposal any disagreement with AEMO and the grounds for disagreement.

6 Information and reporting requirements

6.1 Information gathering by the AER

a. The AER may make information requests of *TNSP*s using this *scheme*, the *information guidelines*, and regulatory information notices (RINs). *TNSP*s must comply with requirements under the *information guidelines*, when submitting annual or ad hoc information to the AER during the course of a regulatory control period. *TNSP*s must comply with the NER provisions including the *confidentiality guidelines*, cost allocation guidelines and rate of return guidelines when submitting revenue proposals. In addition, the AER may use its broad information gathering powers under the National Electricity Law to issue RINs requiring that *TNSP*s provide information, and/or prepare, maintain or keep information in certain manners and forms for the purpose of enabling the AER to determine any adjustments to *TNSP* revenue for each regulatory year.

6.2 Information required in a *TNSP*'s *revenue proposal*

a. In accordance with clause 6A.1.3 of the NER, a *TNSP* must include information on its proposed parameter values in its *revenue proposal* for the purposes of the application to the *TNSP* of any *scheme* that the AER has specified in a framework and approach paper and that applies to the relevant *regulatory control period*. A *TNSP* must also include an explanation of how the proposed values comply with any requirements relating to them as set out in that *scheme*.

6.3 Information requested under *information guidelines* or *RIN*s

a. A *TNSP* must report to the AER information under this *scheme* in accordance with the *information guidelines,* or a *RIN*, where applicable. Information obtained under the *information guidelines* will be used to monitor and report on *TNSP* performance under the STPIS.[2] In addition, information obtained under both the information guidelines or a *RIN* will be used to determine adjustments to *TNSP* revenue for the regulatory year to which the STPIS applies.
b. The report must include details of responses by *TNSP*s to *force majeure events* that have been excluded from the service component and the market impact component. For

[2] Clause 6A.17.1(d)(4), Electricity Rules.

each *force majeure event*, *TNSP*s must provide information regarding the steps taken to address the outage, the length of time until the relevant equipment was restored, what additional steps could have been undertaken and the reasons why these actions were not taken.

6.4 Annual compliance review

a. The AER will review the service performance information that a *TNSP* is required to provide annually under this *scheme*, the *information guidelines* or a *RIN*, where applicable.
b. In undertaking the review referred to in clause 6.5(a), the AER may assess:
    1. the appropriateness and accuracy of the *TNSP*'s data collection, reporting and recording processes and systems
    2. whether the performance data reported is consistent with the *parameter definitions* and *other elements* contained in Appendix A or Appendix B, Appendix C and the *transmission determination*
    3. whether the *financial incentive* proposed by the *TNSP* has been calculated in accordance with this *scheme*
    4. whether the *financial incentive* proposed by the *TNSP* meets the objectives of this *scheme* in accordance with clause 1.4.
c. The AER will advise the *TNSP* of the outcome of any review conducted under clause 6.4a).
d. The timetable for the review referred to in clause 6.4(a) will be decided on an annual basis by agreement between the AER and the relevant *TNSP* and will have due regard to this *scheme* and the *TNSP*'s pricing obligations under the NER.

6.5 Changes to data collection

a. A *TNSP* must notify the AER in writing as soon as it becomes aware of or plans any *material change*s to data collection or recording methods used by the *TNSP* to record and report on the *TNSP*'s performance against the *TNSP*'s parameters.
b. Any notice provided to the AER under clause 6.4(a) must include an assessment of whether the changes to the data collection or recording methods allow the *TNSP* to accurately record and report on the *TNSP*'s performance against one of the parameters applicable to the *TNSP*.
c. The AER may amend this *scheme* as a result of the *TNSP*'s new data collection methods.

