


23 March 2007

Mr Charles Popple  
General Manager Regulatory Business and Strategy  
SP AusNet  
Locked Bag 14051  
Melbourne City Mail Centre VIC 8001

Dear Mr  Popple,

**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 SP AusNet's performance against its transmission service standards incentive scheme for the 2006 calendar year.

In conducting its review, the AER considered SP AusNet's revenue cap decision (11 December 2002), SP AusNet's performance report for 2006 (31 January 2007), the AER's Service Standards Guidelines (12 November 2003), and the Sinclair Knight Merz (SKM) consultancy report (14 March 2007).

After conducting a review of SP AusNet's performance report for 2006, the AER endorses SP AusNet using a service standards factor (s-factor) of -0.165496% for the 2006 calendar year, and consequently deducting a penalty amount of \$496,300 from its maximum allowed revenue (MAR) for the financial year 2007-08.

As part of the review, the AER considered SP AusNet's proposal to exclude outage events caused by bushfires in December 2006. The AER has concluded that, due to the severity of these bushfires in terms of scale, number and area affected, these outages were beyond the reasonable control of SP AusNet and consistent with the definition of 'force majeure' events contained in SP AusNet's revenue cap decision.<sup>1</sup> Accordingly these sixteen outage events have been excluded from SP AusNet's 2006 performance data.

The AER also considers that the ongoing exclusion of de-energised shunt reactors at peak and intermediate times is appropriate and is consistent with the AER's previous compliance review findings.

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<sup>1</sup> ACCC, *Decision – Victorian Transmission Network Revenue Caps 2003-2008*, 2002, p.133

I would like to thank SP AusNet 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 please contact Peter Sherry on (03) 9290 1491.

Yours sincerely,

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

Chris Pattas  
General Manager  
Network Regulation South