

3.2 Expected inflation rate

We estimate an expected inflation of 2.45 per cent (see Table 3.2 for calculations) based on the approach adopted in our final position paper from our 2020 inflation review.⁷

AusNet Services' initial proposal stated that we should adopt the outcomes of our inflation review to this revenue determination.⁸ Its revised proposal noted our draft decision (where we implemented the approach from our 2020 inflation review) and stated that the placeholder forecast for inflation should be updated in our final decision which we have done.⁹

Table 3.2 Final decision on AusNet Services' expected inflation (%)

	Year 1	Year 2	Year 3	Year 4	Year 5	Geometric average
Expected inflation	2.25	2.50	2.50	2.50	2.50	2.45

Source: AER analysis; *RBA Statement on Monetary policy*, 2021.

In the draft decision, we noted that AusNet Services' regulatory years start in April and end in March, whereas the Reserve Bank of Australia's (RBA's) Statement of Monetary Policy (SMP) provides forecasts for years ending in June and December. Further, the RBA's SMP (May 2021) provides forecasts for December 2022 and June 2023 hence, only one year (2022–23, first regulatory year) of forecast was available for the draft decision.

We previously used December-ending RBA forecasts to estimate forecast inflation in AusNet Services' 2017–22 revenue determination. This provided one year of forecast in the 2017–22 draft decision and two years of forecast in the 2017–22 final decision.

Our final decision uses the November 2021 SMP which contains consumer price index (CPI) forecast for the year-ending December 2023. This means the first two years of the regulatory control period are based on RBA forecasts and thereafter a linear glide path from year three to the mid-point of the RBA's inflation target band (2.5 per cent) in year five.

3.2.1 2020 Inflation Review

Our previous approach to estimate expected inflation used a 10 year average of the RBA's headline rate forecasts for 1 and 2 years ahead, and the mid-point of the RBA's target band—2.5 per cent—for years 3 to 10. The period of 10 years matches the term of the rate of return.

⁷ AER, *Final position, Regulatory treatment of inflation*, December 2020.

⁸ AusNet Services, *Revenue Proposal 2023–27*, 29 October 2020, pp. 216–217.

⁹ AusNet Services, *Transmission revenue review 2023–27, Revised revenue proposal*, September 2021, pp. 128–129.