Definitions

This *scheme* uses the following definitions

cap	the level of performance that results in a *TNSP* receiving the maximum financial reward attributed to a *parameter*.
calendar year	has the meaning set out in clause 2.4.
confidentiality guidelines	the confidentiality guideline published by the AER which sets out how *TNSP*s must make confidentiality claims over information submitted to the AER.
financial incentive	the dollar value of the revenue increment or decrement that the *maximum allowed revenue* is adjusted by in each *regulatory year* based on a *TNSP*'s performance in the preceding *calendar year*.
floor	the level of performance that results in a *TNSP* receiving the maximum financial penalty attributed to a *parameter*.
force majeure event	has the meaning set out in Appendix G.
marginal value	has the meaning set out in Appendix C.
market impact component	section 4 of this *scheme*.
market systems	*AEMO*'s systems for operating the *national electricity market*, and for recording and publishing data relating to the operation of the *national electricity market*.
material change	a change that can influence the outcomes that may otherwise result.
maximum allowed revenue	Has the meaning defined in the NER
minimum performance target	a value of 100 will be imposed as the minimum value for a *performance target* in the *market impact component* of the *scheme*

national electricity objective	has the meaning set out in the National Electricity Law.
National Electricity Rules or NER	the rules as defined in the National Electricity Law.
network capability component	section 5 of this *scheme*.
network outage constraint	has the meaning set out in Appendix C.
other elements	the unit of measure, source of data, exclusions and inclusions relating to a parameter
parameters	the *performance incentive scheme parameters* and includes the sub-parameters, where applicable.
performance deadband	a *performance target* that is set over a range of values, within which a *TNSP* neither receives a financial penalty nor financial reward in the *regulatory year*.
performance target	the level of performance that results in a *TNSP* neither receiving a financial penalty nor financial reward in the *regulatory year*.
priority project	a project which is likely to result in a material benefit to customers or wholesale market outcomes and is identified in the *TNSP*'s NCIPAP under clause 5.2(b).
RIN	regulatory information notice.
service component	section 3 of this *scheme*.
service target performance incentive scheme or scheme	the *service target performance incentive scheme* defined in the NER.
s-factor or service standards factor	the percentage revenue increment or decrement that the *maximum allowed revenue* is adjusted by in each *regulatory* year based on a *TNSP*'s performance in the previous *calendar year*.
single outage event	A network outage event described by the constraint set invoked by AEMO to manage a single network outage

TNSP	*transmission network service provider* as defined in the NER.
weightings	the proportion of the *financial incentive* under the *service component* allocated to each of *parameters* applying to the *TNSP* under the *service component*.

Appendix A: Service component – standard definitions

Parameter 1 Unplanned outage circuit event rate

Sub-parameters	lines event rate – fault transformer event rate – fault reactive plant event rate – fault lines event rate – forced transformer event rate – forced reactive plant event rate – forced
Unit of measure	unplanned outage circuit event rate
Source of data	*TNSP* outage reports and system
Definition/formula	formula: $\frac{\text{No. of events (defined circuits unavailable) per annum}}{\text{Total no. of defined circuits}} \times 100$ Definition: the actual number of times defined transmission circuits are unavailable due to unplanned (fault/forced) outages divided by the total number of defined (lines/transformer/reactive) circuits. forced outage means the urgent and unplanned reduction in the availability of defined circuits that occurs as a necessary consequence of the identification of the actual or imminent occurrence of an event that poses, or has the potential to pose, an immediate threat to the safety of persons, hazard to any equipment or property or a threat to power system security outages of sub-components of a primary piece of equipment, such as static var compensator transformers, are measured as an outage of the primary equipment type, i.e. the static var compensator
Inclusions	'circuits' includes overhead lines, underground cables, power transformers, phase shifting transformers, static var compensators, capacitor banks, and any other primary transmission equipment essential for the successful operation of the transmission system (*TNSP* to provide lists on an annual basis). For the avoidance of doubt, the following equipment is excluded: individual circuit breakers and isolators, secondary systems including protection and control equipment and auxiliary transformers 'fault outages' to include outages from all causes including emergency events and extreme events

