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Stephen Clark
 Executive General Manager/Network Planning and Performance
 TransGrid
 201 Elizabeth Street
 NSW 1235

Dear Stephen

Transmission service standards review for 2014

I am writing to inform you of the outcome of the Australian Energy Regulator's (AER) review of TransGrid's performance against the transmission service standards performance incentive scheme (STPIS) for the 2014 calendar year.

In conducting the review, AER staff considered the following material:

- AER, *Transitional decision – TransGrid and Transend transmission 2014*, 28 March 2014
- AER, *Final Electricity Transmission Service Providers Service Target Performance Incentive Scheme*, March 2008 (version 2) (service component and market impact component)
- AER, *Final Electricity Transmission Service Providers Service Target Performance Incentive Scheme*, December 2012 (version 4) (market impact component and network capability component)
- TransGrid, *2014 STPIS submission*, 2 February 2015, and
- TransGrid, *Email responses to AER questions*, 24, 27 February and 4 March 2015.

The AER has endorsed the service standards factor (s-factor) applying to TransGrid's service component, market impact component and network capability component as set out in Table 1. TransGrid's performance in 2014 has resulted in a net financial bonus of \$12,143,096 to be recovered in the 2015–16 financial year (commencing 1 July 2015).

Table 1: S-factors for 2014 calendar year

Review	TNSP s-factor	TNSP \$	AER s-factor	AER \$	Difference
SC (v2, 2014)	-0.4250	-3,781,786	-0.4250	-3,781,786	0
MIC (v2, H1)	1.8754	8,760,651	1.8726	8,747,571	-13,080
MIC (v4, H2)	0.4081	1,724,824	0.1980	836,880	-887,944
NCC (v4, H2)	1.5000	6,340,431	1.500	6,340,431	-
2014		13,044,120		12,143,096	-901,024

As you are aware, under STPIS versions 4 (first half of 2015) and version 4.1 (second half of 2015), the MIC performance target for 2015 is the average of the 2012, 2013 and 2014 actual performance

count. We confirm that TransGrid's performance for 2014 is 749.5 DI counts, resulting in a calendar year target of 705 DIs for 2015.

Table 2: TransGrid, annual performance count 2012–2014

	2012	2013	2014	Average
Annual performance count	773	593	749.5	705

Review of network capability component (no adjustment)

As part of the financial incentive, in each regulatory year the TNSP receives an incentive allowance under the network capability incentive parameter equal to 1.5 per cent of its maximum allowed revenue (MAR) for each year except for the final year of the regulatory control period.

This is the first year in which the NCC has applied to TransGrid, so it will receive an incentive allowance equal to the 1.5 per cent of MAR. Our review is primarily about data collection and assessing the quality of information provided by TransGrid.

We found a number of areas where TransGrid's template should be improved in future compliance reviews. We look forward to working with TransGrid at staff level to clarify our expectations on future reporting of progress against priority projects.

We would like to thank TransGrid for its participation in this year's compliance review. Should you have any further enquiries please contact Fiona Kostidis on (03) 9290 6986.

Yours sincerely



Peter Adams
a/General Manager
Wholesale Markets Branch