

Draft rule determination

National Electricity Amendment (Early application of a revised transmission Service Target Performance Incentive Scheme) Rule 2026

Proponents

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About the AEMC

The AEMC reports to the energy ministers. We have two functions. We make and amend the national electricity, gas and energy retail rules and conduct independent reviews for the energy ministers.

Acknowledgement of Country

The AEMC acknowledges and shows respect for the Traditional Custodians of the many different lands across Australia on which we live and work. The AEMC office is located on the land of the Gadigal people of the Eora nation. We pay respect to all Elders past and present, and to the enduring connection of Aboriginal and Torres Strait Islander peoples to Country.



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Summary

- 1 The Commission has decided to make a more preferable draft rule (draft rule) that would enable the timely application of a revised transmission service target performance incentive scheme (STPIS or scheme) in the immediate- and long-term. This draft rule is in response to a rule change request submitted by the Australian Energy Regulator (AER) that seeks to amend the National Electricity Rules (NER or rules) to allow it to reopen a transmission network service provider's (TNSP) revenue determination for the purpose of applying a revised STPIS during a regulatory control period (enduring power).¹
- 2 The draft rule would:
 1. In relation to the application of STPIS Version 6, align certain STPIS components with Version 6 of the scheme to:²
 - Disapply the market impact component (MIC) for TNSP performance from 1 January 2026
 - Amend the target for the loss of supply frequency parameter under the service component (SC) for TNSP performance from 1 July 2026.
 2. In relation to any future changes to the STPIS and how these should be applied, require that the AER consult on the potential early application of a revised STPIS (new scheme) during the relevant review and allow the AER to determine in its final decision whether the new scheme, or components of the new scheme, should be applied early.³ This includes stipulating any necessary early application arrangements.⁴
- 3 In making the draft rule, the Commission has considered the issues the AER seeks to address in its rule change request, as well as concerns raised by stakeholders in submissions to the consultation paper. In its rule change request, the AER identifies immediate- and long-term issues with the current NER framework. In the immediate-term, the AER is unable to apply STPIS Version 6 until the start of a TNSP's next regulatory control period. In the long-term, the AER explains that it is unable to apply more effective incentive mechanisms that reflect the energy system in a timely manner.⁵
- 4 To account for the issues identified and stakeholder concerns, the draft rule would simplify the alignment of current incentives with STPIS Version 6. The draft rule would also enable the timely application of any future revised STPIS. The draft rule aims to strike an appropriate balance between maintaining regulatory certainty and ensuring that the scheme's incentives remain relevant and effective in a changing electricity system.
- 5 We are seeking feedback on our draft determination and rule by **2 April 2026**.

The draft rule would support the reliability of the transmission network in the immediate- and long-term

- 6 The STPIS is designed to provide incentives to TNSPs to improve or maintain a high level of service for the benefit of participants in the NEM and end users of electricity.⁶ The STPIS and any

¹ The AER, [Rule change request](#), August 2025, p. 1.

² On 17 April 2025, the AER published Version 6 of the STPIS following a review into Version 5 of the scheme. See, the AER, [Review of electricity transmission service standards incentive schemes](#), 17 April 2025.

³ For the purposes of this draft determination, applying a STPIS 'early' refers to applying a revised STPIS at any point before the commencement of a TNSP's next regulatory control period.

⁴ The draft rule defines 'early application arrangements' as arrangements for the application of a new scheme, or any part of a new scheme, to a TNSP.

⁵ The AER, [Rule change request](#), August 2025, p. 5.

⁶ NER, clause 6A.7.4(b).

updates to the scheme need to be consistent with the STPIS principles outlined in clause 6A.7.4(b) of the NER and the National Electricity Objective (NEO).

7 The draft rule aims to support the function of the STPIS in order to enhance the reliability of the transmission network. By giving effect to these principles and the broader legal framework, the STPIS should promote the efficient investment in, and efficient operation and use of, network services in the long-term interests of consumers.⁷ As a result, the timely application of a new STPIS should enhance the reliability of the transmission network by allowing the benefits of the new scheme to be realised sooner.

8 With specific regard to the immediate-term, aligning the current STPIS components with STPIS Version 6 would also ensure that incentives are in place that:

- do not penalise TNSPs irrespective of actions they may take⁸
- reflect the current circumstances of the electricity system.⁹

9 Due to the nature of the energy transition, where the pace at which the grid is changing is accelerating, there may be instances when the STPIS would need to be updated to reflect the new circumstances. The Commission considers that should the AER commence a review into the STPIS in response to these changing circumstances, there is an opportunity to provide flexibility and streamline the consideration of its potential early application. Namely, this could be achieved by removing the need for the AEMC to complete a rule change to apply a new STPIS early. Under the Commission's draft rule, the impacts of the early application of a new STPIS would still be examined; however, this analysis would be completed by the AER.

The Commission has considered stakeholder feedback in making its decision

10 Stakeholder input and feedback helped shape our draft determination. We considered feedback to our consultation paper via written submissions and held discussions with stakeholders that brought further depth to our understanding of the issues relating to the rule change request. The Commission has sought to address stakeholder feedback regarding the early application of STPIS Version 6 and the enduring power in our draft determination.

11 In regard to the early application of STPIS Version 6, all stakeholders were supportive of its early application.¹⁰ TNSPs and Energy Networks Australia (ENA) proposed 1 January 2026 as the preferred commencement date of this scheme, with some stakeholders considering that significant delays to implementing Version 6 of the scheme would be counter to the NEO.¹¹

12 In regard to the enduring power proposed in the rule change request, stakeholders were broadly unsupportive. Stakeholders emphasised the need for regulatory certainty, the value of long-term incentives and questioned the need for the enduring power given the immateriality of the issue now.¹² Additional concerns were raised about whether future revisions to the STPIS would guarantee net benefits to consumers.¹³

7 The AER, [Explanatory Statement to the Electricity Transmission Service Target Performance Incentive Scheme Version 6](#), 17 April 2025, p. 9.

8 In its review, the AER noted that some TNSPs were incurring maximum penalties under the MIC. During this review, TNSPs considered they were being penalised for changes outside of their control rather than their management of outages. See the AER, [Explanatory Statement to the Electricity Transmission Service Target Performance Incentive Scheme Version 6](#), 17 April 2025, p. 9.

9 In its review, the AER noted that much of the reason the STPIS was no longer working as intended was the changing way electricity is generated and transported. The shift from more centrally located thermal generation to geographically dispersed fuel sources has created new demands on the transmission network and has impacted how TNSPs manage their assets. See the AER, [Explanatory Statement to the Electricity Transmission Service Target Performance Incentive Scheme Version 6](#), 17 April 2025, p. 1.

10 Submissions to the consultation paper: AusNet, p. 1; ElectraNet, pp. 1-2; ENA, pp. 1-2; EUAA, p. 1; Powerlink, p. 1; TasNetworks, pp. 1-2; Transgrid, p. 2.

11 Submissions to the consultation paper: ElectraNet, p. 2; ENA, p. 3.

12 Submissions to the consultation paper: AusNet, p. 2; CS Energy, p. 2; ElectraNet, p. 2; ENA, p. 3; Powerlink, p. 1; TasNetworks, p. 2; Transgrid, p. 2.

13 EUAA, submission to the consultation paper, p. 2.

- 13 In making the draft rule, we have considered stakeholder concerns relating to the enduring power. We consider that the more preferable draft rule is an approach that would support the reliability of the transmission network while best mitigating concerns. It does this by striking an appropriate balance between:
- supporting consultation with stakeholders on the potential early application of a revised STPIS;
 - creating a more efficient way to apply a revised STPIS, thereby allowing the benefits of a new scheme to be realised sooner;
 - preserving the intent for the scheme to operate over the long-term to support behavioural change; and
 - maintaining regulatory certainty.
- 14 We welcome feedback on our more preferable approach.

We assessed our draft rule against three assessment criteria, taking stakeholder feedback into account

- 15 The Commission has considered the NEO¹⁴ and the issues raised in the rule change request, and assessed the draft rule against three assessment criteria outlined below. We gathered and analysed stakeholder feedback in relation to these criteria.
- 16 The more preferable draft rule would contribute to achieving the NEO by:
- **Enhancing the provision of reliable electricity to consumers**
 - Aligning incentives with STPIS Version 6 as soon as practical would enhance the provision of reliable electricity to consumers by ensuring that TNSPs are subject to incentive mechanisms that are fit for purpose and reflective of the current electricity system.
 - In the long-term, enabling the application of effective incentives in a timely manner would encourage TNSPs to improve or maintain a high level of service for end users of electricity. There are sufficient safeguards within the regulatory framework that would limit the early application of a revised STPIS to circumstances where consumer outcomes are expected to improve.
 - **Addressing practical considerations associated with applying a revised STPIS early**
 - The draft rule seeks to simplify the application of STPIS Version 6 to TNSPs while maximising benefits for consumers and alleviating unintended penalties from TNSPs. It does this by outlining the treatment of the individual components in order to align with STPIS Version 6, given their varying complexity.
 - Furthermore, the draft rule embeds a consultative approach to the potential early application of a future STPIS. In doing so, it provides an opportunity for stakeholders to raise any administrative or practical concerns with the potential early application of the revised scheme.
 - **Balancing the need for regulatory certainty with the flexibility needed in a changing energy system**
 - The Commission considers that there is potential to provide additional flexibility in the NER to enable the timely application of a revised STPIS in response to changing circumstances of the electricity system. At the same time, the Commission recognises the importance of

14 Section 7 of the NEL.

regulatory certainty for business and operational decisions. As such, the draft rule aims to strike a balance between these two considerations.

- 17 The Commission also considered the revenue and pricing principles.¹⁵ The Commission determined that the draft rule’s staged approach to aligning the current STPIS incentives with Version 6 of the scheme is consistent with the revenue and pricing principles. While we consider that the MIC is no longer influencing TNSP behaviour and therefore inconsistent with the principles, the SC is still shaping TNSP behaviour and is therefore consistent with the principles. The staged approach to aligning these components with Version 6 accounts for these differences.
- 18 Furthermore, the Commission determined that the enabling the early application of a future STPIS would be consistent with the revenue and pricing principles because the AER must have regard to the NEO and the principles contained within, including the revenue and pricing principles. We consider that a revised STPIS developed by the AER would be expected to give effect to these legal frameworks, and this extends to the AER’s consideration of its early application. See further details of the Commission’s assessment in section 2.2.2.

The draft rule would align certain STPIS incentives with Version 6 of the scheme

- 19 The draft rule aligns certain STPIS incentives with Version 6 of the scheme on two key dates:
- **1 January 2026** – The MIC would be disapplied from this date so TNSP performance would no longer be subject to adjustments under the MIC.
 - This means that for the 2027-28 regulatory year, no MIC adjustments would be made to performance between 1 January 2026 and 31 December 2026, and the maximum allowed revenue of a TNSP cannot be adjusted for the MIC contained in Version 5 of the STPIS for the remaining regulatory years.
 - **1 July 2026** – TNSP performance would be assessed against a new target for the loss of supply frequency parameter in the SC.
 - By 30 June 2026, the AER must revoke and substitute a TNSP’s revenue determination in order to amend the target under the loss of supply frequency performance parameter in line with STPIS Version 6. The revised value must be the number calculated before rounding was applied under STPIS Version 5.
- 20 A TNSP’s performance from these dates and against the amended incentives would be an input into the 2027-28 network tariffs.
- 21 The draft rule does not provide for the early application of the network capability component (NCC). As such, the NCC contained in STPIS Version 6 would commence at the start of a TNSP’s next regulatory control period.

