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**Australian
Competition &
Consumer
Commission**

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Mr Nino Ficca
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Dear Mr Ficca *Nino*

Application of the performance incentive scheme for 2004

I write in relation to SPI PowerNet's (SPI) service standards incentive to be included in the calculation of its maximum allowed revenue (MAR) for the financial year 2005–06.

The ACCC engaged Sinclair Knight Merz (SKM) to audit and report on SPI's performance results for the calendar year 2004. This report has been forwarded to you.

The performance incentive scheme aims to encourage transmission network service providers, such as SPI, to continually improve service standards through efficiency gains. I am pleased to note SPI's favourable results in this year's review. SPI's performance results were above targets in four out of the seven performance measures with significant improvements on the previous year's performance.

I commend SPI's development of its data systems and reporting. SKM found that a reliable and accurate recording system is used by SPI and the categorisation of assets, treatment of exclusions and application of the performance incentive formulae was largely consistent, accurate and complete.

Primary consideration was given to SPI's application of exclusions and force majeure events. SPI's treatment of these was assessed against the definitions provided in the ACCC's service standards guidelines and SPI's final revenue cap decision.

In relation to the exclusion of de-energised shunt reactors at non-critical peak periods, the ACCC accepts SKM's recommendation that shunt reactors be considered "available" for the purposes of the service standards audit. SKM stated that while the reactors were de-energised, and thus technically "unavailable," this practice enhanced the reliability of the network and, thus, should not result in a penalty for SPI. SKM recommended that shunt reactors should be treated as "available" as they are "available for use."

EXECUTIVE OFFICE



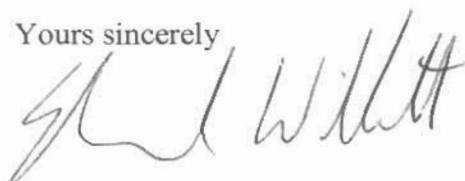
SPI also sought a force majeure event relating to the category of average outage duration (lines) due to a bushfire near transmission lines. The ACCC concurs with SKM's dismissal of this event as 'normal' rather than 'severe' and has thus rejected it as an exclusion. While this exclusion has been denied, this should result in no material affect on SPI's final performance outcomes as it remains within the high performance band for that performance measure.

The ACCC agrees that SPI's calculation of an increase of \$609,750 for its revenue in 2005–06 will comply with its revenue cap decision. In reaching this conclusion the ACCC considered the revenue cap decision, service standards guidelines, SKM's consultation and SPI's report on service standards.

I would like to thank SPI for the cooperation extended to the ACCC in implementing the service standards regime.

Should you have any further enquiries please call Matthew McQuarrie (02) 9230 9111 or Elizabeth Wood (02) 9230 9184.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ed Willett', written in a cursive style.

Ed Willett
Commissioner