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Stephen Clark
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Dear Stephen

2014 performance target for market impact component of the service target performance incentive scheme

I am writing to inform you of the outcome of the Australian Energy Regulator's (AER) review of TransGrid's market impact performance (MIC) under version 4.1 of the Service Target Performance Incentive Scheme (STPIS).

As you may have noticed, the AER published STPIS version 4.1 on 17 September 2014, which replaces version 4.0 (December 2012). However, as the changes made in version 4.1 relate entirely to Directlink, and not to any other TNSP, the requirements for TransGrid are unchanged.

We have finalised our review of TransGrid's MIC data for the purpose of setting the 2014 target (applicable from 1 July 2014 to 31 December 2014). In doing so, we considered the material submitted by TransGrid on 2 June 2014 and 29 August 2014, as well as the supporting evidence TransGrid previously provided in the annual compliance reviews for 2011, 2012 and 2013.

On 2 June 2014, TransGrid submitted a performance target of 735¹ for 2014. TransGrid subsequently revised this figure to 734² on 29 August 2014 due to an incorrect referencing of data tables.

In summary, under version 4.1 of the STPIS, the MIC performance target for 2014 is the average of the 2011, 2012 and 2013 actual performance count. Regarding the target for the last half of 2014, we pro-rate the performance by measuring the average of 2013 and 2014 performance against the average of 2011, 2012 and 2013 target, and then multiply both values by 0.5.

We now confirm that the 2014 calendar year target is 745 dispatch intervals.

The information in Table 1 below shows the AER's assessment and the reasons for the amendments that we made to TransGrid's submission. Table 2 provides a summary of TransGrid's performance for 2011-2013.

¹ An average of 872 in 2011, 737 in 2012 and 595 in 2013

² An average of 872 in 2011, 737 in 2012 and 593 in 2013

Table 1: AER's assessment of TransGrid's 2014 MIC target

| Calendar year | TransGrid proposed inclusion | AER adjustment | AER reason for adjustment | Final performance (inclusion) |
|----------------|------------------------------|----------------|--|-------------------------------|
| 2011 | 872 | -4.5 | #N-Q-MNSP1_I_E: Reduced weight from 1 to 0.5, the outage is shared between TransGrid and Directlink. | 870 |
| | | +2.5 | VN::DDMS: Increase weight from 0 to 0.5, the outage is shared between TransGrid and AusNet services. | |
| 2012 | 737 | +10 | V>SML_BUDP_1: Constraint invoked to manage a network outage. | 773 |
| | | +14 | V>SML_BUDP_2: Constraint invoked to manage a network outage. | |
| | | +11 | V>SML_BUDP_3: Constraint invoked to manage a network outage. | |
| | | +1 | V>SML_BUDP_4: Constraint invoked to manage a network outage. | |
| 2013 | 593 | 0 | | 593 |
| Average | 734 | | | 745 |

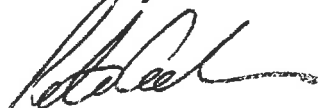
Table 2: Summary of TransGrid's' benchmark performance

| Calendar year | Final performance inclusion | Final performance exclusion | Total performance |
|----------------|-----------------------------|-----------------------------|-------------------|
| 2011 | 870 | 396 | 1267 |
| 2012 | 773 | 70 | 843 |
| 2013 | 593 | 381 | 972 |
| Average | 745 | 282 | 1029 |

We would like to thank TransGrid for its participation in this review and responsiveness to AER staff enquiries.

Should you have any further enquiries please contact Fiona Kostidis on (03) 9290 6986.

Yours sincerely



Peter Adams
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