

Our Ref: C2005/2020  
Contact Officer: Liz Wood  
Contact Phone: 9230 9109

3 May 2006

Ms B. Clark  
Manager Business Planning, Regulation and Compliance  
Transend  
PO Box 606  
MOONAH TAS 7009

Dear Ms Clark

### **Service standards review for 2005**

I write to inform you of the outcome of the Australian Energy Regulator's (AER) review of Transend's performance against its service standards incentive scheme for the 2005 calendar year.

In its performance report of 14 February 2006, Transend proposed a service standards factor (s factor) of 0.1875 per cent for the 2005 calendar year, and a financial incentive adjustment of \$206 175 to its maximum allowed revenue (MAR) for the financial year 2006-07.

The AER has no objection to the s factor of 0.1875 per cent for the 2005 calendar year proposed by Transend. By our calculations, this results in a financial incentive of \$207 600 to be added to Transend's MAR for 2006-07.

In coming to this view, the AER considered Transend's revenue cap decision (10 December 2003), Transend's performance report for 2005 (14 February 2006), the AER's Service Standards Guidelines (12 November 2003), Transend's letter (24 March 2006) and SKM's audit report (29 March 2006).

#### *Treatment of exclusions*

Despite the acceptance of Transend's proposed s factor, the AER does not agree with Transend's proposal to exclude outages relating to the installation of the network control system protection scheme (NCSPS) equipment.

Transend proposed that such outages be excluded on the basis that the assets involved were not subject to regulation.

The AER acknowledges that the outages associated with the installation of the NCSPS equipment were the result of the installation of unregulated assets. However, the exclusion

definition relied on by Transend does not apply to the installation of unregulated assets owned by Transend, which impact on the performance of regulated assets.

The AER considers that the installation work impacting on the regulated assets was within Transend's control and similar to other capital work carried out in the network. The AER believes it is important that there are incentives for Transend to manage the outages resulting from such works efficiently and effectively.

On this basis, the AER believes that the outages associated with the installation of the unregulated NCSPS equipment should not be excluded from the performance results.

While the AER does not agree with this proposed exclusion, the impact was immaterial and had no effect on the resulting s factor. However, the AER considers it noteworthy with respect to the future treatment of similar events proposed for exclusion.

#### *Inflation rate*

The AER recognises that a minor discrepancy exists between the financial incentive calculated by the AER and that proposed by Transend.

This difference is due to the AER's practice of adjusting the annual revenue used in calculating the service standards financial incentive for actual inflation which is aligned to the period concerned. This is distinct from the practice of using lagged inflation data from the immediately preceding March to March period.

The financial incentive adjustment to the MAR for 2006-07 calculated by the AER uses the consumer price index (CPI) data released on 26 April 2006 by the Australian Bureau of Statistics.

#### *Future steps*

In relation to broader issues regarding the annual service standards compliance audit, due to the tight timeframes of this annual process the AER is considering introducing a standardised reporting template. The template aims to increase the efficiency and thus timeliness of the AER's consideration of these matters. Staff will be consulting Transend and other TNSPs on the content of these templates.

The AER would like to thank Transend staff for their open and active participation throughout this year's review process. Should you have any further enquiries please call Ms Liz Wood (02) 9230 9109.

Yours sincerely



Sebastian Roberts  
General Manager  
Network Regulation South