The draft rule would enable the AER to apply an updated STPIS to a TNSP before the start of its next regulatory control period

- 22 The draft rule would introduce the ability for the AER to implement a revised STPIS before a new regulatory control period commences. It would require that the AER consult on the potential early application of a new scheme during the relevant STPIS review, and allow the AER to determine whether the new scheme should be applied early. This includes determining any necessary early application arrangements.

¹⁵ Section 7A(3) of the NEL.

23 The draft rule would operate in the following way:

- The AER initiates a review into the STPIS in line with the transmission consultation procedures in rule 6A.20 of the NER.
- Throughout the review for the new scheme, the AER would consult on the potential early application of the revised STPIS and any proposed early application arrangements.
- The AER publishes a new scheme in accordance with clause 6A.7.4 of the NER and the transmission consultation procedures.
- When the AER publishes a new scheme, it may include early application arrangements that set out the process for applying the new scheme.
- To give effect to the early application arrangements and the new scheme, the AER may revoke and substitute a TNSP's revenue determination in line with the process set out in the draft rule. This revenue determination would apply for the remainder of the regulatory control period of the revoked revenue determination.

Full list of consultation questions

Question 1: Treatment of the STPIS components in the draft rule

- Do you support the proposed treatment of the components in the draft rule?

Question 2: The timing of removing and applying incentives to align with STPIS Version 6

- Do you agree with these two dates to remove and apply the incentives to align with STPIS Version 6?
 - Do you agree with disapplying the MIC from 1 January 2026?
 - Do you agree with aligning the service component values with STPIS Version 6 (not applying the Version 5 rounding requirement) for performance from 1 July 2026?
 - Do you agree with retaining TNSPs on Version 5 of the NCC until their next regulatory control period?
- Are there significant administrative issues that would prevent removing or applying these incentives on the identified dates?

Question 3: Consultation to give effect to STPIS Version 6

- Should there be a mandated period of consultation in order for the AER to revoke and substitute a TNSP's revenue determination to give effect to the new target value under the service component?

Question 4: Consulting on the early application of a future STPIS (enduring power)

- Do you consider that embedding the consultation on early application arrangements during the AER's review of the STPIS is sufficient?
- Should the draft rule outline any explicit principles the AER should consider when determining whether to apply a revised STPIS early?

Question 5: Detailing early application arrangements in the AER's final decision

- Do you consider the draft rule provides sufficient flexibility in the early application arrangements?
- Do the early application arrangements mitigate concerns regarding regulatory uncertainty?

Question 6: Additional timing restrictions or guardrails on the early application of a revised STPIS

- Should there be any time limitations imposed for when a revised STPIS could be applied to a TNSP?
- Should any other restrictions or guardrails be incorporated into the draft rule?

How to make a submission

We encourage you to make a submission

Stakeholders can help shape the solution by participating in the rule change process. Engaging with stakeholders helps us understand the potential impacts of our decisions and contributes to well-informed, high quality rule changes.

How to make a written submission

Due date: Written submissions responding to this draft determination and rule must be lodged with Commission by 2 April 2026.

How to make a submission: Go to the Commission's website, www.aemc.gov.au, find the "lodge a submission" function under the "Contact Us" tab, and select the project reference code ERC0421.¹⁶

Tips for making submissions on rule change requests are available on our website.¹⁷

Publication: The Commission publishes submissions on its website. However, we will not publish parts of a submission that we agree are confidential, or that we consider inappropriate (for example offensive, defamatory, vexatious or irrelevant content, or content that is likely to infringe intellectual property rights).¹⁸

Next steps and opportunities for engagement

There are other opportunities for you to engage with us, such as one-on-one discussions.

You can also request the Commission to hold a public hearing in relation to this draft rule determination.¹⁹

Due date: Requests for a hearing must be lodged with the Commission by 26 February 2026.

How to request a hearing: Go to the Commission's website, www.aemc.gov.au, find the "lodge a submission" function under the "Contact Us" tab, and select the project reference code ERC0421. Specify in the comment field that you are requesting a hearing rather than making a submission.²⁰

For more information, you can contact us

Please contact us with questions or feedback at any stage, noting the project code.

Email: aemc@aemc.gov.au

Telephone: (02) 8296 7800

¹⁶ If you are not able to lodge a submission online, please contact us and we will provide instructions for alternative methods to lodge the submission.

¹⁷ See: <https://www.aemc.gov.au/our-work/changing-energy-rules-unique-process/making-rule-change-request/our-work-3>.

¹⁸ Further information about publication of submissions and our privacy policy can be found here: <https://www.aemc.gov.au/contact-us/lodge-submission>.

¹⁹ Section 101(1a) of the NEL.

²⁰ If you are not able to lodge a request online, please contact us and we will provide instructions for alternative methods to lodge the request.

Contents

1	The Commission has made a draft determination	1
1.1	Our draft rule would enable the timely application of a revised STPIS in the immediate- and long-term	1
1.2	Stakeholder feedback has shaped our determination	3
1.3	Our determination would support reliability in the immediate and long-term	6
1.4	The Commission has considered previous rules made on this matter	6
2	The rule would contribute to the energy objectives	8
2.1	The Commission must act in the long-term interests of energy consumers	8
2.2	We must also take these factors into account	8
2.3	How we have applied the legal framework to our decision	10
3	How our rule would operate	16
3.1	How the draft rule would align certain incentives applied to TNSPs with STPIS Version 6	16
3.2	How a future STPIS (new scheme) may be applied early	22

Appendices

A	Rule making process	27
A.1	The AER proposed a rule to enable the early application of a revised transmission STPIS	27
A.2	The proposal seeks to address issues in the immediate- and long-term	27
A.3	It proposed an enduring power under the NER that would enable the early application of a revised STPIS	28
A.4	The process to date	28
B	Additional background and context	29
B.1	The STPIS provides incentives to TNSPs to improve or maintain a high level of service	29
B.2	The AER published Version 6 of the transmission STPIS in April 2025	29
C	Legal requirements to make a rule	30
C.1	Draft rule determination and draft rule	30
C.2	Power to make the rule	30
C.3	Commission's considerations	30
C.4	Civil penalty provisions and conduct provisions	30

Abbreviations and defined terms	32
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Tables

Table 3.1:	Treatment of the STPIS components in the draft rule	17
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Figures

Figure 3.1:	Powerlink's market impact component parameter values for the 2022-27 regulatory control period	21
Figure 3.2:	Powerlink's historical performance for loss of supply event frequency – 0.05 system minutes	21
Figure 3.3:	Powerlink's historical performance for loss of supply event frequency – 0.4 system minutes	21
Figure 3.4:	Powerlink's loss of supply event frequency targets for the 2022-27 regulatory control period	22
Figure 3.5:	Example consultation process to apply a new scheme early	23

1 The Commission has made a draft determination

The Australian Energy Market Commission (AEMC or Commission) has made a more preferable draft rule (draft rule) in response to a rule change request submitted by the Australian Energy Regulator (AER).

The rule change request seeks to amend the National Electricity Rules (NER) to enable the AER to reopen a transmission network service provider's (TNSP) revenue determination for the purpose of applying a revised transmission service target performance incentive scheme (STPIS or scheme) before the commencement of the TNSP's next regulatory control period (enduring power). This would enable the early application of STPIS Version 6 and the potential early application of any future revised STPIS.²¹ We are seeking feedback on our draft rule.

1.1 Our draft rule would enable the timely application of a revised STPIS in the immediate- and long-term

The draft rule would enable the timely removal or application of STPIS components in line with Version 6 of the scheme²² and the potential early application of any future STPIS. It seeks to enhance the reliability of the transmission network by providing relevant and effective incentives to TNSPs while also maintaining regulatory certainty.

To achieve this, the draft rule would:

1. In relation to the application of STPIS Version 6, align certain STPIS components with Version 6 of the scheme. This includes:
 - Disapplying the market impact component (MIC) for relevant TNSPs for performance from 1 January 2026
 - Amending the target for the loss of supply frequency parameter under the service component (SC) for relevant TNSPs for performance from 1 July 2026.
2. In relation to any future changes to the STPIS and how these should be applied, introduce the ability for the AER to implement a revised STPIS before a new regulatory control period commences. The draft rule requires the AER to consult on the potential early application of a revised STPIS during the relevant review, and allow it to determine in its final decision whether the new scheme, or components of the new scheme, should be applied early. This includes determining any necessary early application arrangements.²³

1.1.1 The draft rule would align certain STPIS components with Version 6 of the scheme

The draft rule enables the staged removal or application of the individual components in line with STPIS Version 6. The performance of a TNSP against each component from the specified date would be an input for the 2027-28 tariff year. The specific dates include:

1. **1 January 2026** – The MIC would be disappplied from this date so TNSP performance would no longer be subject to adjustments under the MIC.

21 For the purposes of this draft determination, applying a STPIS 'early' refers to applying a revised STPIS at any point before the commencement of a TNSP's next regulatory control period.

22 Throughout the draft determination, the application of STPIS Version 6 refers to enabling TNSP performance to be assessed against the components in STPIS Version 6. This means disapplying the MIC to TNSP performance and amending the target for the loss of supply frequency parameter under the SC to the value calculated prior to rounding under the Version 5 methodology. The draft rule does not make any changes in relation to the NCC under STPIS Version 6. The NCC would continue to be aligned with STPIS Version 5. The NCC under Version 6 would apply at the commencement of a TNSP's next regulatory control period. See section 3.1 for how this would operate.

23 The draft rule defines 'early application arrangements' as arrangements for the application of a new scheme, or any part of a new scheme, to a TNSP.

2. **1 July 2026** – TNSP performance would be assessed against a new target for the loss of supply frequency parameter in the SC. The revised target would simply be the number calculated before rounding was applied in Version 5 of the STPIS.

The draft rule does not provide for the early application of the network capability component (NCC). As such, the NCC contained in STPIS Version 6 would commence at the start of a TNSP's next regulatory control period.

The key components of the draft rule include:

- Aligning a TNSP's MIC and SC with Version 6 of the scheme.
 - The AEMC has sought to simplify the application of STPIS Version 6 and treat the individual components differently due to varying complexity. Removing the MIC and amending the targets attributed to the SC under STPIS Version 6 is relatively straightforward, as they operate as annual revenue rewards or penalties based on performance. See section 2.3.2 for the Commission's consideration of this matter.
 - The staged timing of aligning the MIC and SC with STPIS Version 6 is due to the Commission's assessment of their early application against the legal framework. See further details in chapter 2.
- Requiring the AER to revoke and substitute a TNSP's revenue determination to give effect to the changes under the SC of STPIS Version 6.
 - The AER must revoke and substitute a TNSP's revenue determination in order to apply new values for the loss of supply frequency parameter. The revised target should be the value calculated before rounding was applied in Version 5 of the scheme.²⁴
 - The draft rule clarifies that the AER may only revoke and substitute a revenue determination if it has first consulted with the relevant TNSP. In addition, the substituted revenue determination can only vary to the extent necessary to give effect to the SC in line with STPIS Version 6.

See section 3.1 for further details on how the draft rule applies STPIS Version 6 to TNSPs.

1.1.2 The AER would need to consult on the potential early application of a future STPIS

The draft rule requires the AER to consult on the potential early application of a revised STPIS during its review, with the AER deciding whether to apply it or any of its components early in its final determination. This includes determining any necessary early application arrangements. Key aspects of this draft rule include:

- Requiring the AER to consult on the potential early application of a revised STPIS during its review.
 - Throughout the AER's review, it is expected it would seek stakeholder views on both its proposed amendments to the STPIS, as is currently the case, and whether these amendments should be applied to a TNSP early. This would provide all stakeholders with the opportunity to raise any concerns. For TNSPs, this may include raising operational concerns associated with transitioning to the new STPIS.
- Stipulating early application arrangements for the revised STPIS in the AER's final decision.
 - The draft rule enables the AER to include early application arrangements in the revised STPIS if the AER decides it is appropriate to apply the revised STPIS, or a component of the revised STPIS, before the commencement of the next regulatory control period for one

²⁴ The rounding is a requirement in paragraph 3.2(k) of STPIS Version 5 that states that 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.

or more TNSPs. The draft rule provides flexibility in the early application arrangements. For example, the AER may amend values attributed to parameters under the old scheme or create different early application arrangements for different TNSPs.

