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Dear Ms Groves

AER Draft Transmission Guidelines Issued for Consultation on 31 January 2007

Thank you for your letter dated 19 February 2007 on the above mentioned matter, including notification of the commencement of formal consultation on the AER's six proposed Guidelines in accordance with chapter 6A of the National Electricity Rules (NER). Your reference to matters that may impact on TransGrid, such as the proposed 'as commissioned' recognition of depreciation, is particularly appreciated.

Regarding the Draft Transmission Guidelines, TransGrid is party to a joint submission from the Electricity Transmission Network Owners Forum (ETNOF) on each of the six draft guidelines. ETNOF has identified a number of issues that appear to warrant a further round of consultation ahead of finalisation. These matters are detailed in the ETNOF submissions provided under separate cover.

Regarding the proposed 'as commissioned' approach to the recognition of depreciation, TransGrid is open to adopting the most appropriate overall approach to this issue. On this matter we assume that the impact on revenues referred to in your letter will be on a prospective basis. This is because the NER provides for TransGrid's current revenue cap decision, and the provisions of the NER applicable at the time of that decision, to remain in force until the conclusion of TransGrid's regulatory control period (that is until 30 June 2009).

Regarding the impact of this proposal on TransGrid's upcoming revenue cap application, a number of potential impacts have been identified as follows:

1. Possible changes to prospective revenue caps;
2. Additional detailed recording of events within TransGrid's accounting systems; and
3. The need to have this matter resolved in a timely fashion to enable finalisation of TransGrid's revenue cap application.

The possible impact on prospective revenue caps and, importantly, business cash flows, appears to be manageable via the application of Clause 6A.6.3(a)(2) of the NER. This clause allows TransGrid to nominate higher depreciation profiles on existing assets than currently apply. As noted in the relevant ETNOF submission, the draft PTRM Guideline needs to be amended to give practical effect to this provision.

The additional detailed recording of events within TransGrid's accounts will incur additional costs to implement and maintain, but appears to be needed to give effect to the AER's proposed changes. The focus on these changes would be to provide verifiable detail of depreciation profiles on an asset by asset basis for regulatory depreciation purposes. This requirement needs to be considered closely by the AER in the context of extending this approach to distribution regulation where the volume of records could well be an order of magnitude greater than typically applies to transmission businesses.

Finally, it would be of considerable assistance to TransGrid and, presumably the AER, if this matter could be resolved well in advance of the submission of TransGrid's next revenue cap application. This is particularly important in the context of the new Chapter 6A requirements which encourage TNSPs to provide significant, verifiable information with the revenue cap application. In this regard, it would assist TransGrid if the AER could finalise this matter before the end of September 2007, as required for all six guidelines currently subject to public consultation.

Should your staff require face to face meetings with TransGrid staff to achieve this outcome I can assure you that TransGrid staff will be available. In this regard, I would be grateful if contact could be made with TransGrid's General Manager/Network Development and Regulatory Affairs, Mr Peter McIntyre (02 9284 3555) in the first instance. I would also be pleased to discuss this matter with you personally if that would be of assistance.

Yours faithfully

K Murray
Managing Director

1/5/07