

Draft

**Process guideline for contingent project applications
under the National Electricity Rules**

May 2007



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1 Introduction

The purpose of this guideline is to assist transmission network service providers (TNSPs) to meet the requirements set out in the National Electricity Rules (NER) with respect to lodging an application to amend their revenue determination to include the revenue required for a contingent project.

The NER set out detailed requirements relating to the TNSP's application and the AER's assessment. These requirements include the information that TNSPs must provide when they make an application; the factors that the AER must consider in assessing that information; and the timeframes in which the AER must make its decision. The consequences for TNSPs of failing to understand these requirements can be substantial.

This guideline highlights key NER processes and requirements to help TNSPs prepare contingent project applications.¹ Importantly:

- The AER is under no obligation to publish an application or make a decision on it if the TNSP's application does not contain the information specified in clause 6A.8.2(b)(3) of the NER. Therefore, it is essential that TNSPs ensure that any application satisfies the requirements of the NER before submitting it to the AER.
- The AER is required to accept the amounts and dates submitted by a TNSP if it is satisfied that the requirements listed in clause 6A.8.2(f) are met. If not satisfied, the AER is not obliged to accept them. However, it is still required (clause 6A.8.2(e)) to make a decision. In this situation, the AER may substitute its own amounts and dates.
- The AER is required (clause 6A.8.2(d)) to make its decision within 30 business days. In view of this tight timeframe, it is essential that a TNSP's application complies with the requirements of the NER and includes all relevant information. The AER may decide not to accept further information if this would jeopardise its ability to meet the thirty business days timeframe. It is in the interests of TNSPs to ensure they understand what information an application should contain prior to lodgement.

The process set out in this draft guideline is designed to assist TNSPs to prepare an application to amend their revenue determination that is consistent with the requirements of the NER and which can be approved by the AER. TNSPs are encouraged to consult with AER staff when preparing an application.

1.1 Background

A contingent project is a project that the AER assesses as being reasonably necessary but which is excluded from the ex ante capital expenditure allowance in a revenue determination on the basis that it is uncertain the project will be required, or the timing

¹ While relevant excerpts from the NER have been included as appendices to this guideline, they need to be considered in the wider context of the National Electricity Law and the NER as a whole.

or costs of the project are uncertain. The revenue determination would also identify associated trigger events. If such an event occurs, the TNSP may apply to the AER during the regulatory period to amend the revenue determination to include capital expenditure and incremental operating expenditure for the project.

1.2 The process

Under clause 6A.8.2(d), the AER is required to make its decision on a contingent project, including any amendments to a revenue determination within 30 business days of receiving an application that complies with the relevant NER provisions. The table below provides an indication of the timing for the assessment process for an application. The AER strongly recommends that TNSPs follow the pre-lodgement processes which are also outlined in the table.

Event	Timing
Notification of expected contingent project application	Once the TNSP is confident that a trigger event will occur
Pre-lodgement consultation	Once the TNSP's feasibility studies are underway
The AER provides an indication it is satisfied that a trigger event has occurred, or is likely to occur.	Once the AER has considered information provided by the TNSP that confirms that the contingent project has been triggered.
Conclusion of the pre-lodgement process	Once all preliminary work ² has been completed and the TNSP considers that it is ready to submit the application.
Lodgement of application	
AER calls for submissions	As soon as is practicable after the AER receives the application.
AER decision including amendment to the revenue determination	Within 30 business days of lodgement

1.3 Outline

This guideline highlights key NER processes and requirements to help TNSPs prepare contingent project applications that comply with the NER. Adoption of the procedures set out in this guideline will also assist the AER to undertake the assessment of an application in a timeframe consistent with the NER.

² For example, feasibility studies, regulatory test, environmental reports and approvals.

This guideline comprises this introduction, followed by sections covering the requirements of the NER, the pre-lodgement process, lodgement of the application, public consultation and the AER's assessment. It also includes appendices that reproduce relevant excerpts from the NER.

1.4 Request for submissions

Interested parties are invited to make written submissions to the AER on this guideline by the close of business Monday 9 July 2007. Submissions can be sent electronically to AERInquiry@aer.gov.au. Alternatively, written submissions can be sent to:

Mr Mike Buckley
General Manager
Network Regulation North Branch
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Any enquiries about the draft guideline, or about lodging submissions, should be directed to the Network Regulation North Branch on (02) 6243 1233 or at the above email address.

2 Requirements of the NER

2.1 Information requirements

When the AER receives an application it will establish whether the application contains enough information to enable it to effectively assess the proposed contingent project under the provisions of the NER. The information that an application must contain and that the AER will use to determine if it can assess the application is set out in clause 6A.8.2(b) of the NER.

If any of this information is not provided, the AER may not be able to assess the application. In this situation the AER may decide not to accept the application.

2.2 Trigger event

A contingent project must be linked to a trigger event which is clearly identified in the revenue determination. Before considering matters such as the appropriateness of the project and the proposed costs, the AER must be satisfied that the trigger event, identified in the revenue determination, has occurred.

