11 December 2025

Ms Anna Collyer

Chair

Australian Energy Market Commission

GPO Box 2603

Sydney NSW 2001

Electronic lodgement – ERC0421

Dear Anna,

AEMC Consultation – Early adoption of a revised transmission service target performance incentive scheme (STPIS)

Energy Networks Australia (ENA) welcomes the opportunity to make this submission in response to the Australian Energy Market Commission's (AEMC) Consultation Paper on the Rule change proposal submitted by the Australian Energy Regulator (AER) on the early adoption of a revised transmission STPIS.

ENA represents Australia's electricity transmission and distribution and gas distribution networks. Our members provide more than 16 million electricity and gas connections to almost every home and business in Australia. This submission is made on behalf of ENA's electricity Transmission Network Service Provider (TNSP) members.

ENA welcomes the engagement to date with the AEMC on this rule change. It is important that in adopting any new incentive that it is fit for purpose, balanced and enables a reasonable opportunity for a TNSP to respond. In summary:

- ENA agrees with the AER that there are flaws in the current incentive scheme. STPIS version 5 (V5), is not working and there is no reason to leave a flawed scheme in place any longer than necessary. To the extent that TNSPs are unable to respond, the result is a reduction in investment that would have benefited consumers, which runs counter to the National Electricity Objective (NEO).
- ENA recommends a preferred rule be made for a 'one off' early adoption of a revised STPIS version 6 (V6) on a case-by-case basis where the TNSP proposes and the AER responds with flexibility regarding the implementation timing.
- ENA also proposes several additional drafting refinements that might allow a shorter timeframe for commencement by agreement or within regulatory year commencement.
- As Version 5 of the STPIS was determined in April 2025 to be no longer fit for purpose and not meeting its intended objectives, we strongly urge the AEMC to make the appropriate rule changes that will commence the STPIS (V6) as soon as possible, and no later than 1 January 2026.

As the AEMC states, on two occasions there have been rule changes to allow one off early adoption of a revised STPIS within a regulatory control period. ENA considers that the current rules prevent early adoption of a revised STPIS, delaying consumer benefits from this change.

Rules should be amended to allow early adoption of STPIS V6

ENA agree with the AER that there are flaws in the current incentive scheme. As was made clear in the AER final determination on STPIS V6, The Market Impact Component (MIC) is currently no longer fit for purpose, and not providing the right incentives.[1] TNSPs cannot respond to these incentives and, to the extent that they receive penalties under a flawed scheme, this is reducing the amount of investment consumers can benefit from which is contrary to the NEO. There is therefore benefit to consumers in moving to STPIS V6 in a timely manner. Given the staggered nature of TNSP revenue determinations, not amending the Rules to allow TNSPs to opt into the new version of the STPIS will continue to penalise some TNSPs for up to 3-4 years.

Should the rules allow more flexibility to adopt future new incentive schemes?

ENA is of no doubt that the transition away from centrally located thermal generation to geographically dispersed variable renewable energy (VRE) has changed the demands on TNSPs and the way they manage their assets. However, we consider that it is not proven that this will necessitate repeated amendments to the STPIS. This transition has been well underway for a decade; the last coal generator exited the South Australian grid in 2016. The previous STPIS V5, was created by the AER in 2015.

It does not necessarily follow that this transition will necessitate changes to a well-designed incentive scheme. ENA notes that the AER has convened a working group to determine a potential replacement for the MIC, a revised STPIS would then be consulted on in accordance with the rules and then apply to all TNSPs for their next regulatory control period.

That said, the changing circumstances of the National Electricity Market (NEM) may mean that an incentive scheme is no longer effective, as we have seen with STPIS V5. However, any incentive scheme requires several years to demonstrate its effectiveness or determine that it has ceased to be effective.

Will there be a need for more frequent changes of the STPIS scheme?

Frequent changes to the STPIS would suggest that subsequent STPIS approaches are not fit for purpose. As the AEMC has noted in its previous rule changes that each revised STPIS implemented earlier than permitted should be assessed on a case-by-case basis. The NEM is transitioning, any revised scheme needs to look at the future challenges and provide a balanced incentive framework for a reasonable period to enable TNSPs to respond to the incentive.