- Enabling the AER to revoke and substitute a TNSP’s revenue determination to give effect to any early application arrangements under a new STPIS.
 - The draft rule enables the AER to revoke and substitute a TNSP’s revenue determination in order to give effect to any early application arrangements under a new STPIS. If the AER revokes a TNSP’s revenue determination, the substituted one would apply for the remainder of the TNSP’s regulatory control period.
 - The draft rule clarifies that the revised revenue determination can only vary to the extent necessary to give effect to any early application arrangements.

See section 3.2 for further details on how the draft rule enables the potential early application of a future revised STPIS.

1.2 Stakeholder feedback has shaped our determination

Stakeholder input and feedback helped shape the Commission’s considerations and draft determination. We considered feedback to our consultation paper via written submissions and held discussions with stakeholders that brought further depth to our understanding of the issues relating to the rule change request. The Commission has sought to address stakeholder feedback regarding the early application of STPIS Version 6 and the enduring power in our draft determination.

1.2.1 The Commission has sought to align incentives with STPIS Version 6 as soon as practical

In relation to the early application of STPIS Version 6, the key observations that shaped the Commission’s determination include:

1. STPIS Version 6 should be applied as soon as practical, with commencement from 1 January 2026.
 - There was broad consensus amongst stakeholders that STPIS Version 6 should be applied as soon as practical because:²⁵
 - The AER received broad acknowledgement from stakeholders during its review of the STPIS that the scheme was no longer functioning as intended.²⁶
 - Benefits would flow to consumers as soon as possible and stop further unintended penalties accruing to TNSPs.²⁷
 - While not functioning as intended, delays in applying STPIS Version 6 would be counter to the National Electricity Objective (NEO).²⁸
2. Treatment of the individual components from Version 5 to Version 6 of the STPIS should be carefully considered, given the varying complexity of the components.²⁹

25 Submissions to the consultation paper: AusNet, p. 1; ElectraNet, pp. 1-2; ENA, pp. 1-2, EUAA, p. 1; Powerlink, p. 1; TasNetworks, pp. 1-2, Transgrid, p. 2.

26 Submissions to the consultation paper: AusNet, p. 1; ElectraNet, p. 1; ENA, p. 2; Transgrid, p. 1.

27 EUAA, submission to the consultation paper, p. 1.

28 Submissions to the consultation paper: ElectraNet, p. 2; ENA, p. 3.

29 Submissions to the consultation paper: AusNet, pp. 1-2; CS Energy, p. 2; ElectraNet, pp. 3-4; ENA, p. 3; TasNetworks, p. 4.

- This includes allowing TNSPs to make different proposals or elect not to propose a change for each STPIS component, or for a TNSP and the AER to agree on a transition plan individually.³⁰

In making the draft determination, the Commission has considered this feedback and the revenue and pricing principles.³¹ We determined that a staged approach to aligning the components under STPIS Version 6 best addresses stakeholder feedback and satisfies the legal framework we assessed the draft rule against.

We determined that a 1 January 2026 commencement date for the MIC is consistent with the revenue and pricing principles, but not for the SC. However, the Commission supports applying STPIS Version 6 incentives to TNSP as soon as practical. The draft rule, therefore, enables TNSP performance to be assessed against amended SC targets from 1 July 2026. See section 2.2.2 for our consideration of the revenue and pricing principles.

1.2.2 Stakeholders emphasised the importance of regulatory certainty when considering the enduring power

In relation to the enduring power, stakeholders raised several matters that should be considered and addressed. The key observations that shaped the Commission's determination included:

1. **The importance of regulatory certainty** – stakeholders considered that the enduring power would reduce regulatory certainty for TNSPs.³² This included concerns that more frequent or more substantial amendments to the STPIS would require TNSPs to make operational changes in response. Enabling the early application of a revised STPIS may reduce the time for a TNSP to operationalise these changes.
2. **The value of long-term incentives to change behaviour** – some stakeholders noted that well-designed incentive schemes should operate over a long period of time to change behaviour. Furthermore, frequent changes to the STPIS may disrupt rather than improve TNSP performance.³³
3. **Early application of a future STPIS to respond to changing circumstances is not a material issue now** – stakeholders noted that the infrequency of updates to the STPIS and rule changes that considered the early application of an amended STPIS demonstrate that the current rules framework remains fit for purpose.³⁴
4. **Consumer outcomes** – the EUAA raised concerns about whether future revisions to the STPIS would guarantee net benefits to consumers.³⁵

Some stakeholders proposed amendments to the enduring power proposed in the rule change request, such as embedding an opt-in mechanism or mandating that the AER obtain consent from a TNSP before applying the revised STPIS early.³⁶

In making the draft rule, we have considered these concerns relating to the enduring power. The Commission has considered the proposed rule in the rule change request, the suggested amendments (such as an opt-in or consent mechanism), and the draft rule against the assessment criteria.

30 Submissions to the consultation paper: AusNet, p. 2; ElectraNet, pp. 3-4; ENA, p. 3; TasNetworks, p. 4.

31 Section 7A(3) of the NEL.

32 Submissions to the consultation paper: ElectraNet, p. 2; ENA, p. 3; Powerlink, p. 1; TasNetworks, p. 2; Transgrid, p. 2.

33 Submissions to the consultation paper: CS Energy, p. 2; TasNetworks, p. 2.

34 Submissions to the consultation paper: AusNet, p. 2; ElectraNet; pp.2-3; TasNetworks, p. 2.

35 EUAA, submission to the consultation paper, p. 2.

36 Submissions to the consultation paper: TasNetworks, p. 2; Transgrid, p. 3.

In response to the concerns raised in submissions to the consultation paper, we consider that the draft rule is an alternative approach that supports explicit consultation with all stakeholders before any final decision on the early application of a revised STPIS is made. By embedding a clear avenue for consultation, it ensures that stakeholders have the opportunity to raise concerns, such as operational or practical issues, associated with applying a revised STPIS or any of its components early.

Simultaneously, it would support the reliability of the transmission network by allowing the benefits of a new STPIS to be realised sooner in instances where it is considered appropriate to bring forward the application of the new scheme. It does this by striking an appropriate balance between:

- supporting consultation with stakeholders on the potential early application of a revised STPIS;
 - The draft rule introduces an explicit avenue in which stakeholders can raise concerns and provide feedback to the AER on the potential early application of a revised STPIS. Notably, this is before the AER can make any final decision as to whether the revised STPIS should be applied early. This differs from the proposed rule in the rule change request, where consultation on how the new scheme could be applied early to a TNSP would occur after the AER proposes, or a TNSP applies, to have a revised STPIS apply early.³⁷
- creating a more efficient way to apply a revised STPIS, thereby allowing the benefits of a new scheme to be realised sooner;
 - A more efficient approach may be necessary due to the changing nature of the electricity system, where instances may arise in which the STPIS would need to be updated to ensure it continues to apply effective and relevant incentives to TNSPs. As the STPIS is designed to provide incentives to TNSPs to improve or maintain a high level of service for the benefit of participants in the NEM and end users of electricity, enabling the early application of the scheme where appropriate would allow the benefits to consumers to be realised sooner.³⁸
- preserving the intent for the scheme to operate over the long-term to support behavioural change; and
 - The Commission agrees that incentive schemes are most effective when applied over the long-term, as sufficient time is required for the incentives to lead to behavioural change. Recognising that the electricity system will continue to evolve, our draft rule does not seek to undermine this principle. Rather, it aims to ensure the STPIS remains fit for purpose when circumstances change.
- maintaining regulatory certainty.
 - The draft rule aims to minimise this uncertainty by adopting a consultative approach to the potential early application of a revised STPIS by embedding it as part of the AER's review. The draft rule also provides flexibility in the early application arrangements to apply the new scheme, or components of the new scheme, to TNSPs.

The Commission's consideration of stakeholder feedback and assessment of the draft rule against the legal framework is further discussed in section 2.3. We are seeking stakeholder views on this approach.

³⁷ The AER, [Rule change request](#), August 2025, pp. 10-11.

³⁸ NER, clause 6A.7.4(b).

1.3 Our determination would support reliability in the immediate and long-term

The STPIS is designed to provide incentives to TNSPs to improve or maintain a high level of service for the benefit of participants in the NEM and end users of electricity. As outlined in the NER, the STPIS should:³⁹

- provide greater reliability of the transmission system that is owned, controlled or operated by it at all times when transmission network users place the greatest value on the reliability of the transmission system; and
- improve and maintain the reliability of those elements of the transmission system that are most important to determining spot prices.

The draft rule aims to support the function of the STPIS in order to enhance the reliability of the transmission network. The STPIS and any updates to the scheme should be consistent with the STPIS principles stipulated in clause 6A. 7.4(b) and the NEO. By giving effect to these principles and the broader legal framework, the STPIS should promote the efficient investment in, and efficient operation and use of, network services in the long-term interests of consumers.⁴⁰ As a result, the timely application of a new STPIS should enhance the reliability of the transmission network by allowing the benefits of the new scheme to be realised sooner.

This would also be the case in the immediate-term. In addition to the above, applying certain components of STPIS Version 6 as soon as practical would ensure effective incentives are in place that:

- do not penalise TNSPs irrespective of actions they may take⁴¹
- reflect the current circumstances of the electricity system.⁴²

1.4 The Commission has considered previous rules made on this matter

The AEMC has, in the past, made two rules that enabled the one-off early application of components of a revised STPIS to a TNSP.⁴³

On 11 March 2010, the AEMC made a final rule that provided a process for TNSPs to apply to the AER to seek earlier implementation of the MIC than permitted under the NER at that time. In its final determination, the Commission considered that this should be a one-off provision that would allow TNSPs the option to bring forward the introduction of the MIC.⁴⁴ In making this decision, the Commission considered the importance of regulatory certainty, as the five-year regulatory control period provides a specific timeframe that allows TNSPs to make decisions with a level of certainty.⁴⁵

39 NER, clause 6A.7.4(b).

40 The AER, Explanatory Statement to the Electricity Transmission Service Target Performance Incentive Scheme Version 6, 17 April 2025, p. 9.

41 In its review, the AER noted that some TNSPs were incurring maximum penalties under the MIC. During this review, TNSPs considered they were being penalised for changes outside of their control rather than their management of outages. See the AER, Explanatory Statement to the Electricity Transmission Service Target Performance Incentive Scheme Version 6, 17 April 2025, p. 9.

42 In its review, the AER noted that much of the reason the STPIS was no longer working as intended was the changing way electricity is generated and transported. The shift from more centrally located thermal generation to geographically dispersed fuel sources has created new demands on the transmission network and has impacted how TNSPs manage their assets. See the AER, [Explanatory Statement to the Electricity Transmission Service Target Performance Incentive Scheme Version 6](#), 17 April 2025, p. 1.

43 AEMC, Rule Determination: National Electricity Amendment (Early Implementation of Market Impact Parameters) Rule 2010, 11 March 2010; AEMC, Rule Determination: National Electricity Amendment (Early application of service target performance incentive scheme (STPIS) components to transmission businesses) Rule 2015, 19 February 2015.

