

Contact Officer: Evan Lutton  
Contact Phone: (03) 9290 1833

7 March 2019

Rob Amphlett Lewis  
Executive General Manager, Strategy and Regulation  
Ausgrid  
570 George Street  
SYDNEY NSW 2000

Dear Mr. Amphlett Lewis,

**Re: The AER's operating expenditure productivity growth forecast for the 2019–24 distribution determination**

We will soon publish the final decision paper for our operating expenditure (opex) productivity growth forecast review. Based on the available evidence, we are satisfied that a 0.5 per cent annual opex productivity growth forecast reflects a reasonable expectation of the opex productivity growth that an efficient and prudent distributor can achieve. Our reasons for this decision are set out in our final decision paper, an embargoed copy of which is attached.

We noted in our draft decision for Ausgrid's 2019–24 distribution determination that we would adopt the productivity growth forecast decided in this review in our final determination. Consistent with this, we intend to include the 0.5 per cent annual opex productivity growth forecast in the alternative estimate we use to assess Ausgrid's revised opex proposal for the 2019–24 period. Ausgrid's revised opex forecast of \$2324 million (\$2018–19) includes a one per cent annual productivity growth forecast applied from 2020–21. We consider that our productivity growth forecast of 0.5 per cent per year should be applied from the base year, 2017–18, consistent with the application of price and output growth. Adjusting Ausgrid's revised proposal to reflect this also produces an opex forecast of \$2324 million (\$2018–19). Given there is no material difference between these two opex forecasts, incorporating our opex productivity growth forecast of 0.5 per cent per year would not lead us to reject Ausgrid's revised opex proposal.

Ausgrid made a comprehensive submission to our opex productivity growth forecast review. We have taken that submission, and all other submissions, into account in determining our annual opex productivity growth forecast of 0.5 per cent. If Ausgrid considers the final decision on productivity growth raises additional issues, and would like to make a submission, please do so by 5:00pm Friday 22 March 2019. We request that any submission you make be limited to the application of the productivity growth forecast to Ausgrid's revised proposal.

Please contact Evan Lutton on (03) 9290 1833 if you have questions.

Yours sincerely

Sebastian Roberts  
General Manager, Transmission and Gas  
Australian Energy Regulator

Sent by email on 7 March 2019