

### 5.2.2 Expected inflation rate

We accepted SP AusNet's proposed method for forecasting inflation in the draft decision.<sup>68</sup> This method is consistent with what we have previously adopted. In applying the method for this final decision, we updated SP AusNet's proposed inflation estimate to reflect the latest Reserve Bank of Australia's forecasts. These estimates, shown in Table 5., result in an inflation forecast of 2.45 per cent per annum.

**Table 5. AER's decision on inflation forecast (per cent)**

	2014–15	2015–16	2016–17 to 2023–24	Geometric average
Forecast inflation	2.50 <sup>a</sup>	2.00 <sup>a</sup>	2.50	2.45

Source: RBA, *Statement on Monetary Policy*, November 2013, p. 65.

(a) The RBA published a range of 2.0–3.0 per cent and a range of 1.5–2.5 per cent for its December 2014 and December 2015 inflation forecasts respectively. We have selected the mid-point of 2.5 per cent and 2 per cent respectively for the purposes of this decision.

### 5.3 AER decision

**Decision 5.1:** We determine a WACC of 7.87 per cent for SP AusNet as set out in Table 5..

<sup>68</sup> AER, *Draft decision: SP AusNet transmission determination*, August 2013, p. 131.