	'forced outages' are outages on the prescribed network where less than 24 hours notification was given to affected customers and/or AEMO (except where AEMO reschedules the outage after notification has been provided)
Exclusions	outages on assets that are not providing prescribed transmission *services* exclude from 'fault outages' and 'forced outages' any outages shown to be primarily caused or initiated by a fault or other event on a third party system —e.g. intertrip signal, generator outage, customer installation exclude from 'forced outages' any planned outage that is rescheduled with less than 24 hours notice to affected customers and/or *AEMO* exclude from 'forced outages' any outages caused by a direction from emergency services or *AEMO* *force majeure events* transient interruptions (less than one minute duration) for the reactive plant sub-parameters only: capacitor banks and reactors operating at less than 66kV NOTE: the *TNSP* must provide a list to the AER each year of the events that the *TNSP* considers should be excluded from performance results, including reasons and how the event meets the relevant exclusion definition. The AER may reject the *TNSP*'s exclusion claims where it considers the *TNSP* has provided insufficient justification.

Parameter 2 Loss of supply event frequency

Unit of measure	number of events per annum
Source of data	*TNSP* outage reports and system for circuit availability
Definition/formula	number of events greater than x system minutes per annum number of events greater than y system minutes per annum formula: system minutes are calculated for each supply interruption by the "Load Integration Method" using the following formula: $\text{System minute} = \frac{\Sigma (\text{MWh unsupplied} \times 60)}{\text{MW peak demand}}$ where: MWh unsupplied is the energy not supplied as determined by using NEM metering and substation load data. This data is used to estimate the profile of the load over the period of the interruption by reference to historical load data period of the interruption starts when a loss of supply occurs and ends at the point at which supply restoration is offered to the customer. For supply outages resulting from an under-frequency event, the period of the interruption is capped at half an hour. This is done to include the impact of automatic under-frequency load shedding, but to exclude the impact of any market failure to respond and restore load within required timeframes MW peak demand means the maximum amount of aggregated electricity demand recorded at entry points to the *TNSP*'s transmission network and interconnector connection points at any time previously an interruption >y system minute also registers as a >x system minute event interruptions affecting multiple connection points at exactly the same time are aggregated (i.e. system minutes are calculated by events rather than connection point interruptions)

	the x system minute and y system minute thresholds are as follows:

TNSP	**x system minute**	**y system minute**
ElectraNet	0.05	0.20
Powerlink	0.10	0.75
AusNet Services	0.05	0.30
TransGrid	0.05	0.25
TasNetworks	0.10	1.00

Inclusions	all unplanned outages exceeding the specified impact (that is, x minutes and y minutes) unplanned outages on all assets providing *prescribed transmission service* unplanned outages from all causes including emergency events and extreme events forced outages on the prescribed network where notification to affected customers and/or *AEMO* was less than 24 hours (except where *AEMO* reschedules the outage after notification has been provided).
Exclusions	outages on assets that are not providing prescribed transmission *service* any unplanned outages shown to be primarily caused or initiated by a fault or other event on a third party system — e.g. intertrip signal, generator outage, customer installation any unplanned outages caused by a direction from emergency services or *AEMO* planned outages transient interruptions (less than one minute duration) interruptions of infrequent, occasional loads (such as pumping stations) where accurate estimate of load profiles is unreliable *force majeure events* NOTE: the *TNSP* must provide a list to the AER each year of the events that the *TNSP* considers should be excluded from performance results, including reasons and how the event meets the relevant exclusion definition. The AER may reject the *TNSP*'s exclusion claims where it considers the *TNSP* has provided insufficient justification.

