

Mr Sebastian Roberts
General Manager – Networks Branch
Australian Energy Regulator
GPO Box 520
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Dear Sebastian

Proposal to change EBSS carryover resulting from the current regulatory control period from 4 to 5 years

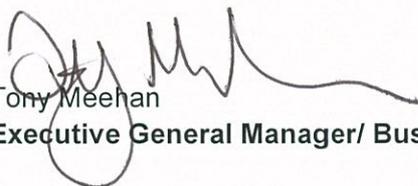
I refer to the AER's most recent final determination for TransGrid which applies to the 2014/15 to 2017/18 regulatory years. As part of this determination, a four year efficiency benefit sharing scheme (EBSS) carryover period was decided. The expectation at the time of the decision was that TransGrid would have two consecutive four year regulatory control periods. It now turns out TransGrid will be subject to a subsequent five year regulatory control period.

Having analysed the incentives associated with a four year EBSS carryover in conjunction with a forthcoming 5 year regulatory control period (2018/19 to 2022/23), TransGrid has come to the realisation that inappropriate incentives are created. The four year carryover can provide TransGrid with wind-fall gains for increases to operating expenditure, and wind-fall losses for decreases to operating expenditure. This is in conflict with the stated objectives of the EBSS, which are "...to provide a continuous incentive for NSPs to pursue efficiency improvements in opex and to share efficiency gains between NSPs and network users."

TransGrid propose that the AER consider changing the EBSS carryover period that currently applies to TransGrid from four years to five years. TransGrid's analysis shows that this will ensure the scheme works in accordance with the stated objectives.

I propose that this question is addressed in the Framework and Approach paper rather than being held over until the next regulatory decision, by which time the incentive will be moot.

Yours faithfully



Tony Meehan
Executive General Manager/ Business Growth and Revenue