Importantly, the TNSP is required by clause 6A.8.2(b)(3)(i) to include in its application an explanation that substantiates the occurrence of the trigger event.

2.3 Threshold amount

Contingent projects are only permitted to be identified in the revenue determination if the proposed capital expenditure exceeds the threshold amount of either \$10 million or 5 per cent of the maximum allowed revenue (clause 6A.8.1(b)(2)(iii)).

The AER must be satisfied that the forecast capital expenditure exceeds this threshold amount before the AER can accept the relevant amounts and dates.

2.4 Expenditure criteria and factors

Clause 6A.8.2(f) includes a requirement that the forecasts in the application reasonably reflect the capital expenditure criteria³ and the operating expenditure criteria⁴, taking into account the capital expenditure factors⁵ and the operating expenditure factors.⁶

To be satisfied that the application complies with the capital expenditure and operating expenditure criteria and factors, the AER must be satisfied that the forecast capital and operating expenditure reflects⁷

- efficient costs,
- the costs that a prudent operator would require, and
- a ‘realistic expectation’ of demand forecasts and cost inputs.

The AER considers that, to have a ‘realistic expectation’ of demand forecasts and cost inputs, the TNSP must have completed and included in its application all option assessments, feasibility studies, and any other investment appraisals or processes necessary to fulfil the requirements of the NER.

3 Pre-lodgement process

3.1 Purpose of the pre-lodgement process

The purpose of this guideline and the pre-lodgement process is to assist TNSPs to lodge an application that complies with the requirements of the NER. TNSPs are encouraged to participate in pre-lodgement planning, consultation and associated exchanges of information with the AER prior to the lodgement of their applications. While this consultation is not part of the statutory assessment process, experience indicates that pre-lodgement consultation is useful to both TNSPs and the AER in satisfying the requirements of the NER.

³ Clause 6A.6.7(c)(1-3) of the NER.

⁴ Clause 6A.6.6(c)(1-3) of the NER.

⁵ Clause 6A.6.7(e)(1-10) of the NER.

⁶ Clause 6A.6.6(e)(1-10) of the NER.

⁷ Clause 6A.6.6(c)(3) and Clause 6A.6.7(c)(3) of the NER.

The pre-lodgement process allows the AER to discuss the mechanics of the assessment process with the TNSP to ensure that it understands the requirements of the NER and the AER's information requirements, as well as timing and confidentiality issues. For example, while information should generally be submitted in a manner that will allow it to be released to interested parties so that they can understand the proposal, there may be information which the TNSP considers is commercially sensitive. The AER can provide guidance on the provision and treatment of information considered by the TNSP to be confidential during pre-lodgement consultation.

The pre-lodgement process will also help the AER to develop an understanding of the project prior to lodgement of the application. This will facilitate the overall assessment process. It will also help the AER to develop a preliminary view of whether the trigger event has occurred. This will be particularly useful to TNSPs in instances where there is uncertainty as to whether a trigger event has occurred.

3.2 Pre-lodgement consultation

The AER recommends that the TNSP notify the AER of its intention to lodge a contingent project application as soon as it is confident that the trigger event is likely to occur and to then engage in pre-lodgement consultation. The AER would find it helpful if the TNSP provided it with a presentation on the project and proposed application early in the pre-lodgement consultation process.

The TNSP should outline its reasons for considering that the trigger event has occurred or will occur. AER staff will then be able to provide a preliminary indication of whether it considers that a trigger event has occurred. This will help inform the TNSP's decisions concerning the proposed application. For example, the TNSP might decide to proceed with (or continue) feasibility studies, environmental assessments and approvals and development of project designs.

The TNSP should develop a set of feasible options and associated investment appraisals that address the need for the project either before or during the pre-lodgement consultation. Where appropriate, these options should include both demand management and network alternatives. Estimates of relevant costs should also be provided.

The pre-lodgement consultation process would also be expected to include developing a timetable of events, such as when the TNSP expects to:

- complete feasibility studies,
- complete the investment appraisal, and
- lodge the application.

Conclusion of the pre-lodgement process

To satisfy the requirements of 6A.8.2, the TNSP will need to have completed all studies, costings, and any other processes when it submits its application. To assist the TNSP with its obligations, the AER strongly recommends that at the end of the pre-

lodgement consultation process, and prior to lodging the application, the TNSP and the AER engage in a final meeting. The AER will be able to indicate whether it considers the TNSP is likely to satisfy the information requirements of the NER when it submits its application.

The TNSP will receive greater benefit from this final meeting, if it has completed all these processes prior to this meeting. The TNSP will then be able to provide the AER with all the information and resources that it considers it is required under the NER to include in the application. The TNSP should also be able to inform the AER of the results of its costings, feasibility studies (including its recommended options), the regulatory test and any other processes it is required to undertake.

At the conclusion of the pre-lodgement process, the TNSP should have a full understanding of the information the AER will require in the application and be able to submit an application that complies with the NER. This will help ensure the timely acceptance and assessment of the TNSP's application.