Parameter 3 Average outage duration

Sub-parameter	average outage duration
Unit of measure	minutes
Source of data	*TNSP* outage reports and system
Definition/formula	formula: $\frac{\text{Aggregate duration (in minutes) of all unplanned outages with a loss of supply}}{\text{No. of events}}$ definition: the cumulative summation of the outage duration time for the period, divided by the number of outage events where loss of supply occurred during the period the start of each outage event starts when a loss of supply occurs and ends at the point at which supply restoration is offered to the customer the impact of each event is capped at seven days
Inclusions	outages on assets that are providing prescribed transmission services all forced and fault outages where a loss of supply occurs fault outages includes outages from all causes including emergency events and extreme events forced outages are outages on the prescribed network where less than 24 hours notification was given to affected customers and/or AEMO (except where AEMO reschedules the outage after notification has been provided)
Exclusions	outages on assets that are not providing *prescribed transmission services* any unplanned outages shown to be primarily caused or initiated by a fault or other event on a third party system — e.g. intertrip signal, generator outage, customer installation any unplanned outages caused by a direction from emergency services or *AEMO* planned outages transient interruptions (less than one minute duration) *force majeure event*s

NOTE: the *TNSP* must provide a list to the AER each year of the events that the *TNSP* considers should be excluded from performance results, including reasons and how the event meets the relevant exclusion definition. The AER may reject the *TNSP*'s exclusion claims where it considers the *TNSP* has provided insufficient justification.

Parameter 4 Proper operation of equipment

Sub-parameters	Failure of protection system Material failure of the Supervisory Control and Data Acquisition (SCADA) system Incorrect operational isolation of primary or secondary equipment
Unit of measure	number of events
Source of data	*TNSP* outage reports *TNSP* compliance monitoring systems *AEMO* reports
Definition/formula	Failure of protection system formula: No. of protection system failure events per annum where: 'protection system failure events' are those events where the relevant protection equipment does not operate for a fault event as designed or where the relevant equipment operates when there is no relevant fault event. Material failure of the SCADA system formula: No. of SCADA failures per annum where: 'SCADA failures' are those events notified to the *TNSP* by *AEMO* on a monthly basis in the SCADA Minutes Lost report Incorrect operational isolation of primary or secondary equipment formula: No. of incorrect operational isolation events per annum where: 'incorrect operational isolation events' are those events where primary or secondary equipment was not been properly isolated during scheduled or emergency maintenance, irrespective of whether an outage occurred as a result
Inclusions	'protection equipment' includes equipment designed to monitor or protect the function of primary equipment of the transmission system. 'Primary equipment' includes overhead lines, underground cables, power transformers, phase shifting transformers, static var compensators, capacitor banks, and any other primary transmission equipment essential for the successful operation of the transmission system

	The failure of one piece of protection or control equipment where there is a backup or duplicate protection or control equipment for the relevant element
Exclusions	protection equipment for those assets that are not providing prescribed transmission services The failure of primary equipment, such as circuit breakers, to respond to signals sent by protection or control equipment *force majeure events* NOTE: the *TNSP* must provide a list to the AER each year of the events that the *TNSP* considers should be excluded from performance results, including reasons and how the event meets the relevant exclusion definition. The AER may reject the *TNSP*'s exclusion claims where it considers the *TNSP* has provided insufficient justification.

Appendix B: Service component – Directlink and Murraylink

Part 1—Directlink

Parameter 1 Unplanned outage circuit event rate

The standard definition applies with the following modifications:

1. Replace the sub-parameters in the standard definition with the following sub-parameters:

   circuit event rate – fault

   circuit event rate – forced

Parameter 2 Loss of supply event frequency

This parameter does not apply to Directlink.

Parameter 3 Average outage duration

This parameter does not apply to Directlink.

Parameter 4 Proper operation of equipment

The standard definition applies.

Part 2—Murraylink

Parameter 1 Unplanned outage circuit event rate

The standard definition applies with the following modifications:

1. Replace the sub-parameters in the standard definition with the following sub-parameters:

   circuit event rate – fault

   circuit event rate – forced

Parameter 2 Loss of supply event frequency

This parameter does not apply to Murraylink.

Parameter 3 Average outage duration

This parameter does not apply to Murraylink.

Parameter 4 Proper operation of equipment

The standard definition applies.

