

Our Ref: D11/108054



11 November 2011

Chris Pattas
General Manager
Network Operations and Development Branch

by email: AERinquiry@aer.gov.au

Dear Chris

Issues Paper - Service Target Performance Incentive Scheme (STPIS)

Thank you for the opportunity to provide comment on the *Issues Paper - Service Target Performance Incentive Scheme (October 2011)*. Transend has contributed to a submission by Grid Australia on this matter. In addition to this, Transend wishes to raise three further matters that are particular to Transend's circumstances.

Firstly, it is likely that from July 2014 Transend will include reporting against the Market Impact of Transmission Congestion (MITC) within the framework of the STPIS. Similar to those TNSPs that are currently reporting on the MITC, it is Transend's view that the MITC component of the STPIS should operate as an asymmetric bonus only scheme, providing Transend with the opportunity to receive a bonus of up to 2 per cent of its maximum allowable revenue. This reflects that the scheme is untested in Tasmania, and that the extent to which Transend is able to influence the outcome under the scheme is also untested.

As the AER has noted in recent submissions to the Tasmanian Electricity Supply Expert Panel review, the price of energy in the spot market in Tasmania is heavily influenced by the bidding behaviour of the dominant generator, Hydro Tasmania. Transend therefore considers it unreasonable to be subject to a penalty arrangement under an as-yet untested scheme in Tasmania. Introducing the scheme as a bonus only scheme would be consistent with the approach taken in all other regions.

Secondly, in March 2008 in the *Final decision – Electricity transmission network service providers – Service target performance incentive scheme (incorporating incentives based on the market impact of transmission congestion)* Transend was advised by the AER that, "...until market impact parameters are incorporated into the scheme it would apply (where appropriate) peak period and critical circuit availability sub-parameters to each TNSP. This would ensure that the scheme provides each TNSP with the incentives described in clause 6A.7.4 of the NER." With the AER's agreement, Transend subsequently included critical circuit parameters within the STPIS and has been reporting against these parameters since July 2009.

It is Transend's view that the inclusion of the MITC within the STPIS will negate the requirement for Transend to continue reporting against the critical circuit parameters within the STPIS and that from July 2014 onwards these parameters should be removed from Transend's STPIS.

Finally, regarding Question 36 it is Transend's preference that STPIS reporting continue on a calendar year basis. This will continue to allow bonuses or penalties arising from STPIS

performance to be applied to the maximum allowable revenue for the following financial year in a timely manner.

Transend welcomes the opportunity for further discussion with the AER regarding these matters. I may be contacted on tel: (03) 6274 3909.

Yours sincerely

[by email]

Bess Clark
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