44 AEMC, Rule Determination: National Electricity Amendment (Early Implementation of Market Impact Parameters) Rule 2010, p. 19, 11 March 2010.

45 AEMC, Rule Determination: National Electricity Amendment (Early Implementation of Market Impact Parameters) Rule 2010, p. 19, 11 March 2010.

On 19 February 2015, the AEMC made a final rule allowing TNSPs to apply to the AER to have the NCC apply within its current regulatory control period. The Commission ultimately considered that an enduring rule was outside the scope of the rule change request, but noted that any early application of a STPIS should be assessed on a case-by-case basis to ensure sufficient analysis is conducted on its potential impacts.⁴⁶

In making the draft rule, the Commission has considered the reasoning outlined in the two previous rules, given that the Commission proposes to provide the AER the ability to consult and potentially apply a revised STPIS early. We consider that the context has changed since these two determinations.

Due to the nature of the transition, where the pace at which the grid is changing is accelerating, there may be instances when the STPIS would need to be updated to reflect the new circumstances. The Commission considers that, should the AER commence a review into the STPIS to respond to these changing circumstances, there is an opportunity to provide flexibility and streamline the consideration of its potential early application. Namely, this could be achieved by removing the need for the AEMC to complete a rule change to apply a new STPIS early. Under the Commission's draft rule, the impacts of the early application of a new STPIS would still be examined; however, this analysis would be completed by the AER.

Notably, the AER is bound by the NEO when performing its economic regulatory functions or powers and must make decisions in the long-term interests of consumers. Considering that the AER can only update the STPIS if it is satisfied the new scheme gives effect to the STPIS principles outlined in clause 6A.7.4(b) of the NER, the Commission considers there is merit to allowing the AER to apply a revised STPIS early to realise these benefits sooner.

Simultaneously, the Commission aims to preserve the intent for the scheme to operate over the long-term to support behavioural change. The draft rule is not amending the transmission consultation procedures, and the AER must still abide by the process if it seeks to commence a review into the STPIS. However, the Commission is interested in stakeholder views as to whether additional timing limitations or safeguards should be embedded into any final rule to ensure the intent of the STPIS is not undermined. See section 3.2.2.

Furthermore, as outlined in section 2.3.2, the Commission has sought to minimise the potential for regulatory uncertainty by mandating that the AER consult on the potential early application of a revised STPIS. This would ensure that all parties have an avenue to raise concerns, such as any operational or practical limitations to applying the STPIS or any individual components of the new scheme early. The draft rule also enables the AER to detail any early application arrangements to apply the new scheme to TNSPs. These application arrangements could account for any practical concerns raised during the consultation process. See section 3.2.2 for examples of potential early application arrangements.

⁴⁶ Rule Determination: National Electricity Amendment (Early application of service target performance incentive scheme (STPIS) components to transmission businesses) Rule 2015, p. 19, 19 February 2015.

2 The rule would contribute to the energy objectives

This chapter sets out how our draft rule promotes the National Electricity Objective (NEO). It explains how our draft rule promotes the safety, security and reliability of the electricity system, and has considered implementation considerations and the importance of good regulatory practice.

2.1 The Commission must act in the long-term interests of energy consumers

The Commission can only make a rule if it is satisfied that the rule will or is likely to contribute to the achievement of the relevant energy objectives.⁴⁷

For this rule change, the relevant energy objective is the NEO:

The NEO is:⁴⁸

to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to—

- (a) price, quality, safety, reliability and security of supply of electricity; and
- (b) the reliability, safety and security of the national electricity system; and
- (c) the achievement of targets set by a participating jurisdiction—
 - (i) for reducing Australia’s greenhouse gas emissions; or
 - (ii) that are likely to contribute to reducing Australia’s greenhouse gas emissions.

The [targets statement](#), available on the AEMC website, lists the emissions reduction targets to be considered, as a minimum, in having regard to the NEO.⁴⁹

2.2 We must also take these factors into account

2.2.1 We have considered whether to make a more preferable rule

The Commission may make a rule that is different, including materially different, to a proposed rule (a more preferable rule) if it is satisfied that, having regard to the issue or issues raised in the rule change request, the more preferable rule is likely to better contribute to the achievement of the NEO.⁵⁰

For this rule change, the Commission made a more preferable draft rule. The reasons are set out in section 2.3 below.

2.2.2 We have considered the revenue and pricing principles for this rule change

We have to take into account the revenue and pricing principles when making rules with respect to incentives for regulated transmission system operators to make efficient operating and investment decisions including, where applicable, service performance incentive schemes.⁵¹

47 Section 88(1) of the NEL.

48 Section 7 of the NEL.

49 Section 32A(5) of the NEL.

50 Section 91A of the NEL.

51 NEL Schedule 1 item 23.

Relevantly, the revenue and pricing principles provide that a regulated network service provider should be provided with effective incentives in order to promote economic efficiency with respect to direct control network services the operator provides.⁵²

The Commission has assessed both the alignment of incentives with STPIS Version 6 and the ability for the AER to apply a revised STPIS early against the revenue and pricing principles.

Early application of incentives in line with STPIS Version 6

The Commission has assessed the potential early removal or application of the individual components in STPIS Version 6 against the revenue and pricing principles. We determined:

- Aligning the MIC with STPIS Version 6 from 1 January 2026 is consistent with the revenue and pricing principles.
 - In its review, the AER determined that the MIC was no longer working as intended.⁵³ It considered that factors outside the control of TNSPs have driven the substantial increase in the number of \$10/MWh events and therefore the number of penalties incurred by TNSPs.⁵⁴ Under these circumstances, if a TNSP knows it is likely to incur maximum penalties under the MIC irrespective of its actions, the incentive to better manage outages is diminished. The AER considered this was the case for Ausnet, ElectraNet, Powerlink and Transgrid.⁵⁵
 - The Commission therefore considers that in its current form, the MIC is not providing efficient incentives that lead to the efficient provision of electricity network services. This is because the MIC is no longer influencing a TNSP's behaviour. Contrary to the principles, the MIC has not provided TNSPs with effective incentives that promote economic efficiency with respect to the direct control network services the operator provides. Therefore, allowing the MIC to be disapplied for performance from 1 January 2026 would correct for this.
- Commencing the SC retrospectively from 1 July 2026 is consistent with the revenue and pricing principles.
 - The AER's amendment to the SC was due to the concern that TNSPs, who had their target for the loss of supply frequency parameter rounded to zero, were incurring penalties for any loss of supply event. When a target is zero, rewards are not possible and the best a TNSP can do is avoid a penalty.⁵⁶
 - This is currently only the case for two TNSPs – Powerlink and Transgrid. The Commission considers that for the other TNSPs whose target is greater than zero, the SC has continued to provide effective incentives consistent with the revenue and pricing principles. Furthermore, while Powerlink's and Transgrid's target may be zero, there is still the incentive to minimise the number of unplanned network outages and the time taken to restore these outages. Therefore, the Commission considers that the SC has continued to provide effective incentives consistent with the revenue and pricing principles over the previous years, as the component has shaped TNSP behaviour. While the early application of the SC is appropriate, a commencement date of 1 July 2026 enables this whilst also providing the opportunity for TNSPs to make adjustments to their behaviour based on the revised targets.

52 Section 7A(3) of the NEL.

53 The AER, [Explanatory Statement to the Electricity Transmission Service Target Performance Incentive Scheme Version 6](#), 17 April 2025, p. 27.

54 The AER, [Explanatory Statement to the Electricity Transmission Service Target Performance Incentive Scheme Version 6](#), 17 April 2025, p. 27.

55 The AER, [Explanatory Statement to the Electricity Transmission Service Target Performance Incentive Scheme Version 6](#), 17 April 2025, p. 27.

56 The AER, [Explanatory Statement to the Electricity Transmission Service Target Performance Incentive Scheme Version 6](#), 17 April 2025, p. 26.

- Not to commence the NCC under STPIS Version 6 early.
 - The NCC for STPIS Version 6 would apply from a TNSP's next regulatory control period, in line with existing NER arrangements. This decision has been made due to the additional administrative complexity of allowing early application of this component. See the Commission's consideration of this in section 2.3.2.

Early application of any future STPIS

The Commission has determined that introducing the ability for the AER to implement a revised STPIS before a new regulatory control period commences is consistent with the revenue and pricing principles. In making this assessment, the Commission recognises that the nature and extent of changes the AER may make to the STPIS are uncertain. As such, the Commission must be satisfied that any early application of a future STPIS is consistent with the revenue and pricing principles.

The Commission notes that the AER is guided by the NEL and the principles contained within, including the revenue and pricing principles. Therefore, we consider that a revised STPIS developed by the AER would be expected to give effect to these frameworks. This extends to the AER's consideration of its early application, and whether applying the STPIS early provides incentives that promote economic efficiency with respect to the direct control network services the TNSP provides. The Commission considers this legal framework therefore provides assurance that the potential early application of a revised STPIS would be consistent with the revenue and pricing principles and promote outcomes in the long-term interest of consumers.

2.2.3 We have considered whether to make a draft rule for the Northern Territory

The NER, as amended from time to time, apply in the Northern Territory, subject to modifications set out in regulations made under the Northern Territory legislation adopting the NEL.⁵⁷ Under those regulations, only certain parts of the NER have been adopted in the Northern Territory.

The more preferable draft rule does not relate to parts of the NER that apply in the Northern Territory. As such, the Commission has not considered Northern Territory application issues.

See appendix C for more detail on the legal requirements for our decision.

2.3 How we have applied the legal framework to our decision

The Commission must consider how to address the immediate-term and long-term issues identified by the AER against the legal framework. Specifically, the Commission has considered whether and how to apply STPIS Version 6 early, and whether the AER should be able to extend this early application to any future revised STPIS.

We identified the following criteria to assess whether the proposed rule change, no change to the rules (business-as-usual), or other viable, rule-based options are likely to better contribute to achieving the NEO:

- **Safety, security and reliability** – we considered whether the early application of STPIS Version 6 and any future revised STPIS would enhance the provision of electricity to consumers by promoting the reliability of the transmission network.
- **Implementation considerations** – we accounted for the implementation considerations associated with applying a revised STPIS early. This includes considering how TNSP performance could be assessed against STPIS Version 6 as soon as practical, and how the

⁵⁷ These regulations under the NT Act are the National Electricity (Northern Territory) (National Uniform Legislation) (Modifications) Regulations 2016.

draft rule can provide sufficient flexibility and time to allow TNSPs to operationalise any changes in response to a future STPIS.

- **Principles of good regulatory practice** – we considered how to balance regulatory certainty with ensuring that the STPIS continues to provide relevant and effective incentive mechanisms that reflect the state of the electricity system. This included considering ways to minimise regulatory uncertainty associated with applying a revised STPIS early.

These assessment criteria reflect the key potential impacts – costs and benefits – of the rule change request, for impacts within the scope of the NEO. Our reasons for choosing these criteria are set out in section 4.3 of the consultation paper. No stakeholder comments were received on the proposed assessment criteria.

The Commission has evaluated the impacts of the various policy options against the assessment criteria, taking into account stakeholder submissions.

The rest of this section explains why the draft rule best promotes the long-term interest of consumers when compared to other options and assessed against the criteria.

2.3.1 The draft rule would enhance the provision of reliable electricity to consumers

The draft rule would enable the more timely application of a revised STPIS that reflects the state of the electricity system in both the immediate- and long-term. In effect, the reliability of the transmission network would be enhanced.

Early application or removal of incentives in line with STPIS Version 6

Aligning the STPIS incentives with Version 6 of the scheme as soon as practical would enhance the provision of reliable electricity to consumers by ensuring that TNSPs are subject to incentives that are fit for purpose and reflective of the current electricity system.