Appendix C: Market impact component –parameter definition and application

Unit of measure: **Number of dispatch intervals**

Definition:

The market impact parameter is the number of dispatch intervals where an outage on a *TNSP*'s network results in a *network outage constraint* with a *marginal value* greater than $10/MWh.

Where:

dispatch interval has the meaning set out in the NER.

network outage constraint is the change to the physical capability of the transmission network following the outage of transmission network equipment from service as identified by and recorded in the market systems

the *marginal value* is published in the *market systems* and is an indication of the change, at the margin, in the cost of producing electricity sufficient to meet demand brought about by a particular *network outage constraint*.

Where there is more than one *network outage constraint* with a *marginal value* greater than $10/MWh in one *dispatch interval*, the market impact parameter counts the *dispatch interval* for each *network outage constraint* (that is, the same dispatch interval may be counted more than once).

Where the number of counts resulting from the invoking of a constraint set for a given outage exceeds 17 per cent of the annual *performance target*, the number of counts for that constraint set will be capped at 17 per cent of the annual *performance target*.

To measure a *TNSP*'s performance against this market impact *parameter*, the AER will allocate each *network outage constraint* to the *TNSP* responsible for the constraint using:

1. the Market Information on Planned Network Outages, which is published every month by AEMO based on information provided by the *TNSP*s as required under clause 3.7A of the NER, or
2. the Network Outage Schedule, which is published by AEMO on its website based on information provided by the *TNSP*s, or
3. the description in the constraint set published by AEMO of why the constraint was invoked, or
4. where it is not clear from (1), (2) or (3), the published market management system data or other information provided by AEMO.

Where the information described in (1), (2), (3) or (4) indicates that more than one *TNSP* is responsible for a single *network outage constraint* (for example an outage affecting an interconnector), the number of *dispatch intervals* is apportioned equally between the *TNSP*s.

Exclusions

1. *force majeure events*
2. network constraints that are invoked to manage the reclassification of *non-credible contingency events* to *credible contingency events* as per sections 4.2.3A and 4.2.3B of the NER
3. any outages shown to be primarily caused or initiated by a fault or other event on a third party system — e.g. intertrip signal, generator outage, customer installation
4. outages on assets that are not providing *prescribed transmission services*
5. outages for personal safety that are not related to the activity of owning or operating a *transmission network*
6. outages that are only for the purpose of assisting with operational security, for example where a lower voltage parallel circuit is taken out of service to assist with transfers across an interconnector
7. network constraints related to network support services in accordance with clause 5.4 AA of the NER
8. dispatch intervals (for a *network outage constraint*) that are affected by:
    a. a manifestly incorrect input to the *dispatch algorithm* (as determined by *AEMO* under clause 3.9.2B of the NER)
    b. a constraint applied by AEMO that does not accurately reflect or is otherwise inconsistent with the network capability that the *TNSP* advised AEMO
    c. a scheduling error
    d. *mandatory restrictions* under clause 3.12A of the NER
    e. *AEMO* declaring the *spot market* suspended under clause 3.14.3 of the NER, or
    f. an *administered price cap* under clause 3.14.2 of the NER
9. network constraints that are invoked to reflect a temporary network reconfiguration implemented by a *TNSP* to manage an outage.

    For the avoidance of doubt, the network reconfiguration may result in lower capability than during system normal but must be higher than what the capability of the network would have otherwise been during the outage. The *TNSP* must notify the AER at least 30 business days before the commencement of an outage to put the temporary reconfiguration in place. Theoretical proposals are not allowed.

The AER will provide a confirmation within 30 business days of the *TNSP*'s exclusion application. If new material subsequently comes to light that the AER was not made aware of at the time of its assessment, the AER may revoke its decision to exclude the counts associated with the temporary network configuration during the review of the *TNSP*'s annual performance.

