



25 September 2013

Tom Leuner
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by email: AERinquiry@aer.gov.au

Dear Tom

Draft Decision - Service Target Performance Incentive Scheme (STPIS) for TNSPs – Early application of version 4

Thank you for the opportunity to provide comment on the *Draft Decision - Service Target Performance Incentive Scheme (STPIS) for TNSPs – Early application of version 4 (August 2013)*.

Transend notes that the AER has requested acknowledgement of a number of draft decisions outlined within this document, as well as confirmation of Transend's ability to implement a number of requirements resulting from the early application of the STPIS.

Network Capability Component (NCC)

As requested by the AER in its Draft Decision, Transend confirms that as per Draft decision 2.3, the AER will apply the NCC of version 4 of the STPIS to Transend during Transend's transitional year.

Transend also confirms that:

- the NCIPAP will be submitted as part of Transend's transitional revenue proposal;
- Transend will be able to meet the submission and consultation timeframes pertaining to the NCC, as stipulated in the Draft Decision;
- Transend will be able to provide AEMO with an advanced version of its capital expenditure profile; and
- expenditure for projects included in the NCIPAP will be excluded from Transend's other capital or operating expenditure proposed in its revenue proposal.

To assist in clarifying the timing of NCC incentive payments (p. 18), Transend requests that the AER provides a detailed worked example that describes the timing of annual incentive payments to Transend for the next regulatory control period. This worked example should include consideration of the transitional period at the commencement of Transend's 2014–19 regulatory control period.

Market Impact Component (MIC)

Transend acknowledges that as per Draft decision 3.2, the AER will apply the MIC of version 4 of the STPIS to Transend during Transend's transitional year.

However, Transend has significant concerns regarding the methodology proposed by the AER for measuring Transend's annual MIC performance for the periods:

- July 2014 to December 2014; and

- January 2014 to December 2015.

The AER has proposed that Transend's performance in the second half of the 2014 calendar year should be measured as the, '*...pro-rated average of Transend's average performance count during the 2013 and 2014 calendar years.*' (p. 24). The AER does not discuss the methodology by which Transend's performance in the 2015 calendar year will be measured, however Transend assumes that the AER would apply a similar approach.

This approach is of great concern to Transend in the measurement of its performance in the second half of 2014 because it relies on 18 months of MIC data (out of a total of 24 months) over which Transend has not been incentivised to manage its MIC performance.

Similarly, Transend's 2015 calendar year MIC performance would be unduly influenced by 6 months of MIC data (out of a total of 24 months) over which Transend has not been incentivised to manage its MIC performance.

While Transend is always seeking to reduce the market impact of planned outages, the imminent application of the MIC to Transend has resulted in Transend actively seeking to improve and refine its outage management and other business processes in preparation for the commencement of the MIC in July 2014. It is Transend's expectation that the tangible results of these initiatives will only be evident after July 2014, and hence would go unrewarded when using the methodology proposed in the Draft decision, due to the heavy 'smoothing' that would occur.

Transend proposes that its performance in the second half of 2014, and for the 2015 calendar year, should be measured as its actual MIC performance within those respective periods, and should not be influenced by historical MIC performance data for periods when Transend was not incentivised to manage its performance.

From 2016 onwards Transend proposes applying the methodology described by the AER, as Transend would then have at least 24 months of MIC data on which to calculate its true average MIC performance.

This approach would also ensure consistency with the approach taken with other TNSPs at the time of their initial application of the MIC to their respective STPIs, prior to the recent modification of the MIC to introduce smoothing of annual performance.

Service Component (SC)

Transend acknowledges that as per Draft decision 4.2, the AER considers that the existing service component should continue to apply to Transend during the transitional year, and the new service component should apply from the second year of the upcoming regulatory control period.

Transend welcomes the opportunity for further discussion with the AER regarding these matters. I may be contacted on tel: (03) 6274 3909.

Yours sincerely



Bess Clark
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