

Our Ref: E2009/875
Contact Officer: Sonja Tasovac
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30 April 2010

Mr Andrew Kingsmill
Performance and Compliance Manager
TransGrid
PO Box 87
HORSELY PARK NSW 2175

Dear Mr Kingsmill

Transmission service standards compliance review for 2009

I am writing to inform you of the outcome of the Australian Energy Regulator's (AER) review of TransGrid's performance against the service standards incentive scheme for the 2009 calendar year and the adjustments to be made to the 2010–11 maximum allowed revenue (MAR).

In conducting the review, the AER considered TransGrid's (27 April 2005 and 28 April 2009) revenue determinations, TransGrid's service standards report (submitted 25 January 2010) and the AER's March 2008 *Service Standards Guidelines* (the Guidelines). Additionally, the AER engaged Sinclair Knight Merz (SKM) to assist in its compliance review.

In July 2009, TransGrid transitioned from one regulatory control period to another. The AER therefore reviewed TransGrid's service standards compliance report against TransGrid's 2004–05 to 2008–09 and 2009–10 to 2014–15 revenue determinations, for the first and second half of 2009, respectively.

The AER further reviewed TransGrid's market impact of transmission congestion (MITC) component which only applied to the second half of 2009.

On 25 November 2009 the Australian Competition Tribunal (Tribunal) made orders varying the AER's transmission determination 2009–10 to 2014–15 for TransGrid, which increased the MAR. TransGrid applied the MAR, consistent with the Tribunal's orders, to the second half of its 2009 reporting template for the purposes of determining the financial incentive.

In its performance report for 2009, TransGrid's proposed an exclusion (Bayswater event) for the loss of supply event frequency (S4 and S5) parameters, on the basis of a third party outage. I acknowledge TransGrid's additional information provided on 24 March 2010 to support its proposed exclusion and also its response on 19 April 2010 to AER staff's reasons for not approving this exclusion.

The AER evaluated the information on the circumstances surrounding the Bayswater event including the findings of SKM. In addition, the AER considered TransGrid's additional information as well as the response to the AER staff reasoning. Having considered all of the relevant material, the AER concludes that the exclusion of this event under the loss of supply event frequency (S4 and S5) parameters is not justified. The AER considers that, but for the TransGrid's Bayswater switchyard asset failure, the sequence of events resulting in the under frequency load shedding would not have occurred. In the given circumstances, excluding this event is inconsistent with the intention of the 'third party outage' exclusion. The inclusion of the Bayswater event in calculating the s-factor and financial incentive, will contribute, or is likely to contribute, to the achievement of the AER objectives for the service target performance incentive scheme as set out in the Guidelines.

The AER will publish on its website the amended service standard report – service component provided by TransGrid which reflect SKM's audit outcomes and the AER's rejection of the Bayswater event exclusion from the loss of supply event frequency parameters. As requested by TransGrid this amended compliance report will not be published as a resubmission but as part of the AER's review outcomes.

The AER's decision on the 2009 calendar year s-factors and financial incentives to be applied to TransGrid's MAR for the 2010–11 financial year is as follows:

- s-factor and financial incentive of 0.221 per cent and \$628 015 respectively, for the first half of 2009; and
- s-factor and financial incentive of 0.282 per cent and –\$956 101 respectively, for the second half of 2009.

In relation to TransGrid's MITC component, I note that TransGrid's email correspondence, on 30 March 2010, agreed with the AER that the market impact count should increase by three dispatch intervals. Further, I note the AER will use the corrected half-year performance target. Given these changes, the MITC s-factor is 0.391 and the financial incentive is \$1 327 356.

Overall, TransGrid's MAR adjustment for the 2010–11 financial year is \$997 270.

I would like to thank you for your open and active participation and assistance, notably the prompt provision of information throughout this year's review process. Should you have any queries regarding the service component please contact Sonja Tasovac on (02) 6243 4909 or Mimi Duong on (08) 8213 2318 regarding the MITC.

Yours sincerely


Mike Buckley
General Manager
Network Regulation North Branch