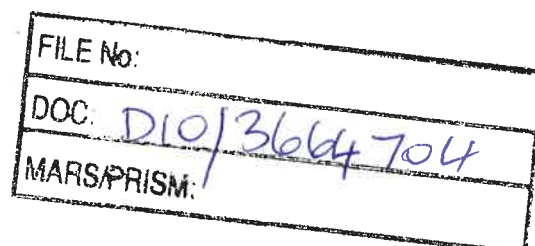


Contact: Jane Hyland
Phone No: (03) 6233 5671
File No: 533-01
Our Ref: 10/3507 JH/HC



Mr Chris Pattas
General Manager, Network Regulation South
Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3000

Attention: Mr Mark McLeish



Dear Mr Pattas

TASMANIAN GSL REQUIREMENTS

I am writing to confirm that the Tasmanian Economic Regulator has agreed, in principle, to maintain the existing guaranteed service level (GSL) scheme for Aurora Energy for the next regulatory control period. This is supported by the Tasmanian Government and Aurora Energy. The present scheme is reflected in the Regulator's *Guideline – Guaranteed Service Level (GSL) Scheme, December 2007*.

The key driver for retaining Tasmania's GSL scheme is its linkage to Tasmania's supply reliability standards, which are somewhat unique in Australia, but provide, we believe, a more targeted approach to reliability issues.

Tasmania's supply reliability standards are not feeder-based. Rather, they are community based. The standards apply to customers aggregated into one of five supply reliability categories (critical infrastructure, high density commercial, urban and regional centres, high density rural and lower density rural). Categorisation is based on electricity consumption density (connected kVA being used as the proxy measure) as the indicator of the social and commercial importance of electricity to the community.

Reliability targets are specified in the Tasmanian Electricity Code for:

- each community category, which recognises that like communities will have similar requirements and expectations; and
- each individual community in a community category, which ensure that communities experiencing poor reliability, are not masked by averaging.

The targets that have been set for each community recognise that where there is a high cost to provide services, such as in areas classified as 'lower density rural', customers can expect to receive a lower level of reliability than those customers in areas of low cost provision. This reduces the extent of the cross-subsidy between community categories, which is an appropriate approach in Tasmania where uniform distribution charges apply to small customers.

The GSL Scheme is closely linked to these reliability standards in that payments to customers are linked to thresholds for the duration and frequency of outages in specific supply reliability categories. There is no linkage to feeder types. It is, therefore, appropriate that the current Tasmanian GSL scheme be retained.

The Regulator recognises that the retention of the GSL scheme and community-based reliability standards will have implications in the application of the AER's Service Target Performance Incentive Scheme but does not consider these application issues to be insurmountable.

Yours sincerely



for Glenn Appleyard
CHAIRMAN
TASMANIAN ECONOMIC REGULATOR

17 August 2010