

17 August 2015

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Dear Warwick,

Re: proposed amendments to the Electricity Transmission roll forward model (RFM)

AusNet Services welcomes the opportunity to provide a response to the Australian Energy Regulator's (AER) proposed amendments to the Electricity Transmission roll forward model (RFM).

AusNet Services has reviewed the AER's proposed amendments and is generally satisfied that these are sound. AusNet Services has provided a detailed response to the AER's request for consultation in the Attachment. This includes our recommendation for a change in the current approach to applying indexation to the opening RAB.

The publication of the final RFM is expected to occur in October 2015. As AusNet Services will submit its regulatory proposal for the 2017-22 period by 31 October 2015, this timing does not allow AusNet Services to undertake due diligence of its revenue proposal (including the RIN) if it were to incorporate the final RFM. Therefore the AER and AusNet Services have agreed that the regulatory proposal will adopt the draft RFM. The final RFM will be used by the AER in its Draft Decision.

AusNet Services would be pleased to discuss the attached submission in further detail with you at your convenience. Please contact Steven Martin on 03 9695 6109 or steven.martin@ausnetservices.com.au if you have any questions in relation to this submission.

Sincerely,

Anh Mai
Manager Economic Regulation
AusNet Services

Attachment: Detailed Comments on Proposed Changes to the Transmission Roll Forward Model

Indexation of the Opening RAB

AusNet Services' supports a change in the approach to indexation by applying a lagged CPI across all elements of the RAB within the RFM. That is, a lagged CPI should apply to the calculation of 'Opening inflation', 'Nominal (actual / forecast) straight-line depreciation' and 'Nominal net capex'.

This approach not only promotes consistency in the application of inflation within the model but also removes a layer of unnecessary complexity. The use of a lagged CPI rather than actual (non-lagged) CPI is also consistent with the methodology used in the calculation of annual MAR values.

The AER's explanatory statement under ss.5.1 (p.9) explains that the current approach was adopted based on NERA Economic Consulting's submission in May 2007, which indexed the 'Real (actual/forecast) straight-line depreciation' and 'Real actual net capex' values by lagged CPI, and the opening RAB value is indexed by the non-lagged CPI rate. However there is no clear rationale for continuing to apply a non-lagged CPI to the opening RAB.

AusNet Services also observes that the AER's Distribution RFM (June 2008) operates in the same manner to the Transmission RFM with respect to inflation on the opening RAB. AusNet Services, and indeed other DNSP's, will be interested to understand the AER's intent with regard to applying similar amendments to the Distribution RFM based on any recommendations forthcoming from this review.

Actual vs forecast depreciation in RAB roll forward

AusNet Services has noted the AER's amendments to the RFM which allow for either a forecast depreciation approach or actual depreciation approach in rolling forward the RAB. AusNet Services does not propose to change its current approach to depreciation in the forthcoming transmission price review which is based on actual depreciation. Therefore, AusNet Services has not undertaken any thorough testing of the alternate approach allowed in the draft model.

AusNet Services also continues to include its own depreciation schedules for RAB roll forward within the RFM. To this extent and, noting that workbook protection currently exists in the draft model, insertion of new sheets in the final version will be necessary to enable AusNet Services' to submit a fully compliant RFM.

End of period adjustments

i. Adjustment for previous period

AusNet Services has a requirement to apply a true-up to a specific group of assets that form part of the final year asset adjustments in the previous regulatory control period. These assets are constructed under prescribed network augmentation arrangements¹ and roll-in to the RAB

¹ Prescribed network augmentation on behalf of AEMO (in its capacity as Victorian network planning authority) and other Victorian DNSP's

and Tax Asset Base (TAB) at their depreciated values at the end of the regulatory control period.

The true-ups required in the RAB (both on an as incurred and as commissioned basis) cannot be reflected correctly in the draft RFM without making further modifications. We have noted that the AER acknowledges this in its amended handbook² in that, in certain circumstances, other final year asset adjustments for the previous regulatory control period require a true-up, resulting in the need for modified RFM calculations.

Subject to any further enhancements proposed in the final model, AusNet Services' will apply modifications to 'RFM input', 'Adjustment for previous period', 'RAB roll forward' and 'Total RAB roll forward' worksheets to accommodate the true-up.

ii. Forecast final year asset adjustments

In the newly created section in the RFM input worksheet that allows for forecast final year asset adjustments, there is no provision for inputting remaining life adjustments. As noted above, AusNet Services rolls in the depreciated constructed values of prescribed network augmentation into both the RAB and TAB respectively, at the end of the regulatory control period. The remaining lives associated with these assets is therefore a necessary input to ensure the correct roll forward of each asset base under a weighted average life approach.

AusNet Services therefore recommends inclusion of inputs for remaining lives associated with end of period asset adjustments. In absence of this enhancement AusNet Services will need to modify the calculation of average tax remaining lives in the 'PTRM input summary' worksheet to correctly reflect the remaining tax lives at the end of the current regulatory period. No modifications are expected to be made to RAB remaining lives since AusNet Services relies on its own depreciation schedules to roll forward the RAB.

² Appendix B - Proposed amended transmission roll forward model handbook - version 3 - July 2015, s.2.4 Adjustment for previous period sheet, p.15.