

4 February 2025

Kris Funston
Executive General Manager
Australian Energy Regulator
By email: TransmissionSTPISReview@aer.gov.au

Dear Mr Funston,

Transmission STPIS Proposed Amendments

The Justice and Equity Centre (JEC) welcomes the opportunity to respond to the Australian Energy Regulator's (AER) proposed amendments of the Service Target Performance Incentive Scheme (STPIS) for electricity transmission network service providers (the explanatory statement).

The JEC agrees the scheme is not working as intended and requires reform. The intent of the scheme remains relevant and appropriate. There must be robust and efficient incentives for transmission network service providers (TNSP) to minimise the cost of transmission outages to consumers and to invest in low-cost, high impact projects. In broad terms the JEC:

- Does not support the proposals to suspend the Market Impact Component (MIC) and replace it with an expanded annual outage reporting scheme.
- Supports the proposal to link the Network Capability Component (NCC) to each TNSP's Transmission Annual Planning Report (TARP). We recommend that robust requirements for acquiring and using consumer input on the ranking of options is introduced.
- Agrees with the AER's problem definition concerning the Service Component (SC) and supports the solution of removing rounding and allowing targets defined in terms of fractions of events.

Market Impact Component

The MIC is not working as intended. The aim to incentivise TNSPs to act differently will not be realised if TNSPs cannot avoid the full financial penalty.

Nonetheless, we do not support the proposal to replace the existing MIC with an annual reporting mechanism. This would not be sufficient as a foundation for the MIC. The proposal assumes TNSPs are highly sensitive to reputational risks. This is not grounded in experience of TNSP behaviour and does not seem justifiable. Energy is essential and transmission services are provided on a monopolistic basis. Consumers who judge a TNSP not to have lived up to their expectations cannot take their business elsewhere.

An MIC founded on financial sanctions rather than reporting remains most appropriate.

As noted by the EUAA in its presentation to stakeholders on 9 December 2024, the aim of the scheme must be to minimise the impacts of outages to consumers, not TNSPs. Design elements that move the target metric from individual outages to aggregate ones, as the reporting-based alternative mechanism appears to, can be expected to allow TNSPs to move individual outages to times that minimise the cost to them, regardless of the effect this has on outage impacts for consumers. Likewise, a design that implicitly allows TNSPs to determine strategically whether outages appear as planned or unplanned will result in the cost of outages being minimised for TNSPs but not for consumers. This is not in the interests of consumers.

The AER's concerns about producing a robust basis for outage forecasting in the context of a rapidly changing energy system should not preclude the possibility of a regulatory regime incentivising TNSPs to minimise the cost of outages to consumers through financial sanctions. It is possible to draw on past experience and make reasonable assessments of how changes occurring in the energy market and system might be expected to impact key metrics, and so build a basis for forecasting and a regime that effectively fulfils the existing aims of the MIC.

Network Capability Component (NCC)

The JEC supports the proposals of the AER in relation to the NCC.

While there are consumer input processes already attached to each TNSP's TARP, formal requirements should be added to these. These should include robust assessment of consumers' preferences regarding the ranking of candidate projects, and transparent processes for TNSPs to show how these preferences shaped the final investment decisions.

We support the AER's rejection of calls for the NCC to be made optional.

Service Component (SC)

The JEC supports the AER's proposed solution of removing rounding and allowing targets defined in terms of fractions of events.

Asymmetry of the SC is not a material problem in need of fixing. The lack of incentive for TNSPs to go below the zero target does not constitute a cost for consumers.

We welcome the opportunity to meet with the AER to discuss these issues in more depth. Please contact Michael Lynch at mlynch@jec.org.au regarding any further follow up.

Yours sincerely,

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