11 December 2025

Ms Anna Collyer
Chair
Australian Energy Market Commission
GPO Box 2603
Sydney NSW 2001

Electronic lodgement – ERC0421

Dear Ms Collyer

Re: AEMC Consultation – Early adoption of a revised transmission service target performance incentive scheme

ElectraNet welcomes the opportunity to make a submission in response to the recent consultation paper released by the Australian Energy Market Commission (AEMC) on the rule change proposal submitted by the Australian Energy Regulator (AER) on the early adoption of a revised transmission service target performance incentive scheme (STPIS).

ElectraNet is South Australia's principal electricity Transmission Network Service Provider (TNSP) and is a critical part of the electricity supply chain and is facilitating the transition to a clean energy future.

We have participated in the Energy Networks Australia (ENA) submission process and broadly support the content of the resulting submission however there are some areas we would like to confirm and expand on for the AEMC's consideration.

Early adoption of STPIS 6 is aligned with the National Electricity Objective

We broadly agree with the AER's proposed rule change to allow TNSPs to adopt STPIS version 6 ahead of their next revenue determination. Early adoption would allow the Market Impact Component (MIC) to be suspended for the remainder of a TNSP's regulatory control period. As the AER consultation on STPIS version 6 demonstrated[1], the MIC is widely acknowledged by both industry and the AER to be flawed and not operating as intended.

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[1] AER, Explanatory Statement to the Electricity Transmission Service Target Performance Incentive Scheme Version 6, 17 April 2025, p. 12.

As the AER determined in April 2025, under version 5, the MIC is no longer fit for purpose and is imposing maximum annual penalties on TNSPs.[2] "*The amendments* [in version 6] *recalibrate incentives so that TNSPs operate their networks in the best interests of market participants and consumers*[3]" which contributes to the National Electricity Objective (NEO).

Accordingly, continuing to apply version 5 of the STPIS does not lead to an outcome that contributes or is likely to contribute to achieving the NEO. It ensures that flawed incentives are removed promptly, efficient expenditure is not deferred, and consumers are protected from unnecessary risks.

Preserving regulatory certainty through targeted amendments

We agree with the AER that, under the current regulatory framework, it is not possible to amend a TNSP's incentive regime outside of the revenue determination process. Accordingly, a rule change would be required to facilitate the early adoption of STPIS version 6.

Whilst we acknowledge the perspective that the energy transition may create uncertainty in the years ahead, and that this has led to a call for a long-term and enduring ability to transition TNSPs to new incentive arrangements, we do not believe such an approach would be in the long term interests of consumers.

There have been only two previous occasions, in 2010 and 2015, where the AEMC has needed to make a rule change to allow TNSPs to adopt a new STPIS earlier than their next revenue determination. This infrequency demonstrates that the current framework remains fit for purpose. Allowing TNSPs and the AER to amend the incentive regime more frequently would undermine the principle of regulatory certainty that underpins the framework.

Moreover, the development and implementation of a new STPIS is an extensive process with significant consultation, followed by several years of application before its effectiveness can be properly assessed. This long lead time means that any new STPIS version will be sufficiently ahead of the next regulatory determination to be incorporated in that process. The rarity of past amendments further supports the conclusion that an enduring ability to alter incentive regimes would be disproportionate.

We also consider that, if there is a perception that the STPIS framework can be readily amended and applied to TNSPs, then this reduces the imperative to ensure it is fit for purpose in the longer term. Such an approach risks prompting short-term policy responses that could undermine regulatory certainty. In addition, it would increase the regulatory burden for TNSPs, who would be required to amend systems and processes to accommodate the revised framework.

Accordingly, we consider that a targeted rule change mechanism remains the most appropriate approach. An enduring power would undermine regulatory certainty and is

[2] The AER, Explanatory Statement to the Electricity Transmission Service Target Performance Incentive Scheme Version 6, 17 April 2025, p. 11.
[3] The AER, Rule change request, August 2025, p. 5.

unnecessary given the infrequency of past amendments and the long development cycle inherent in STPIS.

Commencement of the rule

Our position is that the rule change should specify a commencement date of 1 January 2026, even if this requires backdating. STPIS is currently assessed on a calendar year basis, with reports submitted to the AER in the first quarter of each year for the preceding year. The report for 2026 is therefore not due until early 2027.

Given the acknowledged flaws in the current STPIS, it is essential that TNSPs be able to adopt the new STPIS as soon as practicable. The AER's final determination was issued in April 2025, and with this rule change process scheduled to conclude in May 2026, at least one further year, and therefore another year of associated penalties, would pass before a TNSP could apply for early adoption. As noted above, this outcome is inconsistent with the NEO.

We further note that any amendment date occurring significantly after the start of the calendar year, and requiring STPIS to be amended only prospectively following a TNSP application, risks locking in a full calendar-year 2026 penalty for some TNSPs, even where the scheme was not in place for the entire year. This would perpetuate the inefficiencies of the current incentive framework.

Finally, while the drafting of the rule appropriately provides for significant consultation and engagement timelines in the context of an enduring ability to opt into new STPIS schemes early, such requirements are unnecessarily onerous for a targeted amendment. This is particularly the case given the extensive engagement that has already occurred in the development of STPIS version 6.

Accordingly, we consider that specifying a commencement date of 1 January 2026 is both necessary and proportionate. It ensures that flawed incentives are not perpetuated, avoids locking in further penalties, and aligns the rule change with the NEO.

Transition of other components

In addition to the Market Impact Component, there are two other components within the STPIS that warrant consideration: the Service Component (SC) and the Network Capability Component (NCC).

We do not believe that the minor nature of the amendments to the SC presents any issue with transitioning this component midway through a regulatory control period.

The NCC, however, is more complex. The amendments are more significant and involve assessment by the Australian Energy Market Operator (AEMO). Unlike the SC and MIC, which operate as annual revenue rewards or penalties based on performance, the current NCC provides revenue to TNSPs across the duration of their regulatory period. This revenue not necessarily reflective of annual activities as a TNSP will undertake work in one year of a regulatory period, yet receive revenue smoothed across all five years. TNSPs have therefore been collecting revenue and delivering projects that may already be in progress, which should not be disregarded.

We consider that the simplest and most practical approach to managing this uncertainty is to allow TNSPs and the AER to agree on a transition plan individually, tailored to their electranet

circumstances. It is likely appropriate either to transition the entire set of current NCC projects into the new scheme without requiring inclusion in the Transmission Annual Planning Report (TAPR) or AEMO reassessment, or alternatively to defer transition to the STPIS version 6 NCC component until the next regulatory period, with TNSPs remaining on version 5 in the interim.

This is fundamentally an administrative step and should not be an impediment to progressing the rule change required to correct the current incentive scheme for the MIC, which we consider to be the more significant area of concern.

ElectraNet look forward to ongoing engagement with the AEMC on this rule change proposal in the coming months. If you would like to discuss any aspect of this submission, then please contact Ed Heaton on 0481 983 469 or Heaton.Ed@ElectraNet.com.au in the first instance.

Yours sincerely

Jeremy Tustin
Head of Regulatory and Economic Strategy