

27 March 2008

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

Dear Mr Popple, *Charles*

Re: Transmission service standards review for 2007

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 2007 calendar year.

After conducting a review of SP AusNet's performance report for 2007, the AER has no objection to SP AusNet using a service standards factor (s-factor) of 0.062485% for the 2007 calendar year, and consequently adding an incentive amount of \$195,438 to its maximum allowed revenue (MAR) for the 2008-09 financial year.

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

The AER has considered SP AusNet's proposed third party exclusions for the Average Outage Duration measure. While exclusions based on third party outages are not explicitly allowed under this measure, the AER understands that SP AusNet's targets were calculated using historical data that excluded third party outages and therefore, in the interest of maintaining consistency, it considers it appropriate that they be excluded.

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.

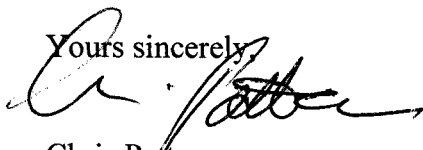
The AER considered SP AusNet's proposal to exclude outage events caused by bushfires in January 2007. The AER has concluded that, due to the severity of these bushfires in terms of scale, number and area affected, these outages were beyond the reasonable control of SP AusNet and consistent with the definition of 'force majeure' events contained in SP AusNet's revenue cap decision. Accordingly the AER accepts SP AusNet's proposal to exclude this outage event from its 2007 performance data.

The AER considered SP AusNet's request for exclusion of an outage caused by the flooding of Yallourn open cut mine which limited the supply of coal for the Yallourn generators. The AER recognises that SP AusNet acted to take these lines off-line in a period of reduced generation and the lines were not required for transmission. However, the service standards guidelines (November 2003) and the 2003 SP AusNet revenue cap decision do not provide for an exclusion under these circumstances.

The AER considers that while this exclusion does not fit the strict definition of force majeure, in this instance it will exercise its discretion to allow it as a one-off exclusion. It notes that SP AusNet's response to this unique event was appropriate and should be encouraged as it is advantageous to the NEM. In future, the AER expects this type of event would likely be captured within the MITC scheme.

I would like to thank SP AusNet staff for their open and active participation in this year's audit process. Should you have any further enquiries please contact Luke Stevens on (03) 9290 6927.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Chris Pattas', written over the closing 'Yours sincerely,'.

Chris Pattas
General Manager