

Our Ref: 26266
Contact Officer: Kate Murphy
Contact Phone: (02) 6243 1086

24 April 2007

Mr Lionel Smyth
General Manager Network/ Network Performance Operations
TransGrid
PO Box A1000
Sydney South 1235

By email: Lionel.Smyth@transgrid.com.au

Dear Mr Smyth

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

In conducting its review, the AER considered TransGrid's revenue cap decision (27 April 2005), TransGrid's performance report for 2006 (29 January 2007), the AER's Service Standards Guidelines (12 November 2003), and the Sinclair Knight Mertz (SKM) consultancy report (15 March 2007).

After conducting a review of TransGrid's performance report for 2006, the AER endorses TransGrid using a service standards factor (s-factor) of 0.632% for the 2006 calendar year, and consequently adding a bonus amount of \$2 966 196 to its maximum allowed revenue (MAR) for the financial year 2007-08.

Please note that the AER accepts that the outage caused by a bushfire in the Junee area on 1 January 2006 falls within the definition of force majeure. The AER has based this assessment on information gathered by AER staff and SKM during the review (and not on the information provided by TransGrid). The AER expects that in future audits TransGrid would provide analysis of how the event meets the definition of force majeure and provide relevant supporting documentation. This documentation could include reports from state fire authorities and emergency departments and any relevant internal documents.

AER staff have found during the review this year that the Murraylink and Directlink interconnectors have had some difficulty in substantiating third party outages (for example “run backs”). In particular it appears that these types of outages are not included in the service standards information provided by neighbouring TNSPs because they are not necessarily considered an outage for service standards reporting purposes by those TNSPs.

The AER is interested in discussing this issue with the interconnectors and the TNSPs that neighbour their networks. This is to determine whether the neighbouring TNSPs can assist Murraylink and Directlink in providing information which can substantiate the cause of these outages. AER staff will contact the relevant businesses to discuss this issue in the coming weeks.

I would like to thank TransGrid 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 Kate Murphy on (02) 6243 1086.

Yours sincerely



Mike Buckley
General Manager
Network Regulation North Branch