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Our Ref: C2005/2020
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3 May 2006

Mr Rainer Korte
Compliance Manager
ElectraNet
PO Box 7096
Hutt Street Post Office
ADELAIDE SA 5000

Dear Mr Korte

Service standards review for 2005

I write to inform you of the outcome of the Australian Energy Regulator's (AER) review of ElectraNet's performance against its service standards incentive scheme for the 2005 calendar year.

In its performance report of 3 February 2006, ElectraNet proposed a service standards factor (s factor) of 0.707156 per cent for the 2005 calendar year, and a financial incentive adjustment of \$1 172 890 to its maximum allowed revenue for the financial year 2006-07 (MAR).

Following a thorough assessment of ElectraNet's performance report for 2005, the AER has no objection to ElectraNet applying an s factor of 0.709981 per cent based on its performance during the 2005 calendar year. By our calculations, this results in a financial incentive of \$1 168 900 to be included in ElectraNet's MAR.

In reaching this decision, the AER considered ElectraNet's revenue cap decision (11 December 2002), ElectraNet's performance report for 2005 (3 February 2006), the AER's Service Standards Guidelines (12 November 2003) and Sinclair Knight Merz's final audit report (24 March 2006).

The AER had no objections to the exclusion proposed by ElectraNet.

The AER notes that minor discrepancies exist between the AER's and ElectraNet's calculated s factor and financial incentive outcomes.

These differences are due to the AER's practice of adjusting the annual revenue used in calculating the service standards financial incentive for actual inflation which is aligned to the period concerned. This is distinct from the practice of using lagged inflation data from the immediately preceding March to March period.

The financial incentive adjustment to the MAR for 2006-07 calculated by the AER uses the consumer price index (CPI) data released on 26 April 2006 by the Australian Bureau of Statistics.

Further discrepancies between the AER's and ElectraNet's outcomes are due to rounding differences.

In relation to broader issues regarding the annual service standards compliance audit, due to the tight timeframes of this annual process the AER is considering introducing a standardised reporting template. The template aims to increase the efficiency and thus timeliness of the AER's consideration of these matters. Staff will be consulting with ElectraNet and other TNSPs at the completion of this review regarding the content of these templates.

The AER would like to thank ElectraNet staff for their open and active participation throughout this year's review process. Should you have any further enquiries please call Ms Taryn Maroney (02) 9230 9182.

Yours sincerely

A handwritten signature in black ink, appearing to read 'S. Roberts', with a stylized flourish at the end.

Sebastian Roberts
General Manager
Network Regulation South