



Australian
Competition &
Consumer
Commission

Our Ref: S2004/174
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Ms Bess Clark
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Dear Ms Clark

Application of the performance incentive scheme for 2004

I write to inform you of Transend's service standards incentive to be included in the calculation of Transend's maximum allowed revenue (MAR) for the financial year 2005-06.

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

The performance incentive scheme aims to encourage transmission network service providers, such as Transend, to continually improve service standards through efficiency gains. I am pleased to note Transend's favourable results in this, its first, review. Transend's performance results were above targets in three out of the four performance measures.

I also commend Transend's development of reliable data systems and reporting methods for the new service standards incentive scheme. SKM found that a reliable and accurate recording system has been developed by Transend and the categorisation of assets, treatment of exclusions and application of the performance incentive formulae was largely consistent, accurate and complete.

Transend sought one exclusion, relating to wholesale market metering, from the performance incentive measures for 2004. The treatment of this exclusion was assessed against the definitions provided in the ACCC's service standards guidelines and Transend's final revenue cap decision. This project was undertaken as part of Transend's compliance obligations as it enters the national electricity market. The ACCC concurs with SKM's assessment finding that the project was the result of a third party, outside of Transend's control. As such, the ACCC considers that the outages associated with the project should be excluded from the performance incentive calculations for 2004.

EXECUTIVE OFFICE

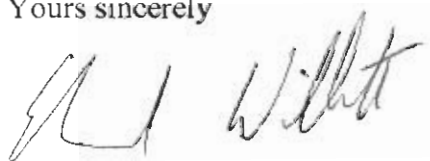


In light of the foregoing discussion, the ACCC considers that an increase of \$573,886 on Transend's revenue for 2005-06 will comply with the revenue cap decision. This figure was reached by applying the unrounded s-factor results to the annual revenue calculation for 2004. In reaching this conclusion the ACCC considered the revenue cap decision, service standards guidelines, SKM's consultation and Transend's report on service standards.

I would like to thank Transend 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', is written over a light grey rectangular background.

Ed Willett
Commissioner