10. Network constraints that are invoked by AEMO prior to the commencement of a planned network outage for the purpose of transitioning of one level of network flow to another to reduce the impact of that outage (i.e. ramping constraints)

11. Transmission connection agreements where a lower service standard has been negotiated giving the *TNSP* the right to disrupt service under certain network conditions where the constraint only affects the parties subject to the agreement.

NOTE: the *TNSP* must provide a list to the AER each year of the events that the *TNSP* considers should be excluded from performance results, including reasons and how the event meets the relevant exclusion definition.

The AER may reject the *TNSP*'s exclusion claims where it considers the *TNSP* has provided insufficient justification.

Appendix D : Adjustments to allowed revenue

Calculating allowed revenue

The *maximum allowed revenue* (MAR) for each *regulatory year* of a *regulatory control period* is calculated in accordance with the NER and the *TNSP*'s *transmission determination*. The MAR includes any *financial incentive* adjustments resulting from the *service target performance incentive scheme* in the previous *calendar years*.

The MAR is calculated as follows:

MAR_t = AR_t + *financial incentive*$_{ct}$ + other adjustments

where: AR = allowed revenue

AR_t = AR_{t-1} *(1 + Δ CPI) *(1-X_t)

Δ CPI is the annual percentage change in the most recently published "Consumer Price Index All Groups, Weighted Average of Eight Capital Cities" as specified in the *TNSP*'s *transmission determination*

X_t is the X factor specified in the *TNSP*'s *transmission determination*.

A *TNSP*'s *financial incentive* (see below) within a *calendar year* of a *regulatory control period* will impact upon the *TNSP*'s MAR in the immediately following financial year. As such, a six month lag[3] exists between when a *TNSP*'s performance is measured, and when the *financial incentive* adjustment is made to the *TNSP*'s MAR.

The *financial incentive*

The *financial incentive* is calculated as follows:

financial incentive$_t$ = $\left(\frac{(AR_{t-1} + AR_{t-2})}{2} \times S_{ct} \right)$

where: AR = allowed revenue

S = total *s-factor*

[3] AusNet Services is only subject to a three month lag.

t = regulatory year

ct = *calendar year*

The MAR values used to establish transmission charges each relevant financial year will be used to determine the *financial incentive*.

The service standards factors

The *s-factor* for each service component *parameter* is calculated by comparing a *TNSP*'s performance against its *parameters* and the values included in the *TNSP*'s *transmission determination* within a *calendar year*. See Appendix E for the calculation of the performance for average circuit outage rate and average outage duration parameters.

The market impact *parameter s-factor* is calculated by comparing the *TNSP*'s performance measure against its *performance target*. See Appendix F for the calculation of performance measure and *performance target*.

The network capability *parameter s-factor* for the first four regulatory years in the regulatory control period is calculated in accordance with clause 5.3 of this *scheme*.

The maximum *s-factor* possible for each *parameter* applying to the *TNSP* under the *service component* of this *scheme* is the *weighting* of that *parameter*. The maximum *s-factor* possible for the *parameter* applying to a *TNSP* under the *market impact component* of this *scheme* is the maximum revenue increment specified in clause 4.3.

The total *s-factor* is the sum of the *s-factors* for each *parameter*. The total *s-factor* result cannot exceed the sum of the maximum revenue increment or decrement that the *TNSP* may earn under the *service component,* the *market impact component* and the *network capability component*.

Worked example

Assume that based on its performance between 1 January and 31 December 2017 a *TNSP* achieved an *s-factor* of -0.1 per cent under the service component, 0.9 per cent under the market impact component and 1.5 per cent under the *network capability component*. The total *s-factor* achieved by the *TNSP* is 2.30 per cent.