During the AER's recent review of the STPIS, there was broad consensus that the STPIS was no longer operating as intended. This was of particular concern with the MIC, as TNSPs were incurring maximum penalties irrespective of the actions they took to schedule outages.⁵⁸ As a result of this, the AER decided to update the STPIS to Version 6 to ensure it provides relevant incentives reflective of the current electricity system.⁵⁹ This included suspending the MIC and amending the SC and NCC. See appendix B.2 for a summary of the findings from the AER's review.

In submissions to the consultation paper, stakeholders echoed concerns raised during the AER's recent review that the STPIS is no longer functioning as intended.⁶⁰ Furthermore, EUAA noted that transitioning TNSPs to STPIS Version 6 early would ensure that the benefits of the new scheme would flow to consumers as soon as possible.⁶¹

In making the draft rule, the Commission has considered the rationale outlined in the AER's final decision on STPIS Version 6 and the feedback from stakeholders in response to the consultation paper. We consider that enabling TNSP performance to be assessed against certain components of the STPIS Version 6 as soon as practical would introduce more relevant and targeted incentives, thereby encouraging TNSPs to undertake actions that support the reliability of the transmission network and deliver better outcomes for consumers.

58 The AER, [Explanatory Statement to the Electricity Transmission Service Target Performance Incentive Scheme Version 6](#), 17 April 2025, pp. 2-3.

59 In its review, the AER noted that much of the reason the STPIS was no longer working as intended was the changing way electricity is generated and transported. The shift from more centrally located thermal generation to geographically dispersed fuel sources has created new demands on the transmission network and has impacted how TNSPs manage their assets. See the AER, [Explanatory Statement to the Electricity Transmission Service Target Performance Incentive Scheme Version 6](#), 17 April 2025, p. 1.

60 Submissions to the consultation paper: AusNet, p. 1; ElectraNet, pp. 1-2; ENA, pp. 1-2; EUAA, p. 1; Powerlink, p. 1; TasNetworks, pp. 1-2; Transgrid, p. 2.

61 EUAA, submission to the consultation paper, p. 1.

Early application of any future revised STPIS

The Commission has considered stakeholder concerns that enabling the early application of a future STPIS is not guaranteed to yield net benefits to consumers.⁶² However, we consider that there are sufficient safeguards within the regulatory framework that would limit the early application of a revised STPIS to circumstances where consumer outcomes, including enhanced network reliability, are expected to improve.

As noted, the STPIS is designed to provide incentives to TNSPs to improve or maintain a high level of service for the benefit of participants in the NEM and end users of electricity.⁶³ Furthermore, the AER is bound by the NEO when performing its economic regulatory functions or powers, and must make decisions in the long-term interests of consumers.⁶⁴

Considering that the AER can only update the STPIS if it is satisfied it gives effect to the principles outlined in clause 6A.7.4(b) of the NER, the Commission considers there is merit to allowing the AER to apply a revised STPIS early to realise these benefits sooner. However, consideration must also be given to the importance of regulatory certainty and any practical limitations. See section 2.3.2 and section 2.3.3 for how the draft rule addresses these concerns.

2.3.2 The draft rule has accounted for the practical considerations associated with applying a revised STPIS early

The draft rule has sought to address practical considerations associated with applying components of STPIS Version 6 and any future STPIS before the start of each TNSP's next regulatory control period.

Early application or removal of incentives in line with STPIS Version 6

The draft rule has considered the treatment of the individual components and stakeholder suggestions that TNSPs should be able to make different proposals or elect not to transition to the new version of the STPIS.⁶⁵

The draft rule seeks to simplify the application of STPIS Version 6 to TNSPs, while maximising benefits for consumers and alleviating unintentional penalties for TNSPs. Many stakeholders considered that the transition to Version 6 of the MIC and SC is relatively straightforward, as TNSPs would no longer need to report on MIC performance and the target for the loss of supply frequency parameter in the SC would be amended slightly.⁶⁶ However, the NCC is more complicated. As ElectraNet outlined, Version 5 of the NCC provides revenue to TNSPs across the duration of their regulatory control period. This may mean that TNSPs have been collecting revenue and delivering projects that may already be in progress.⁶⁷ It is also the case that the NCC is unique to each TNSP, as some TNSPs may have many, few or no projects approved and subject to the NCC. As a result, it is not as straightforward to simply 'transition' the NCC to the new scheme.

In recognition of this additional complexity, the Commission considers it preferable to maintain TNSPs on Version 5 of the NCC. TNSPs would be subject to the new NCC requirements under STPIS Version 6 at the commencement of their next regulatory control period. This means that the STPIS remains a standardised incentive framework across all TNSPs and ensures that incentives

62 EUAA, submission to the consultation paper, p. 2.

63 NER, clause 6A.7.4(b).

64 Sections 7 and 16 of the NEL.

65 Submissions to the consultation paper: AusNet, pp. 1-2; CS Energy, p. 2; ElectraNet, pp. 3-4; ENA, p. 3; TasNetworks, p. 3.

66 Submissions to the consultation paper: AusNet, pp. 1-2; CS Energy p. 2; ElectraNet, pp. 3-4; ENA, p. 3; TasNetworks, p. 3.

67 Submission to the consultation paper, ElectraNet, p. 3.

continue to operate consistently. This would also ensure that projects underway during the current regulatory control period are not impacted.

We are seeking stakeholder feedback on our proposed treatment of the individual components. For further details, see section 3.1.4.

Early application of any future STPIS

The Commission has considered stakeholder feedback and sought to address practical concerns that could arise from applying a future revised STPIS early. We heard from stakeholders that this is particularly concerning if future amendments to the STPIS are significant and require substantial resources on the TNSP's end to respond to.⁶⁸

The draft rule seeks to mitigate these concerns by requiring consultation on the potential early application of the revised STPIS as part of the AER's review. The Commission considers that by embedding consultation as part of the AER's review, it provides a clear avenue for both TNSPs and other parties to raise concerns with the potential early application of the revised STPIS.

The draft rule also provides the AER with discretion to determine the early application arrangements for the new STPIS. This enables flexibility to account for any practical concerns raised during the consultation process. For example, the AER may provide a longer timeframe to transition TNSPs to the new STPIS if the amendments are significant and require major operational changes for the TNSP. See section 3.2.2 for examples of potential early application arrangements.

2.3.3 The draft rule aims to balance the need for regulatory certainty with the flexibility needed in a changing energy system

The draft rule has sought to balance the need for regulatory certainty with the flexibility required to maintain effective and relevant incentives that improve the reliability of the transmission network. This is particularly relevant when considering the enduring power given stakeholders raised several concerns with the enduring power proposed in the rule change request.⁶⁹ The concerns that are relevant to our assessment of the draft rule against principles of good regulatory practice include:

1. an enduring power to respond to changing circumstances is not a material issue now.⁷⁰
2. the value of long-term incentives to change behaviour⁷¹
3. the importance of regulatory certainty that is currently provided by the five-year regulatory cycle.⁷²

The Commission considers that there is potential to provide additional flexibility to enable the timely application of a future STPIS

The Commission acknowledges the infrequency of previous STPIS reviews and rules made to enable the early application of a component in a new STPIS.⁷³ However, we consider that due to the nature of the transition, where the pace at which the grid is changing is accelerating, there may be instances when the STPIS would need to be updated to reflect the new circumstances. In these instances, there is an opportunity to provide flexibility and streamline the consideration of its

68 Submissions to the consultation paper: AusNet, p. 2; ENA, p. 3; Transgrid, p. 2.

69 Submissions to the consultation paper: ElectraNet, p. 2; ENA, p. 3; Powerlink, p. 1; TasNetworks, p. 2; Transgrid, p. 2.

70 Submissions to the consultation paper: AusNet, p. 2; ElectraNet; pp.2-3; TasNetworks, p. 2.

71 Submissions to the consultation paper: CS Energy, p. 2; TasNetworks, p. 2.

72 Submissions to the consultation paper: ElectraNet, p. 2; ENA, p. 3; Powerlink, p. 1; TasNetworks, p. 2; Transgrid, p. 2.

73 Submissions to the consultation paper: AusNet, p. 2; ElectraNet; pp.2-3; TasNetworks, p. 2.

potential early application to allow for the benefits of the new scheme to be realised sooner. Specifically, this could be achieved by removing the need for the AEMC to complete a rule change to apply a new STPIS early.

The Commission considers this an appropriate option, given that the AER can update the STPIS at any time in line with the transmission consultation procedures.⁷⁴ The AEMC does not ordinarily opine on the merits of the AER's updates to the STPIS. It is only involved in the process of applying a STPIS early. Furthermore, the AER is bound by the NEO when performing its economic regulatory functions or powers, and must make decisions in the long-term interests of consumers.

The AER is currently convening a working group that aims to recommend alternatives to the MIC.⁷⁵ Should a replacement be devised and the AER commences a review to replace the MIC, the AER may seek to apply it early under the draft rule (in the event it became a final rule), instead of seeking to apply it early by way of rule change request.

The Commission aims to preserve the intent for the scheme to operate over the long-term to support behavioural change

The Commission has considered feedback that well-designed incentive schemes should operate over a long period of time to change behaviour.⁷⁶ Furthermore, stakeholders consider that there is a risk that frequent updates to the STPIS may disrupt rather than improve TNSP performance.⁷⁷

The Commission agrees and considers that the STPIS should still remain a scheme that operates over long horizons. However, at times, flexibility will be needed to update the STPIS to ensure it continues to provide relevant and effective incentives that support the reliability of the transmission network.

We note that under the draft rule, the AER would still need to review the STPIS in accordance with the transmission consultation procedures.⁷⁸ These procedures set out a consultative and multi-stage process that can extend over a number of years. As such, the time and resources required to undertake an update to the STPIS are likely to prevent the type of frequent updates that stakeholders are concerned about, and it is expected that a high degree of stability and regulatory certainty would be maintained.

The Commission has sought to maintain regulatory certainty by providing flexibility within the draft rule

The Commission is aware of the potential regulatory uncertainty that may arise from granting the enduring power as proposed in the rule change request. We note that regulatory certainty is important as it promotes efficient decision-making by allowing market participants to understand and predict the impact of the regulatory framework on business and operational decisions.⁷⁹

⁷⁴ NER, rule 6A.20 and clause 6A.7.4(a).

⁷⁵ The AER, Explanatory Statement to the Electricity Transmission Service Target Performance Incentive Scheme Version 6, 17 April 2025, p. 13.

⁷⁶ TasNetworks, submission to the consultation paper, p. 2.

⁷⁷ CS Energy, submission to the consultation paper, p. 2.

⁷⁸ NER, Rule 6A.20.

⁷⁹ AEMC, Rule Determination: National Electricity Amendment (Early Implementation of Market Impact Parameters) Rule 2010, p. 6, 11 March 2010.

We heard from our meetings with stakeholders that uncertainty may arise from:

1. The need for significant operational changes on the TNSP's end to adapt to a new scheme. This includes concerns that early application of a revised STPIS may not provide sufficient lead time to operationalise any changes
 2. More frequent, minor updates to the STPIS, which may require further actions from the TNSP.
- The draft rule aims to minimise this uncertainty by adopting a consultative approach to the potential early application of a revised STPIS. This is achieved by embedding the consultation as part of the AER's review. We note the ENA's submission states, "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."⁸⁰

We consider that embedding consultation on any early application arrangements of a new scheme addresses concerns raised by stakeholders. This concern primarily being whether granting the AER an enduring power as proposed in the rule change request introduces an unsuitable level of regulatory uncertainty.⁸¹

The draft rule provides an explicit avenue for consultation by embedding it into the AER's review process. Notably, this consultation would occur before any final decision on the early application of a revised STPIS is made. This differs from the proposed rule, where consultation on how the new scheme could be applied early to a TNSP would occur after the AER proposes or a TNSP applies to have the new scheme applied early.⁸² It therefore provides the AER with flexibility to address concerns stakeholders may raise in response to the potential early application of the revised STPIS. See further details in section 3.2.2.

