



**Australian
Competition &
Consumer
Commission**

Our Ref: S2004/174
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Mr Kevin Murray
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Dear Mr Murray

Application of the performance incentive scheme for 2004

I write in relation to TransGrid's service standards incentive to be included in the calculation of its maximum allowed revenue (MAR) for the financial year 2005–06. This letter presents revised details of TransGrid's service standards results for 2004, updated since the release of the ACCC's preliminary letter to TransGrid dated 4 May 2005.

The ACCC engaged Sinclair Knight Merz (SKM) to audit and report on TransGrid's performance results for 1 July 2004 to 31 December 2004. This report has been forwarded to TransGrid.

The performance incentive scheme aims to encourage transmission network service providers, such as TransGrid, to continually improve service standards through efficiency gains. I am pleased to note TransGrid's favourable performance in this, its first, service standards review.

SKM found that a reliable and accurate recording system is used by TransGrid and the categorisation of assets, treatment of exclusions and application of the performance incentive formulae was largely consistent. SKM did recommend the refinement of data collection processes by TransGrid and noted some omissions from TransGrid's performance report. I understand ACCC staff will be in contact with TransGrid regarding the further development of reporting procedures for service standards.

EXECUTIVE OFFICE



In assessing TransGrid's final service standards outcome for 2004 primary consideration was given to TransGrid's application of exclusions. TransGrid's treatment of these was assessed against the definitions provided in the ACCC's service standards guidelines and TransGrid's revenue cap decision.


TransGrid's categorisation of outages relating to static var compensator assets at Kemps Creek as excluded events was found to be outside of the definition of reactive plant availability contained in the revenue cap decision. Although TransGrid took specific action to maintain the reactive capacity on the system, the static var compensator in question remained part of the transmission network and was technically unavailable for service. It is the ACCC's view that this event represents an outage of reactive plant assets and should not be excluded from the performance incentive measures so as to maintain appropriate incentives for TransGrid to minimise such outages. This event has been capped at 14 days.

The ACCC believes an increase of \$2,007,300 for TransGrid's revenue in 2005-06 would be in compliance with the measures outlined in TransGrid's revenue cap decision. This figure is based on an s-factor outcome of 0.93% applied to the regulated revenue in the period 1 July to 31 December 2004. In reaching this conclusion the ACCC considered TransGrid's final revenue cap decision, the ACCC's service standards guidelines, SKM's consultation and TransGrid's report on service standards.

I would like to thank TransGrid for the cooperation that it has 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