Year	Total *s-factor*	AR
1 July 2016		**$100m**
1 January 2017	2.3%	
1 July 2017		**$110m**
1 January 2018		

Calculating the *financial incentive*

The *financial incentive* for a total *s-factor* of 2.3 per cent is $2.42 million as shown below

$$\textit{financial incentive}_{2017} = \left(\frac{(AR_{2017\text{-}18} + AR_{2016\text{-}17})}{2} \times S_{2017}\right)$$

$$= \left(\frac{(110+100)}{2} \times 2.3\%\right)$$

$$= \$2.42\text{m}$$

Calculating the allowed revenue

The *financial incentive* of $2.42 million for the 2017 *calendar year performance* would not affect the AR until the financial year beginning 1 July 2018. Assuming no other adjustments were made in accordance with clauses 6A.3.1 and 6A.3.2 of the NER and the AR for the 2018–19 period is $120 million, the MAR for the 2018–19 *regulatory year* would be:

$$MAR_{2018-19} = AR_{2018-19} + \textit{financial incentive}_{2017}$$

$$= \$120\text{m} + \$2.42\text{m}$$

$$= \$122.42\text{m}$$

Adjustments to the *financial incentive* formula

The *financial incentive* formula will be adjusted by the AER in the following circumstances.

Overlap between regulatory control periods

As noted above, a *TNSP*'s performance in a *calendar year* will not affect the MAR until the financial year commencing on 1 July in the following year. This means that a *TNSP*'s performance in the last year of its *regulatory control period* will affect its MAR in the following *regulatory control period*.

If, for example, a *TNSP* has a *regulatory control period* of five years, which runs between 1 July 2007 and 30 June 2012, its performance in the 2011 *calendar year* will affect its MAR in the financial year of the next *regulatory control period* (that is, 2012–13). The *TNSP*'s MAR in the second financial year of the next *regulatory control period* (that is 2013–14) will be affected by its performance in the final six months of the last *regulatory control period* and the first six months of the next *regulatory control period*. The MAR in this financial year will be calculated by applying the following formula:

$$MAR_{2013\text{–}14} = AR_{2013\text{–}14} + \textit{financial incentive}_{2012}$$

Where:

$$\textit{financial incentive}_{2012} = \left(\frac{AR_{2011\text{-}12}}{2} \times S_{1Jan2012\text{-}30Jun2012}\right) + \left(\frac{AR_{2012\text{-}13}}{2} \times S_{1Jul2012\text{–}31Dec2012}\right)$$

Where performance is measured over part of a *calendar year*

Where a *TNSP*'s performance has not been measured under the *scheme* for a full *calendar year*, the AER will make a pro-rata adjustment to the AR to apply to the *s-factor* to calculate the *financial incentive*. For example this adjustment may be made where a new *TNSP* becomes subject to the *scheme* at the commencement of a financial year.

Adjustment for AusNet Services' April to March financial year

AusNet Services' *regulatory year* runs from 1 April to 31 March in the following year to correspond with the Singapore financial year. To account for this anomaly, there will a three-month lag between when AusNet Services' performance is measured, and when the *financial incentive* adjustment is made to AusNet Services' MAR. The *financial incentive* for AusNet Services is calculated as follows:

$$\textit{financial incentive}_{ct} = \left(\left(AR_{t-2} \times \frac{3}{12}\right) + \left(AR_{t-1} \times \frac{9}{12}\right)\right) \times S_{ct}$$

Appendix E : Service component – calculation of performance measures

The value of the performance measure (PM) for the unplanned outage circuit event rate *parameter*, and the average outage duration *parameter* is calculated based on the *TNSP*'s average performance over a rolling two *calendar year* period. Note that the PM may include performance in periods outside of the current *regulatory control period*.

Formula for the unplanned outage circuit event rate *parameter*:

$$PM(t) = \frac{(P_t + P_{t-1})}{2}$$

Where:

t = year

PM = performance measure

P = No. of events (defined circuits unavailable) per annum x 100%
Total no. of defined circuits

Formula for the average outage duration *parameter*:

$$PM(t) = \frac{(P_t + P_{t-1})}{2}$$

Where:

t = year

PM = performance measure

P = Aggregate duration (in minutes) of all unplanned outages with a loss of supply
No. of events

E1. Worked example:

For example, in early 2015 a *TNSP* will submit its annual compliance review for the 2014 (in this example t is 2014). The performance measures above will be based on 2014 and 2013 performance data.

