

Minutes

Pre-determination conference Draft decision — ElectraNet transmission determination 2008–09 to 2012–13

**Stamford Plaza, North Terrace, Adelaide
Tuesday, 11 December 2007**

The conference commenced at 9 am.

Item 1 The AER draft decision presentation

- The Chairman of the AER, Steve Edwell made a presentation on the AER's draft decision for the ElectraNet transmission determination. The presentation is available on the AER's website (www.aer.gov.au) and covered the key areas of the draft decision.

Item 2 Energy Consumer Coalition of South Australia presentation (ECCSA)

- David Headberry (on behalf of John Pike the Chairman of ECCSA) made a presentation relating to the AER's draft decision. The ECCSA's presentation is available on the AER's website. The areas discussed by David Headberry were:
 - the maximum allowed revenue and the associated tariff increases
 - past capital expenditure
 - easement revaluation
 - inflation forecasting
 - operating expenditure
 - forecast capex
 - service standards
 - labour and materials escalation
 - SKM's role

Item 3 Questions and responses

(1) Mr Edwell thanked Mr Headberry for his presentation and made the following comments in response:

- In this instance, SKM did not identify any systematic deficiencies with ElectraNet's capital governance and asset management procedures. The AER is very interested in making sure that the TNSPs have robust capex governance and asset management processes. In particular, the AER requires that the TNSP demonstrate robust economic analysis to proceed with asset replacement decisions.
- The methodology proposed by ElectraNet to revalue its land owner compensation component of the easement revaluation adjustment was

robustly reviewed by the AER and this analysis is discussed in detail in the draft decision.

- The ECCSA's concerns about service standards and average past capex overspend was unclear at this time and it is encouraged to provide a more detailed written submission setting out the issues.
- If the ECCSA believed that better market data was available to estimate forecast inflation the AER would welcome submissions on this matter.

(2) Rainer Korte (ElectraNet) stated that ECCSA's concerns may be more to do with misunderstandings and noted that he had offered to meet with ECCSA previously to explain the Electranet revenue proposal. He reiterated the availability of this offer at this post draft decision stage.

(3) Mike Buckley (AER) noted that in relation to forecast inflation there were two issues. First, the objective market data used in previous practice to forecast inflation was in doubt due to liquidity issues associated with index bonds. Therefore the AER's alternative approach is to take account of the RBA monetary policy stance and the target inflation range. He noted that inflation forecasts applying the Fisher equation did not appear to be sensitive to the term of the bonds used. Second, Mr Buckley noted that under the AER's post tax revenue model (PTRM), a lower inflation forecast results in higher revenues due to the increased real returns and resulting higher regulatory depreciation calculated on a RAB that is locked in at the beginning of the regulatory period. The RAB, however, is rolled forward for actual CPI.

(4) David Swift (ESIPC) noted that he had found the AER's consultant SKM to be professional and had no problem in his dealings with the consultant. He asked the AER whether it considers the national consistency of reviewing estimates of capital costs across TNSPs.

(5) Steve Edwell responded that the AER does consider national consistency and that with every review its database is being developed, but noted that it is at an early stage.

Item 4 Concluding comments

- The concluding comments were given by Mr Edwell who thanked all those who attended. He noted that the AER welcomed issues being raised and that submissions added value to the whole review process. He thanked David Headberry for his presentation and encouraged interested stakeholders to provide written submissions on both the revised pricing methodology and draft decision by the due dates.

The conference concluded at approximately 11.10 am.