

Our Ref: 26266
Contact Officer: Kate Murphy
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24 April 2007

Mr Harry Colebourn
Manager Network Pricing and Customer Connection
EnergyAustralia
GPO Box 4009
Sydney 2001

By email: hcolebourn@energy.com.au

Dear Mr Colebourn,

Re: Transmission service standards review for 2006

I am writing to inform you of the outcome of the Australian Energy Regulator's (AER) review of EnergyAustralia's performance against its transmission service standards incentive scheme for the 2006 calendar year.

In conducting its review, the AER considered EnergyAustralia's revenue cap decision (27 April 2005), EnergyAustralia's performance report for 2006 (1 February 2007), the AER's Service Standards Guidelines (12 November 2003), and the PB Associates (PB) consultancy report (5 April 2007).

After conducting a review of EnergyAustralia's performance report for 2006, the AER endorses EnergyAustralia using a service standards factor (s-factor) of 0.390% for the 2006 calendar year, and consequently adding a bonus amount of \$400 564 to its maximum allowed revenue (MAR) for the financial year 2007-08.

Loss of supply measure

I note that during the review process PB identified that data on the loss of supply measure submitted by EnergyAustralia did not take into account the staged restoration of supply. EnergyAustralia explained that it had reported data which was consistent with the "unit of measure" line in the definition contained in the revenue cap determination. EnergyAustralia resubmitted data on this measure which included a calculation of the system minutes for each event. PB reviewed this data and considered it was consistent with the measure definition.

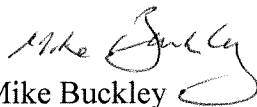
I request that in future audits EnergyAustralia submits data that is consistent with both the “unit of measure” line and “definition/formula” line for the loss of supply measure in its revenue cap determination. EnergyAustralia can achieve this by including a calculation for the system minutes of each reported event.

Reporting processes

The AER notes the improvements that EnergyAustralia has made to its service standards reporting since last year’s review. However, PB found that EnergyAustralia’s systems rely heavily on the manual extraction of raw data and may be vulnerable to human error. The AER looks forward to the further development of EnergyAustralia’s data systems and in particular the implementation of the new distribution network management system.

I would like to thank EnergyAustralia staff for their open and active participation in this year’s audit process, in particular for allowing AER staff to gain a greater understanding of the audit process. Should you have any further enquiries on the definition of the loss of supply measure or any other issues raised in this letter please contact Kate Murphy on (02) 6243 1086.

Yours sincerely



Mike Buckley
General Manager
Network Regulation North Branch