Rules drafting could enable more flexibility regarding early adoption

ENAs preference is for the rule to be drafted as a one-off change in line with the two historical rule changes in 2015 and 2010, based on the propose /respond model with flexibility regarding the implementation timing (given the AER updated the scheme in April 2025), and a final rule is unlikely to be available until mid-May 2026. ENA urge the AEMC to consider the timeframes in the proposed rule as they could defeat the purpose of enabling early adoption. ENA also suggest the additional refinements outlined below.

In the case of early adoption of a revised STPIS, the AER proposes application to commence on the next regulatory year, however assessment against two of the incentive components are based on calendar year and one component is linked to the Transmission Annual Planning Report (TAPR) and a subsequent process. ENA suggests that the commencement date for any revised STPIS be agreed

[1] AER - Explanatory Statement to the Electricity Transmission Service Target Performance Incentive Scheme Version 6 - April 2025

with the TNSP, regardless of whether the TNSP or the AER has proposed the early adoption. ENA suggests that the assessment year for MIC and Service Component (SC) could commence on 1 Jan 2026 and apply for the regulatory year 2026/2027 for all TNSPs by agreement.

The proposed rule drafting suggests that any desire for early application of a revised STPIS needs to be made more than 90 business days (BD) before the end of a regulatory year. During the 90 BD (or more), the AER must consult with the TNSP and other persons as the AER sees fit, and if the AER chooses to proceed, they must decide within 40 BD from the later of the application request or the AER receiving any additional information. If the issues are complex, the AER can extend timeframes by a further 60 BD. Essentially the AER could develop a new STPIS scheme, consult extensively on the revised scheme under the transmission consultation procedures, make a final decision to update the STPIS and then take around 7 months to consider a TNSP application. These timeframes seem excessive, the most recent rule change on an early adoption of STPIS, *Early application of STPIS components to transmission businesses,* in 2015 provided a much shorter timeframe for these issues to be addressed. These issues have already been consulted on for the STPIS V6 and detailed application timings are a matter for the AER and TNSP to agree.

The AEMC could also consider a transitional rule to allow TNSPs to apply and work through any transitional issues with the AER ahead of a final rule. Enabling a within regulatory year commencement could also enable AusNet to commence at the same time.

ENA notes that whilst there are no significant issues with applying the SC and suspending the MIC within STPIS V6, we consider that there may be practical concerns with the implementation of the new Network Capability Component (NCC) as it is predicated on inclusion within the TAPR. The rule changes should allow flexibility for TNSPs to propose to adopt the STPIS V6 for the SC and MIC and continue the NCC for existing projects if this provides a cleaner transition until they reach their next revenue determination.

ENA considers there is no issue with new STPIS (V6) commencing at any time within a year. Most components of STPIS are applied and assessed per calendar year and this offers a cleaner transition.

Query the need for an enduring power to adopt future schemes

ENA agrees that the enduring power for the AER to require a move to a future STPIS does create significant regulatory uncertainty. The preferred position is that this rule change, like previous, should be considered a 'one-off'. Should such an enduring power be granted, we consider that the rule must place an expectation on the AER to consult thoroughly on a revised STPIS and any adoption mid regulatory period will need to consider the potential issues on a case-by-case basis. ENA concurs with the view from the previous early adoption rule changes that the AEMC could consider allowing an early adoption of STPIS for a TNSP subject to AER assessment of the compatibility of early adoption and the TNSP's willingness. ENA notes that each TNSP may have a different starting point; NCC projects and regulatory year commencement dates. TNSPs and the AER will need to work together on the implementation issues.

The costs of a one-off change to a known scheme would be lower than creating the uncertainty of earlier adoption of future schemes under constrained timeframes.

Overall, the ENA considers that there should be no delays in applying STPIS V6 to TNSPs as this would be contrary to the NEO. All other items can be determined through a revised STPIS V7 applied to all business' next regulatory control periods.

ENA looks forward to working with the AEMC as it considers the rule change proposal. If you would like to discuss this submission, please contact Verity Watson, Head of Transmission (vwatson@energynetworks.com.au).

Yours sincerely,

Dominic Adams

Chief Operating Officer