The draft rule also provides flexibility in the early application arrangements to apply the new scheme to TNSPs. Providing the AER with discretion in the early application arrangements should also allow for the AER to account for any practical barriers and individual circumstances of the TNSPs. See section 3.2 for how we have considered stakeholder feedback in the operation of the draft rule.

The Commission has also assessed the proposals to embed an opt-in mechanism into the enduring power or mandating that the AER obtain the TNSP's consent to apply the STPIS early against the 'principles of good regulatory practice' assessment criteria.⁸³ The Commission has considered these options but maintains that the STPIS should operate as a standardised framework where possible. It is the consistent and independent application of the scheme that supports better outcomes for consumers.

In light of the feedback received to the consultation paper, the Commission wants to test this approach with stakeholders. See section 3.2 for how the rule would operate and specific questions the AEMC is seeking feedback on.

⁸⁰ ENA, submission to the consultation paper, p. 3.

⁸¹ Submissions to the consultation paper: ElectraNet, p. 2; ENA, p. 3; Powerlink, p. 1; TasNetworks, p. 2; Transgrid, p. 2.

⁸² The AER, [Rule change request](#), August 2025, pp. 10-11.

⁸³ Submissions to the consultation paper: TasNetworks, p. 2; Transgrid, p. 3.

3 How our rule would operate

The Commission has made a draft rule that would enable the timely application of a revised transmission STPIS in the immediate- and long-term. It would do this by:

- Aligning the incentives applied to TNSPs with certain STPIS Version 6 components before TNSPs' next regulatory control period commences. This includes suspending the MIC and amending the values attributed to the loss of supply frequency parameter under the SC. TNSPs would remain on Version 5 of the NCC until the commencement of their next regulatory control period.
- Requiring the AER to consult on any future early application of a revised STPIS during the relevant review and allow the AER to determine whether the new scheme should be applied early. This includes stipulating any necessary early application arrangements.

3.1 How the draft rule would align certain incentives applied to TNSPs with STPIS Version 6

Box 1: The draft rule would enable the removal or application of certain STPIS components in line with Version 6 of the scheme

The draft rule would:

- Disapply the MIC to TNSP performance from 1 January 2026. This means that for the 2027 regulatory year, no MIC adjustments would be made to performance between 1 January 2026 and 31 December 2026, and the maximum allowed revenue of a TNSP cannot be adjusted for the MIC contained in Version 5 of the STPIS for the remaining regulatory years.
- Amend the target for the loss of supply frequency parameter under the SC for performance from 1 July 2026.
 - By 30 June 2026, the AER must revoke and substitute a TNSP's revenue determination in order to amend the target under the loss of supply frequency performance parameter in line with STPIS Version 6. The revised value must be the number calculated before rounding was applied under STPIS Version 5.
- Not make any changes in relation to the NCC under STPIS Version 6. The NCC would continue to be aligned with STPIS Version 5. The NCC under Version 6 of the STPIS would apply at the commencement of a TNSP's next regulatory control period.

A TNSP's performance from these dates and against the amended incentives would be an input into the 2027-28 network tariffs.

3.1.1 The draft rule outlines how the individual STPIS components would be treated

The draft rule clarifies how the individual components should be applied to align with STPIS Version 6. As outlined in section 2.3.2, stakeholders considered that the individual components may require different treatment due to their varying complexity.⁸⁴ The draft rule seeks to simplify the application of certain STPIS Version 6 components to TNSPs while maximising the benefits for TNSPs and consumers.

84 Submissions to the consultation paper: AusNet, pp. 1-2; CS Energy p. 2 ElectraNet, pp. 3-4; ENA, p. 3; TasNetworks, p. 3.

The draft rule aligns a TNSP's MIC and SC with Version 6 of the STPIS, while retaining Version 5 of the NCC.

Table 3.1 outlines how each component would be treated under the draft rule.

Table 3.1: Treatment of the STPIS components in the draft rule

Component	Proposed treatment in the draft rule
Market impact component	In STPIS Version 6, the MIC was suspended. In the draft rule, performance on and from 1 January 2026 would be assessed against the status of the MIC under STPIS version 6. Meaning, TNSPs would not have adjustments made for the MIC of the old scheme (STPIS Version 5).
Service component	In STPIS Version 6, the SC was amended to remove rounding targets for the loss of supply frequency parameter. Under the new scheme, targets can be a fraction of events. To apply STPIS Version 6 for the SC, the target value set in a TNSP's revenue determination would be amended to reflect this new means of calculating the loss of supply frequency parameter. The new target values would be the number calculated before the rounding which currently occurs under STPIS Version 5.
Network capability component	The draft rule does not propose to make any changes in relation to the NCC. TNSPs would continue to remain on Version 5 of the NCC until the start of their next regulatory control period.

Source: AEMC

Question 1: Treatment of the STPIS components in the draft rule

- Do you support the proposed treatment of the components in the draft rule?

3.1.2 The draft rule would suspend the MIC and revise targets for the SC under STPIS Version 6 on two dates

As outlined in section 3.1.1, the draft rule clarifies how the MIC and the SC should be treated to align with STPIS Version 6. The draft rule further outlines the timing from which the amended incentives should be removed or applied to a TNSP's performance. The draft rule specifies two dates for the commencement of these changes:

- From 1 January 2026, no adjustment would be made for the MIC in relation to determining a TNSP's maximum allowed revenue. Additionally, the maximum allowed revenue of a TNSP cannot be adjusted for the MIC contained in Version 5 of the STPIS for the remaining regulatory years.⁸⁵
- From 1 July 2026, the SC would be aligned with STPIS Version 6 by amending the target attributed to the loss of supply frequency parameter in the SC. The revised target should be the value calculated before rounding was applied under STPIS Version 5.

⁸⁵ Draft rule, clause 11.[XXX].2(d). For example, if Version 7 of the STPIS is published.

The draft rule does not propose to make any changes in relation to the NCC. TNSPs would remain on STPIS Version 5 of the NCC until their next regulatory control period.

The draft rule specifies the relevant TNSPs, regulatory years and revenue determinations to which this aspect of the draft rule applies, for clarity.⁸⁶ See this clause of the draft rule below:

11.[XXX].2 Early application of the new scheme – market impact component

(a) This clause applies to the following *Transmission Network Service Providers* with respect to the specified *regulatory years*:

- (1) Ausnet with respect to the *regulatory years* commencing 1 April 2027 and 1 April 2028;
- (2) Powerlink with respect to the *regulatory years* commencing 1 July 2027 and 1 July 2028
- (3) Transgrid with respect to the *regulatory years* commencing 1 July 2027 and 1 July 2028
- (4) Electranet with respect to the *regulatory years* commencing 1 July 2027, 1 July 2028 and 1 July 2029
- (5) Murraylink with respect to the *regulatory years* commencing 1 July 2027, 1 July 2028 and 1 July 2029
- (6) TasNetworks with respect to the *regulatory years* commencing 1 July 2027, 1 July 2028, 1 July 2029 and 1 July 2030.

In deciding on two separate dates regarding the removal or commencement of the MIC and the SC in the draft rule, the Commission considered stakeholder feedback and assessed the potential early application against the legal framework.

The Commission considered the proposal to commence alignment of all components of STPIS Version 6 (the MIC, the SC and the NCC) from 1 January 2026.⁸⁷ As explained by the ENA and Transgrid, we acknowledge that commencing STPIS Version 6 on this date may simplify the administration of the scheme as the STPIS operates on a calendar-year basis.⁸⁸

In making the draft rule, we have taken into account the revenue and pricing principles under Section 7A(3) of the NEL and provided an assessment on when to commence the components in line with STPIS Version 6 chapter 2. In summary, the Commission is satisfied that suspending the MIC from 1 January 2026 and revising the target value for the loss of supply frequency parameter from 1 July 2026 are consistent with the revenue and pricing principles. Furthermore, due to administrative complexity, the draft rule does not make changes regarding the NCC component, and so TNSPs would remain on Version 5 of the NCC until their next regulatory control period.

We further took into account the scheme itself and how it is ordinarily applied. We note that clause 2.5(c) of the STPIS states, “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.”⁸⁹ We note STPIS Version 6 was published in April 2025.

⁸⁶ See clause 11.[XXX].2(a) and clause 11.[XXX].3(a) of the draft rule.

⁸⁷ Submissions to the consultation paper: AusNet, p. 1; ElectraNet, pp. 1-2; ENA, pp. 1-2; Powerlink, p. 1; TasNetworks, pp. 1-2; Transgrid, p. 2.

⁸⁸ Submissions to the consultation paper: ENA, p. 3; Transgrid, p. 2.

⁸⁹ The AER, [Electricity Transmission Service Target Performance Incentive Scheme Version 6](#), April 2025.

The Commission considers that, as a general principle, incentives should apply prospectively so they can effectively influence behaviour. However, the Commission considers that the early removal or application of the components in line with STPIS Version 6 presents a unique situation under the current circumstances.

As the AER outlined in its STPIS review, the current MIC is not functioning as intended and is not providing incentives that meaningfully affect TNSP behaviour. In its current form, it is therefore not operating in the long-term interests of consumers and consistently with the revenue and pricing principles. Given this view, in this context, removing the MIC from 1 January 2026 is unlikely to undermine the principle of the scheme since it avoids the continuation of outcomes that do not accurately reflect TNSP performance.

In contrast, the Commission has decided it is appropriate to apply the revised STPIS Version 6 SC values from 1 July 2026 because this is consistent with revenue and pricing principles. The SC relates to incentives which are designed to influence TNSP behaviour. In order for this SC component to achieve the desired outcomes, TNSPs need to be aware of these incentives ahead of their performance so they can adjust their performance accordingly.

Question 2: The timing of removing and applying incentives to align with STPIS Version 6

- Do you agree with these two dates to remove and apply the incentives to align with STPIS Version 6?
 - Do you agree with disapplying the MIC from 1 January 2026?
 - Do you agree with aligning the service component values with STIPIS Version 6 (not applying the Version 5 rounding requirement) for performance from 1 July 2026?
 - Do you agree with retaining TNSPs on Version 5 of the NCC until their next regulatory control period?
- Are there significant administrative issues that would prevent removing or applying these incentives on the identified dates?

3.1.3 The AER must revoke and substitute a TNSP's revenue determination to give effect to the revised SC values

The draft rule stipulates that the AER must revoke and substitute a TNSP's revenue determination to give effect to the new SC value. This being the value to be attributed to the loss of supply event frequency performance incentive scheme parameters with the value it would have been if the rounding requirement had not applied. The rounding requirement is the requirement in paragraph 3.2(k) of STPIS Version 5 that 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.

By 30 June 2026, the AER would:

- Consult with the relevant TNSP on the revocation and substitution of its revenue determination regarding alignment of the SC with Version 6 in relation to the rounding requirement updates
- Revoke the TNSP's revenue determination
- Make a new revenue determination in substitution for the revoked revenue determination. The revised revenue determination would be in effect until the commencement of a TNSP's next regulatory control period.

- A substituted revenue determination under the draft rule would only vary from the revoked revenue determination to the extent necessary to:
 - substitute the value to be attributed to the target for the loss of supply event frequency performance incentive scheme parameter with the value it would have been if the rounding requirement had not applied; and
 - apply the new target value for performance during the period years commencing 1 July 2026 to 31 December 2026 and each later year to which the substituted value applies.

