

24 April 2007

Mr Mike Green
Acting Manager
Business Planning, Regulation & Compliance
Transend
PO Box 606
MOONAH TAS 7009

By email: Michael.Green@transend.com.au

Dear Mr Green

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

In conducting its review, the AER considered Transend's revenue cap decision (10 December 2003), Transend's performance report for 2006 (1 February 2007), the AER's Service Standards Guidelines (12 November 2003), and the Sinclair Knight Mertz (SKM) consultancy report (4 April 2007).

After conducting a review of Transend's performance report for 2006, the AER endorses Transend using a service standards factor (s-factor) of 0.0625% for the 2006 calendar year, and consequently adding a bonus amount of \$73 500 to its maximum allowed revenue (MAR) for the financial year 2007-08.

The AER considered Transend's proposal to exclude outages that occurred while both Transend and the generator (Hydro Tasmania) undertook planned maintenance simultaneously (categorised as 'Generator shared' outages). Based on the information gathered during the review, the AER accepts in principle that the 'Generator shared' outages meet the third-party exclusion definition. While the AER endorses Transend's approach to outage optimisation, it is important that an exclusion only be granted for the length of outage actually required by the 'third party' generator. It is noted however, that the current available information from Transend does not clearly distinguish between the length of the outages which are due to third party actions and the actions of Transend itself.

While the AER accepts all of the 'Generator shared' outages as exclusions for the purposes of the 2006 review, should Transend wish to seek exclusions for 'Generator shared' outages in future reviews the AER considers that it will need to provide additional supporting evidence that the length of the shared outage was not extended beyond the needs of the generator.

I would like to thank Transend 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