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Victorian Energy Networks Corporation

Mr Sebastian Roberts
General Manager
Markets Branch
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Dear Sebastian,

Service Target Performance Scheme

Thank you for the opportunity to respond to the Australian Energy Regulator's ("AER") Draft Service Target Performance Incentive Scheme (November 2007) ("Incentive Scheme"). This letter sets out VENCORP's comments in relation to the Incentive Scheme.

The AER proceeded with adding the Market Incentive Transmission Congestion (MITC) component to the service standards incentive scheme to come up with a scheme designed to drive TNSP behaviour that minimises costs to the market measured by the use of the marginal cost of constraint (MCC) indicator. The MCC measures the number of five minute dispatch intervals where a network outage results in a market impact such that a measurement of the total duration of network outages having a market impact can be obtained. The AER limited the scope of the MITC by restricting the network outage time prevented and claimable under the Incentive Scheme to those constraint outages having a value greater than \$10/MW. VENCORP supports schemes which provides TNSPs incentives to make efficient and effective use of the existing transmission system.

In its submission to the AER dated 22 August 2007 ("submission"), VENCORP set out the merits of the Availability Incentive Scheme (AIS) that it has implemented with SP AusNet. VENCORP outlined the objectives that the AIS was designed to achieve in its submission. The primary objective was to "encourage SP AusNet to seek plant outages at times when the expected cost to wholesale electricity market participants of an outage is minimal." The cost includes the sum of costs associated with generation re-scheduling.

While the measurement of the market impact may differ between the two schemes, they clearly attempt to target the same behaviour. Consequently, SP AusNet may be eligible for incentive payments under both schemes for the same market cost minimising act(s). This raises a likelihood of SP AusNet being able to double recover for the same act. However, VENCORP has assessed the magnitude of the issue and has concluded that it is not a major issue. Since the AIS has already been in existence for five years and has been providing SP AusNet with the appropriate financial signals to schedule outages at times of least cost to the market, the scope to further reduce outages having market impacts of the type described in the MITC is limited and therefore the scope of double recovery is similarly, limited.



VENCORP would be pleased to provide any further information or assistance to enable the AER consider the matter further. Should you have any questions please do not hesitate to contact Franc Cavoli on (03) 8664 6616 or Louis Tirpcou on (03) 8664 6615.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'M. Zema'.

Matt Zema
Chief Executive Officer