For the AER to revoke and substitute a revenue determination to give effect to the changes in the draft rule, the AER must consult with the relevant TNSP. The Commission has considered stakeholder feedback that engagement between the AER and TNSPs should be required. However, the length of 40-100 business days to conduct this consultation, as outlined in the rule change request, was seen as overly onerous and excessive for applying STPIS Version 6.⁹⁰ Furthermore, because the draft rule limits the extent to which a revenue determination can be amended, extensive consultation should not be required as there is no discretion in the calculation of the new target value.

As such, the draft rule only requires the AER to consult with the relevant TNSP. However, any consultation required to inform the revocation and substitution of the revenue determination would need to be completed by 30 June 2026 for the amended targets under the SC to apply for performance from 1 July 2026.

We also note that 11.[XXX].3(f) provides that consultation undertaken by the AER before the effective date in anticipation of any amending rule being made is taken to satisfy the consultation requirements to the same extent it would have done if undertaken after the effective date. However, the Commission is seeking stakeholder feedback on whether an explicit period of consultation is required to revoke and substitute a TNSP's revenue determination.

Question 3: Consultation to give effect to STPIS Version 6

- Should there be a mandated period of consultation in order for the AER to revoke and substitute a TNSP's revenue determination to give effect to the new target value under the service component?

3.1.4 A worked example of applying the changes to the MIC and SC under the draft rule

The following worked example uses Powerlink's 2022-27 revenue determination to illustrate the changes to the MIC and SC under the draft rule.

Market impact component

In Powerlink's revenue determination, 1001 was set as the annual performance target for the number of \$10/MWh events Powerlink can cause. See Figure 3.1.

90 Submissions to the consultation paper: AusNet, p. 2; ElectraNet, p. 3; ENA, p. 3; TasNetworks, p.3.

Figure 3.1: Powerlink’s market impact component parameter values for the 2022-27 regulatory control period

MIC parameter values	
Performance target	1001
Unplanned outage event limit	171
Dollar per dispatch interval (\$/DI)	\$7,257/DI

Source: AER, Powerlink Queensland Transmission Determination 2022 to 2027 – Final Decision, April 2022.

To align the MIC with STPIS Version 6, when calculating Powerlink’s annual maximum allowed revenue from the 2027-28 tariff year onwards, there would be no adjustments made for the MIC under STPIS Version 5.

Service component

The AER determines the target for events greater than 0.05 and 0.4 system minutes on historical performance. For the 2022-27 revenue determination, the AER set targets based on performance from 2015 to 2019. See Figure 3.2 and Figure 3.3.

Figure 3.2: Powerlink’s historical performance for loss of supply event frequency – 0.05 system minutes

	2015	2016	2017	2018	2019
Loss of Supply event > 0.05 system minutes	2	1	6	2	0

Source: Powerlink, [TRP 2022-27 – Setting STPIS values](#), November 2021.

Figure 3.3: Powerlink’s historical performance for loss of supply event frequency – 0.4 system minutes

	2015	2016	2017	2018	2019
Loss of supply event > 0.4 system minutes	1	0	0	1	0

Source: Powerlink, [TRP 2022-27 – Setting STPIS values](#), November 2021.

Using the calculation method under STPIS Version 5, which averages performance over the five-year period and rounds it to the nearest integer, the targets are 2 for the number of events > 0.05 system minutes and 0 for the number of events > 0.4 system minutes. See Figure 3.4.

Figure 3.4: Powerlink’s loss of supply event frequency targets for the 2022-27 regulatory control period

Parameter	Distribution	Floor	Target	Cap
Loss of Supply Event Frequency				
No. of events > 0.05 system minutes	Geometric	6	2	0
No. of events > 0.40 system minutes	Poisson	1	0	0

Source: AER, Powerlink Queensland Transmission Determination 2022 to 2027 – Final Decision, April 2022.

Under Version 6 of the STPIS, the AER would no longer be rounding the target number. The target can be a fraction of the event. As such, under the draft rule, the new target values for Powerlink would be 2.2 and 0.4 from 1 July 2026. To give effect to this new target, Powerlink’s revenue determination would be revoked and substituted.

3.2 How a future STPIS (new scheme) may be applied early

Box 2: The draft rule would provide the AER with flexibility to apply a revised STPIS to a TNSP prior to the start of its next regulatory control period

The draft rule would introduce the ability for the AER to implement a revised STPIS (new scheme) before a new regulatory control period commences, requiring that the AER consult on the potential early application of a new scheme during the relevant STPIS review, and allow the AER to determine in its final decision whether the new scheme should be applied early. This includes determining any necessary early application arrangements.

The draft rule would operate in the following way:

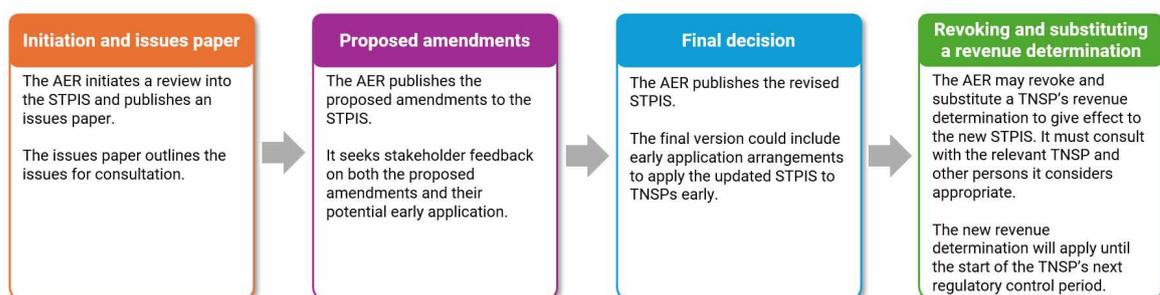
- The AER publishes a new scheme in accordance with clause 6A.7.4 of the NER and the transmission consultation procedures.
- As part of this consultation process of making a new scheme, the AER may include early application arrangements.
- Throughout the review for the new scheme, the AER would consult on any early application arrangements.
- When the AER publishes any new scheme, it may include early application arrangements that set out the process for applying the new scheme.
- To give effect to the early application arrangements, the AER may revoke and substitute a TNSP’s revenue determination in line with the process set out in the draft rule. This revenue determination would apply for the remainder of the regulatory control period of the revoked revenue determination.

Under the draft rule:

- ‘New scheme’ means a service target performance incentive scheme that amends or replaces the current service target performance incentive scheme.

- ‘Early application arrangements’ mean arrangements for the application of a new scheme, or any part of a new scheme, to a TNSP before the new scheme otherwise would have applied.
 - ‘Old scheme’ means the service target performance incentive scheme amended or replaced by a new scheme.
- See Figure 3.5 for an example of what this process may look like in practice.

Figure 3.5: Example consultation process to apply a new scheme early



3.2.1 The AER would consult on any early application arrangements of a revised STPIS during its review

The draft rule would require the AER to consult on any early application arrangements of a new scheme during its review of the previous scheme. It is expected that throughout the review, the AER would seek stakeholder views on both the proposed amendments to the STPIS, as is currently the case, and whether these amendments should be applied to TNSPs early. In addition to the existing consultation process under clause 6A.7.4 of the NER and the transmission consultation procedure, the draft rule would allow the AER the option to include early application arrangements in the new scheme. Under the draft rule, the AER would directly consult with TNSPs on these early application arrangements.

As outlined in section 2.3.3, this approach addresses stakeholder concerns by ensuring there is an explicit avenue for raising concerns associated with the early application of a new scheme. Notably, the consultation on the potential early application of a revised STPIS would occur before any final decision on this matter is made. This differs from the proposed rule in the rule change request, which provides that consultation on how the new scheme could be applied early to a TNSP would occur after the AER proposes, or a TNSP applies, to have the new scheme applied early.⁹¹

The draft rule does not outline any specific principles the AER must consider when determining whether early application arrangements are appropriate. The Commission notes that the AER must perform or exercise its economic regulatory powers or functions in accordance with the National Electricity Objective, which includes promoting efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity. When reviewing the STPIS, the AER may also take into account the revenue and pricing principles outlined in Section 7A(2)-(7) of the NEL. The Commission is seeking stakeholder feedback

91 The AER, [Rule change request](#), August 2025, pp. 10-11.

whether there should be explicit principles the AER should take into account when determining early application arrangements.

Question 4: Consulting on the early application of a future STPIS (enduring power)

- Do you consider that embedding the consultation on early application arrangements during the AER’s review of the STPIS is sufficient?
- Should the draft rule outline any explicit principles the AER should consider when determining whether to apply a revised STPIS early?

3.2.2 The AER may include early application arrangements for the revised STPIS

The draft rule would enable the AER to include early application arrangements in the new scheme. The draft rule clarifies that early application arrangements may include, but are not limited to:

- Early application of components of a new scheme
- Early termination of components of an old scheme
- Amending the values that are attributed to the parameters under the old scheme
- Providing different early application arrangements for different TNSPs
- Leaving matters that can be determined after the new scheme is made, including the values that should be attributed to the parameters under the new scheme
- Specifying the time by which a TNSP must provide information to the AER or the new values that should be attributed to the parameters under the STPIS
- Setting out the process for the AER to approve or not approve the proposed values that should be attributed to the parameters under the STPIS.

The draft rule would provide the AER flexibility in deciding whether early application arrangements are appropriate. This is in response to stakeholder concerns regarding the practicality and administrative burden associated with applying a new scheme. The Commission recognises that the practical application of the revised STPIS may differ across TNSPs, and so having flexibility is important. For example, it may be practical for one TNSP to have it apply early, but not for another. As such, the Commission considers that a consultative approach that applies effective incentives to support the transmission network’s reliability, while providing sufficient flexibility to accommodate individual TNSP circumstances, strikes an appropriate balance.

Question 5: Detailing early application arrangements in the AER’s final decision

- Do you consider the draft rule provides sufficient flexibility in the early application arrangements?
- Do the early application arrangements mitigate concerns regarding regulatory uncertainty?

Imposing restrictions on the timing of early application arrangements of a revised STPIS

The draft rule has not imposed any limitations on the timing (for example, how many times during or how soon after the commencement of a regulatory control period) for when a revised STPIS could be applied.

Prior to version 53 of the NER in 2012, clause 6A.7.4(f) stipulated that any amendment to the STPIS would only be implemented in respect of a regulatory control period that has commenced before, or that will commence within 15 months of, the amendment or replacement coming into operation.⁹² This meant that if the STPIS was amended, this could not apply to any TNSPs regulatory control period which had commenced before or will commence within 15 months of the amendment or replacement STPIS coming into operation.

The Commission is seeking stakeholder views on whether any time limitations should be imposed for when a revised STPIS could be applied, or if there are other restrictions that should be included.

Question 6: Additional timing restrictions or guardrails on the early application of a revised STPIS

- Should there be any time limitations imposed for when a revised STPIS could be applied to a TNSP?
- Should any other restrictions or guardrails be incorporated into the draft rule?

3.2.3 The AER may revoke and substitute a TNSP's revenue determination to give effect to the new STPIS

The draft rule would enable the AER to revoke and substitute a TNSP's revenue determination in order to give effect to early application arrangements of the new scheme. If the AER revokes a TNSP's revenue determination, the substituted revenue determination would apply for the remainder of the TNSP's regulatory control period.

