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Ms Anna Collyer
Chair
Australian Energy Market Commission

Submitted online: <https://www.aemc.gov.au/contact-us/lodge-submission>

Dear Anna

AEMC's Early application of a revised transmission STPIS consultation paper

Transgrid welcomes the opportunity to respond to the Australian Energy Market Commission's (**AEMC**) *Early application of a revised transmission Service Target Performance Incentive Scheme (STPIS)* consultation paper. The consultation paper commences consultation on the Australian Energy Regulator's (**AER**) Rule change proposal to allow the AER to reopen a revenue determination to apply a revised STPIS to a Transmission Network Service Provider (**TNSP**) during a regulatory control period.

Transgrid must plan for, build, maintain and operate the backbone of the grid while meeting our obligations to maintain the safety, reliability and security of the transmission system in accordance with the National Electricity Rules (**NER**). STPIS aims to maintain or improve TNSPs' service standards and we support the AER's Version 6 of the STPIS, especially as some of the current elements of the STPIS are no longer working as intended.

The purpose of the STPIS is to provide incentives to TNSPs to improve or maintain a high level of service for the benefit of participants in the National Electricity Market (**NEM**) and end users of electricity. However, the current version of the STPIS is not functioning as intended because the energy transition is changing the way electricity is generated and transported. In April 2025, the AER published its Version 6 of the STPIS, which contained appropriate amendments to address this issue.

During the AER's review of the STPIS, there was consensus that Version 5 of STPIS is no longer working as intended. As such, we strongly encourage the AEMC to make the appropriate NER changes to ensure Version 6 of the STPIS can be implemented as early as practicable. The revised version of STPIS promotes the efficient investment in, and efficient operation and use of, network services in the long term interests of consumers.

While Transgrid broadly supports the AER's Rule change, we have some concerns about certain elements of the proposal which are outlined below.

Commencement date

The AER determined Version 5 of the STPIS is no longer working as intended in April 2025. As such, we believe that Version 6 of STPIS should be adopted without delay.

STPIS is administered and assessed on a calendar year basis. Accordingly, it is appropriate that the new STPIS takes effect from 1 January 2026 for all three components. This will provide all TNSPs and consumers with the opportunity to derive benefits from this Rule change before the commencement of each TNSPs' next regulatory control period by ensuring TNSPs are operating their networks in the best interests of market participants and consumers.

Transitioning mid-way through a regulatory year (which is equivalent to a financial year) results in administration amendments of the scheme because STPIS operates on a calendar year basis. Transitioning from one version of STPIS to another at the start of a calendar year simplifies the administration of the scheme because it eliminates the need for the STPIS assessment year to be broken down into two separate components, each having their own individual performance calculations.

In addition, it is important to implement Version 6 of the STPIS as soon as possible as it will stop TNSPs being unfairly penalised because of a STPIS that is not meeting its core objectives. In practice, the scheme consistently results in a maximum penalty outcome for the Market Impact Component – i.e. -1% of MAR for all mainland TNSPs since 2021. This translates to a penalty of approximately \$10 million dollars annually for Transgrid.

We recommend, therefore, that the new STPIS applies from 1 January 2026 in order to simplify the administration of the new scheme.

Providing the AER with enduring powers

The AER proposes that it should be given the power to apply Version 6 of the STPIS *and* any subsequent STPIS versions applying to TNSPs. This would provide the AER with the power to reopen a revenue determination to apply a revised STPIS on its own initiative. The AER claims this flexibility is more likely to promote the National Electricity Objective (**NEO**).

As previously stated, Transgrid supports Version 6 of the STPIS. However, Version 5 of the STPIS has not been meeting the requirement of NER clause 6A.7.4 (b)(1) which is to provide incentives to TNSPs to provide greater reliability of the transmission system. While not functioning as intended, the STPIS does not promote the NEO.

We have concerns with the AER's proposed rule which would allow it to amend or replace the STPIS without the consent of the relevant TNSP.

While the AER's proposal includes a requirement for consultation, the AER's ability to reopen a determination without the network's consent increases regulatory uncertainty for the network business. Transgrid does not believe the AER should be provided with such enduring powers, as future STPIS amendments may be contentious and/or require substantial resources to implement. These principles are consistent with prior rulings by the AEMC.¹

Given this we would encourage the AEMC to consider either:

1. Making the proposed changes to the NER as a one-off only; or

¹ See the AEMC, National Electricity Amendment (Early Implementation of Market Impact Parameters) Rule 2010 – Final determination, 11 March 2010 and the AEMC, National Electricity Amendment (Early application of service target performance incentive scheme (STPIS) components to transmission businesses) Rule 2015 – Final determination, 19 February 2015.

2. Providing the power to the AER to implement a new version of the STPIS at any time only with the consent of a TNSP, or when a TNSPs opts in to the new scheme. In the event that the TNSP does not agree to implementing a revised STPIS version (after AER public consultation) within the regulatory control period, the revised STPIS version will only apply from the TNSP's next regulatory control period.

Timeframe for application

The rule change includes a provision that a proposal or an application for early adoption of a revised STPIS must not be made within 90 business days prior to the end of a regulatory year.

Transgrid is concerned that 90 business days is unnecessarily long and may restrict TNSPs from an early adoption of a revised STPIS. Accordingly, we would welcome further clarification on:

- The reasoning behind the AER's request for TNSPs to provide 90 business days notification before adopting a revised STPIS. We understand the AER has stated that this time will be used to consult with the TNSP and such other persons as it considers appropriate in relation to the proposal or the application. However, we are unclear on the specifications of that consultation, given the AER has already published a revised STPIS which was subject to full consultation.
- Whether this timeframe restricts TNSPs and the AER agreeing on a start date before the commencement of a regulatory year (i.e., starting on 1 January 2026 rather than 1 July 2026). We would encourage that Rules be made that make it possible to commence the STPIS before the final Rule is published and before the AER's requested 90 business days before the end of a regulatory year.

We look forward to working with the AEMC to implement Version 6 of the STPIS as soon as practical. If you or your staff require any further information or clarification on this submission, please contact Zainab Dirani, Policy and Advocacy Manager at zainab.dirani@transgrid.com.au.

Yours sincerely



Alex McPherson

General Manager of Regulation & Policy