

25 October 2016

Mr Warwick Anderson  
General Manager  
Networks Finance and Reporting Branch  
Australian Energy Regulator  
23 Marcus Clarke St, Canberra ACT 2601

**Roll forward model (distribution) - 2016 proposed amendments –  
Proposal for future collaborative work on treatment of inflation**

Mr Anderson

The Energy Networks Association (ENA) welcomes the opportunity to make a submission to the Australian Energy Regulator (AER) in the context of its proposed amendments to the distribution roll forward model (RFM).

We particularly appreciate the AER providing us this opportunity to submit a broader exploratory discussion of the approach to inflation under both the RFM and the Post-tax Revenue Model (PTRM), which is relevant to the issues in the AER's current review.

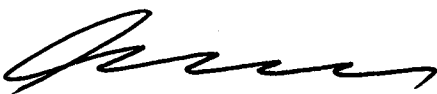
Please find attached a note from Frontier Economics that highlights the issue and provides illustrative examples of the impact of this issue. Under current approaches adopted by the AER there is scope for material over/under-recovery of the AER assessed efficient costs by a regulated network business, leading to outcomes that do not promote the long-term interests of consumer.

As the exploratory report notes, the issue arises when the forecast inflation used to determine revenues is systematically different from actual inflation that is used to adjust prices under CPI-x adjustment process and to increase the regulatory asset base each year in the RFM.

ENA and its members are keen to collaboratively engage with the AER to more fully consider the issues raised in this note beyond the RFM review, and would value further broader discussions with AER and other stakeholders on potential options to address them in future determination processes.

If further information is sought on this matter, please contact Garth Crawford, Executive Director, Economic Regulation, on 02 6272 1507.

Yours sincerely,



John Bradley  
**Chief Executive Officer**