The draft rule would require the AER to make a decision on the revocation and substitution of a revenue determination within 40 business days⁹³ from the later of:

1. the date it published a new scheme
2. where applicable, the date the relevant TNSP provides its proposed values that are to be attributed to the STPIS parameters (the AER may by notice require a TNSP to provide the AER any information the AER requires for the purpose of making a substitute revenue determination or proposed values that are to be attributed to performance incentive scheme parameters); and
3. the date the AER receives any information required by the AER to make its decision.⁹⁴

Importantly, although the rule would require the AER to revoke and substitute a revenue determination within 40 business days of the later of the above actions, this does not impose a time frame for when early application arrangements can apply the new STPIS. For example, if the AER publishes a new scheme on 1 September 2026, a TNSP's revenue determination should be revoked and substituted within 40 business days (if this is the only or the later of the three actions). However, the application of a new scheme can occur at any time in the future, such as performance from 1 January 2027 in this example.

92 This clause was deleted by the National Electricity Amendment (Economic Regulation of Network Service Providers) Rule 2012 (ERC0134) and no longer applies.

93 Clause 6A.7.4A(i) of the draft rule provides the AER with the ability to extend this period by up to 60 business days if it is satisfied that the revocation and substitution involves issues of such complexity or difficulty that the period should be extended. Clause 6A.7.4A(j) requires any such notice to be given to the TNSP no later than 10 business days before the expiry of the 40 business day period, and for the AER to publish the notice of the extension as soon as reasonably practicable.

94 Clause 6A.7.4A(k) and (l) of the draft rule provides that the AER may, by notice, require a TNSP to provide the AER with any information it requires for the purpose of making a substitute revenue determination. A TNSP must comply with such a notice.

The draft rule would also impose limitations on the revocation and substitution of a revenue determination for this purpose. Specifically, it clarifies that the substituted revenue determination may vary only to the extent necessary to give effect to the new scheme.⁹⁵ It further mandates consultation with the relevant TNSP and such other persons the AER considers appropriate.⁹⁶ The Commission sees this consultation as critical to ensuring that the entire process of creating a new STPIS, determining early application arrangements and revoking and substituting a revenue determination remains consultative.

3.2.4 Consequential change

The draft rule makes consequential changes to 6A.7.4 by removing sub-clauses (f), (g) and (h) which each had the text '[Deleted]'. These non-material corrections have been made to improve the quality and clarity of 6A.7.4.

⁹⁵ Clause 6A.7.4A(f) of the draft rule.

⁹⁶ Clause 6A.7.4A(g) of the draft rule

A Rule making process

A standard rule change request includes the following stages:

- a proponent submits a rule change request
- the Commission initiates the rule change process by publishing a consultation paper and seeking stakeholder feedback
- stakeholders lodge submissions on the consultation paper and engage through other channels to make their views known to the AEMC project team
- the Commission publishes a draft determination and draft rule (if relevant)
- stakeholders lodge submissions on the draft determination and engage through other channels to make their views known to the AEMC project team
- the Commission publishes a final determination and final rule (if relevant).

You can find more information on the rule change process on our website.⁹⁷

A.1 The AER proposed a rule to enable the early application of a revised transmission STPIS

The AER submitted a rule change request that seeks to amend the NER to allow it to apply a revised transmission STPIS to a TNSP's revenue determination before the start of its next regulatory control period.

The AER explained that there is currently no ability under the NER to reopen a TNSP's revenue determination during a regulatory control period for the purpose of applying a new version of the STPIS.⁹⁸ Under the current rules, the AER can only apply an updated STPIS to a TNSP at the time of making a revenue determination.⁹⁹ This means that if the AER updates the STPIS, the updated version cannot be applied until the start of a TNSP's next regulatory control period.

A.2 The proposal seeks to address issues in the immediate- and long-term

The AER sought to address two issues through its rule change request – one in the immediate-term and one in the long-term:

1. **Immediate-term:** The AER published Version 6 of the transmission STPIS in April 2025. Under the current rules, the AER cannot apply this to a TNSP until the start of its next regulatory control period.¹⁰⁰
2. **Long-term:** The AER lacks an enduring power to apply a revised STPIS during a regulatory control period in a timely way to respond to the changing circumstances.¹⁰¹ The AER explains that changes and refinements to the transmission STPIS are likely to be required more often as the energy system transitions. As such, the enduring power would enable the timely implementation of more effective incentive mechanisms that better reflect the energy system.¹⁰²

⁹⁷ See our website for more information on the rule change process: <https://www.aemc.gov.au/our-work/changing-energy-rules>

⁹⁸ The AER, [Rule change request](#), August 2025, p. 3.

⁹⁹ The AER, [Rule change request](#), August 2025, p. 4.

¹⁰⁰ The AER, [Rule change request](#), August 2025, p. 5.

¹⁰¹ The AER, [Rule change request](#), August 2025, p. 5.

¹⁰² The AER, [Rule change request](#), August 2025, p. 5.

A.3 It proposed an enduring power under the NER that would enable the early application of a revised STPIS

The AER sought an enduring power under the NER that would allow it to reopen a TNSP's revenue determination during a regulatory control period for the purpose of applying a revised STPIS, either upon application from a TNSP or on the AER's own initiative.¹⁰³ The key components of the AER's proposed rule are:¹⁰⁴

- Granting the ability under the NER for a TNSP to apply to the AER, or the AER to propose, that a TNSP's revenue determination be reopened for the purpose of applying a new version of the STPIS.
- Reopening a TNSP's revenue determination during a regulatory control period for the purpose of applying a new version of the STPIS can only be done after the AER conducts a review of the STPIS in accordance with the transmission consultation procedures.¹⁰⁵
- The AER proposes that any revised STPIS should give better effect to the principles outlined in clause 6A.7.4(b).
- If the AER revokes and substitutes a TNSP's revenue determination, the revised revenue determination and new version of the STPIS can only take effect at the start of the TNSP's next regulatory year.
- The AER's proposal or a TNSP's application to revoke and substitute its revenue determination for the purpose of applying a new version of the STPIS cannot be made within 90 business days before the end of the TNSP's regulatory year.

A.4 The process to date

On 13 November 2025, the Commission published a notice advising of the initiation of the rule making process and consultation in respect of the rule change request.¹⁰⁶ A consultation paper identifying specific issues for consultation was also published. Submissions closed on 11 December 2025.

The Commission received 8 submissions as part of the first round of consultation. The Commission considered all issues raised by stakeholders in submissions. Issues raised in submissions are discussed and responded to throughout this draft rule determination.

¹⁰³ The AER, [Rule change request](#), August 2025, p. 1.

¹⁰⁴ The AER, [Rule change request](#), August 2025, pp. 10-11.

¹⁰⁵ The AER, [Rule change request](#), August 2025, p. 3.

¹⁰⁶ This notice was published under section 95 of the NEL.

B Additional background and context

B.1 The STPIS provides incentives to TNSPs to improve or maintain a high level of service

The transmission STPIS is a scheme that provides incentives to TNSPs to improve or maintain a high level of service for the benefit of participants in the NEM and end users of electricity. Specifically, the STPIS should provide incentives to a TNSP to:

- Provide greater reliability of the transmission system that is owned, controlled or operated by it at all times when transmission network users place greatest value on the reliability of the transmission system.¹⁰⁷
- Improve and maintain the reliability of those elements of the transmission system that are most important to determining spot prices.¹⁰⁸

The STPIS currently consists of three components:

- **Market impact component (MIC)** – provides incentives for TNSPs to schedule planned outages at times which minimise the impact on spot market outcomes, which ultimately flow through to end users.¹⁰⁹
- **Service component (SC)** – provides incentives for TNSPs to maintain the reliability of its network.¹¹⁰
- **Network capability component (NCC)** – provides incentives for TNSPs to increase the capability of existing assets. This is to encourage incremental or small improvements to the existing network rather than pursuing large augmentations and expansions to the network.¹¹¹

B.2 The AER published Version 6 of the transmission STPIS in April 2025

Under the NER, the AER can commence a review into the STPIS from time to time, in accordance with the transmission consultation procedures. The AER initiated a review into Version 5 of the transmission STPIS on 8 December 2023. The AER published Version 6 of the STPIS on 17 April 2025 at the conclusion of the review.

The AER's recent review sought to address stakeholder concerns that components of the STPIS were no longer working as intended and were not providing effective incentives consistent with the NER and principles outlined in the NER.

At the conclusion of the review, the AER made the following updates to the transmission STPIS:

- suspend the MIC
- streamline the administration of the NCC by no longer requiring a TNSP to submit a network capability incentive parameter action plan (NCIPAP) as part of its revenue proposal, but rather identify projects annually from its transmission annual planning report (TAPR).
- amend the SC to remove rounding in setting targets for the loss of supply frequency parameter.

The AER states that these amendments recalibrate the incentives so that TNSPs operate their networks in the best interests of market participants and consumers.¹¹²

¹⁰⁷ NER, clause 6A.7.4(b)(1)(i).

¹⁰⁸ NER, clause 6A.7.4(b)(1)(ii).

¹⁰⁹ The AER, Explanatory Statement – Proposed Transmission STPIS, November 2024, p. 11.

¹¹⁰ The AER, Explanatory Statement – Proposed Transmission STPIS, November 2024, p. 37.

¹¹¹ The AER, Explanatory Statement – Proposed Transmission STPIS, November 2024, p. 24.

¹¹² The AER, [Rule change request](#), August 2025, p. 5.

C Legal requirements to make a rule

This appendix sets out the relevant legal requirements under the NEL for the Commission to make a draft rule determination.

C.1 Draft rule determination and draft rule

In accordance with section 99 of the NEL, the Commission has made this draft rule determination for a more preferable draft rule in relation to the rule proposed by the AER.

The Commission's reasons for making this draft rule determination are set out in chapter 2.

A copy of the more preferable draft rule is attached to and published with this draft determination. Its key features are described in chapter 3.

C.2 Power to make the rule

The Commission is satisfied that the more preferable draft rule falls within the subject matter about which the Commission may make rules.

The more preferable draft rule falls within the matters set out in Schedule 1 to the NEL as it relates to incentives for regulated transmission system operators to make efficient operating and investment decisions including, where applicable, service performance incentive schemes (item 23).

C.3 Commission's considerations

In assessing the rule change request the Commission considered:

- its powers under the NEL to make the draft rule
- the rule change request
- submissions received during first round consultation
- the Commission's analysis as to the ways in which the draft rule will or is likely to contribute to the achievement of the NEO
- the application of the draft rule to the Northern Territory
- the revenue and pricing principles

There is no relevant Ministerial Council on Energy (MCE) statement of policy principles for this rule change request.¹¹³

C.4 Civil penalty provisions and conduct provisions

The Commission cannot create new civil penalty provisions or conduct provisions. However, it may recommend to the energy ministers' that new or existing provisions of the NER be classified as civil penalty provisions or conduct provisions.

The more preferable draft rule does not amend any clauses that are currently classified as civil penalty provisions or conduct provisions under the National Electricity (South Australia) Regulations.

¹¹³ Under s. 33 of the NEL and s. 73 of the NGL the AEMC must have regard to any relevant MCE statement of policy principles in making a rule. The MCE is referenced in the AEMC's governing legislation and is a legally enduring body comprising the Federal, State and Territory Ministers responsible for energy.

The Commission does not propose to recommend to energy ministers' that any of the amendments made by the more preferable draft rule be classified as civil penalty provisions or conduct provisions.

Abbreviations and defined terms

AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
Commission	See AEMC
ENA	Energy Networks Australia
EUAA	Energy Users Association of Australia
MIC	Market impact component
NCC	Network capability component
NEL	National Electricity Law
NEM	National Electricity Market
NEO	National Electricity Objective
NER	National Electricity Rules
NT Act	<i>National Electricity (Northern Territory) (National Uniform Legislation) Act 2015</i>
Rules	See NER
SC	Service component
STPIS	Service target performance incentive scheme
TNSP	Transmission network service provider