



Our Ref: S2004/174
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**Australian
Competition &
Consumer
Commission**

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Mr Rainer Korte
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Dear Mr Korte

Application of the performance incentive scheme for 2004

I write in relation to ElectraNet's service standards incentive to be included in the calculation of ElectraNet's maximum allowed revenue (MAR) for the financial year 2005–06.

The ACCC engaged Sinclair Knight Merz (SKM) to audit and report on ElectraNet's performance results for the calendar year 2004. This report has been forwarded to ElectraNet.

The performance incentives scheme aims to encourage transmission network service providers, such as ElectraNet, to continually improve service standards through efficiency gains. I am pleased to note ElectraNet's favourable results in this year's review. ElectraNet's performance results were above targets in four out of the seven performance measures.

SKM found that a reliable and accurate recording system is used by ElectraNet and the categorisation of assets, treatment of exclusions and application of the performance incentive formulae was largely consistent, accurate and complete.

Primary consideration was given to ElectraNet's application of exclusions and force majeure events. ElectraNet's treatment of these were assessed against the definitions provided in the ACCC's service standards guidelines and ElectraNet's final revenue cap decision.

ElectraNet's categorisation of outages relating to the rebuilding of the Para – Waterloo 132kV line as excluded events was found to be outside of the definition of circuit availability contained in the revenue cap decision. It is the ACCC's view that, as this asset is covered by the revenue cap, maintenance-related outages should be included in the service standards regime to maintain appropriate incentives for ElectraNet to minimise such outages. It is however considered appropriate that the time associated with this event be capped at 14 days in aggregate in calculating ElectraNet's transmission circuit availability figure.

EXECUTIVE OFFICE

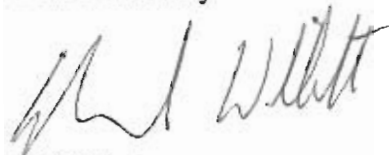


The ACCC considers that an increase of \$997,677 for ElectraNet's revenue in 2005-06 will comply with its revenue cap decision. In reaching this conclusion the ACCC considered the revenue cap decision, service standards guidelines, SKM's consultation and ElectraNet's report on service standards.

I would like to thank ElectraNet for the cooperation extended to the ACCC in implementing the service standards regime.

Should you have any further enquiries please call Matthew McQuarrie (02) 9230 9111 or Raif Sarcich on (02) 9230 9183.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ed Willett', is written over a light grey rectangular background.

Ed Willett
Commissioner