Appendix F : Market impact component – calculation of performance measure and target

The value of the performance measure (PM) for the market impact *parameter* is calculated based on the *TNSP*'s average performance over a rolling two *calendar year* period. Note that the PM may include performance in periods outside of the current *regulatory control period*.

The value of the *performance target* (PT) is calculated based on the *TNSP*'s average performance over a rolling three *calendar year* period as detailed below.

The *performance target* for any *calendar year* cannot be less than 100 counts

That is:

$$PM_t = \frac{\left(P_t + P_{t-1}\right)}{2}$$

$$PT_t = \frac{\left(P_{t-2} + P_{t-3} + P_{t-4}\right)}{3}$$

Where:

t = year

PM = performance measure

PT = *performance target*

P = *calendar year* performance count calculated in accordance with Appendix C

F1. Worked example of the target and measure:

For example in early 2015, a *TNSP* will submit its annual compliance review for 2014, (in this example t is 2014). The performance measure will be based on 2014 and 2013 performance data and the *performance target* will be based on 2011, 2012 and 2013 performance data.

Market Impact Component *s-factor*

$$\textit{S-factor} = \begin{cases} 1-(PM_t/PT_t) & \text{where } PM_t \le 2PT_t \\ -1 & \text{where } PM_t > 2PT_t \end{cases}$$

Where:

PM = performance measure, PM_t = average(P_t,P_{t-1})

PT = *performance target*

$$PT_t = \begin{cases} 100, \text{ if average}(P_{t-1},P_{t-2},P_{t-3})<100 \\ \text{average}(P_{t-1},P_{t-2},P_{t-3}) \end{cases}$$

Where annual performance, P, in year t, (P_t) comprises of n *single outage event*s then P_t is adjusted so that the number of counts (e) from any *single outage event* (i) is capped to be no more than 17 per cent of the *performance target* as follows:

$P_t = \sum_{i=1}^{n} e\,(i)$

where e(i) is *single outage event* (i); if e(i) > 0.17xPT_t then e(i)=0.17xPT_t

Appendix G: Definition of force majeure

For the purpose of applying the *service target performance incentive scheme*, *force majeure* event means any event, act or circumstance or combination of events, acts and circumstances which (despite the observance of good electricity industry practice) is beyond the reasonable control of the part affected by any such event, which may include, without limitation, the following:

i. fire, lightning, explosion, flood, earthquake, storm, cyclone, action of the elements, riots, civil commotion, malicious damage, natural disaster, sabotage, act of a public enemy, act of God, war (declared or undeclared), blockage, revolution, radioactive contamination, toxic or dangerous chemical contamination or force of nature

ii. action or inaction by a court, government agency (including denial, refusal or failure to grant any authorisation, despite timely best endeavour to obtain same)

iii. strikes, lockouts, industrial and/or labour disputes and/or difficulties, work bans, blockades or picketing

iv. acts or omissions (other than failure to pay money) of a party other than the *TNSP*, which party either is connected to or uses the high voltage grid or is directly connected to or uses a system for the supply of electricity that in turn is connected to the high voltage grid. Where those acts or omissions affect the ability of the *TNSP* to perform its obligations under the service standard by virtue of that direct or indirect connection to or use of the high voltage grid.

In determining what *force majeure* events should be excluded, the AER will consider the following:

i. was the event unforeseeable and its impact extraordinary, uncontrollable and not manageable?

ii. does the event occur frequently? If so, how did the impact of the particular event differ?

iii. could the *TNSP*, in practice, have prevented the impact (not necessarily the event itself)?

iv. could the *TNSP* have effectively reduced the impact of the event by adopting better practices?

The AER may reject a force majeure exclusion claim where it considers that the *TNSP* has provided insufficient justification that force majeure applies to the event.