4 TNSP lodges application with the AER

The NER requires that an application to the AER to amend a revenue determination to include the revenue required for a contingent project be made as soon as is practicable after the relevant trigger event has occurred. An exception is that an application cannot be made within the 90 business day period prior to the end of a regulatory year.

4.1 Determining if applications comply with clause 6A.8.2(b)

The AER is under no obligation to publish and assess an application that does not comply with the NER. If an application does not comply with the information requirements of clause 6A.8.2(b) the AER may decide not to accept the application.

When the AER receives an application it will determine whether the application complies with the requirements of clause 6A.8.2(b) and if it contains enough information to enable the AER to effectively assess the application. The AER will then inform the TNSP that either:

- it has accepted that the application complies with clause 6A.8.2(b) and will assess the application, or
- it does not consider that the application complies with clause 6A.8.2(b) and that it will not assess the application.

It is in the interests of a TNSP to engage in the pre-consultation processes outlined in this guideline so as to minimise the risk of the AER declining to assess the application.

4.2 Treatment of confidential information

The AER recognises that information provided in the course of the application process may be commercially sensitive.

The treatment of confidential material should generally be discussed in the pre-lodgement consultation period to ensure that any issues surrounding disclosure of information are settled prior to the commencement of the assessment.

TNSPs will need to outline in their applications their reasons for considering information to be confidential. In addition, in these cases, it is requested that documents be submitted in the following manner:

- provide both confidential and public versions,
- the confidential version should have the commercially sensitive pieces of information marked as such throughout the document to ensure confidentiality is maintained
- the public version should contain blank spaces at the appropriate places to show that confidential information has been provided to the AER but removed for public viewing.

All submissions, except those parts for which confidentiality is claimed, are treated as public documents and will be placed on the AER's website. To facilitate placement on the website, submissions should be sent in electronic as well as paper format.

4.3 Supporting submission

The AER expects that TNSPs will provide sufficient information in their applications (or supporting submissions) to explain the background, rationale and framework of their proposals. This will assist the AER and interested parties to understand their applications. In particular, the AER requires sufficient information for it to be able to decide that it is satisfied of the matters set out in clause 6A.8.2(f) of the NER.

5 Public consultation

5.1 Submissions

The AER will publish the application on its website as soon as practicable after it determines that the application complies with clause 6A.8.2(b). Publication does not indicate that the AER is endorsing the amounts the TNSP is seeking or the timeframes contained within the application.

The NER require the AER to call for written submissions from interested parties on the TNSP's application. The AER will inform interested parties and issue a general public notice calling for submissions.

In order for the AER to be able to make the decision within the statutory timeframe, it is necessary for all submissions to be received by the due date. The AER may decide not to consider submissions received after this date.

The AER prefers that all submissions be publicly available, to facilitate an informed and transparent consultative process. Submissions will therefore be treated as public documents unless otherwise requested. A party who wishes to make a confidential submission will need to do so in accordance with the procedure set out in paragraph 4.2.

6 AER assessment

The AER is required to assess the application and make its decision within 30 business days. The 30 business day period commences when the AER receives an application which complies with clause 6A.8.2(b). If the application does not comply, the AER is under no obligation to assess the application and the 30 business day period does not commence.

There are two threshold issues for the AER's assessment of an application. The AER may only proceed with its assessment of an application if it is satisfied that,⁸

- the trigger event has occurred and,
- the forecast capital expenditure required for the project exceeds the threshold amount outlined at 6A.8.1(b)(2)(iii).

Once the AER is satisfied of these matters, to complete the assessment, it must,⁹

- determine the amount of additional revenue required and the likely commencement and completion dates for the project, and
- make amendments to the revenue determination.

6.1 The trigger event

The AER may require expert assistance to help assess whether the trigger event has occurred. The extent and nature of such assistance will depend on the complexity of the network needs and the nature of the trigger event. These factors will also dictate what supporting information the AER will require from the TNSP for its assessment.

The AER anticipates that, during the pre-lodgement consultation process, TNSPs will generally request and receive an indication of the AER's view as to whether a trigger event has occurred or is likely to occur.

6.2 Threshold amount

The AER must be satisfied that the forecast of the total capital expenditure for the contingent project meets the threshold amount, \$10 million or 5 per cent of the maximum allowed revenue, referred to in clause 6A.8.1(b)(2)(iii).

⁸ Clause 6A.8.2(e) of the NER

⁹ Clause 6A.8.2(e)(1) of the NER

6.3 Additional revenue and timeframe

If the AER is satisfied that the trigger event has occurred and the threshold amount has been reached, it is required by clause 6A.8.2(e) of the NER to determine,

- the amount of capital expenditure and incremental operating expenditure, for each remaining regulatory year, that is reasonably necessary to undertake the project,
- the total expenditure reasonably necessary to undertake the project,
- the likely commencement and completion dates, and
- the incremental revenue likely to be required in each remaining regulatory year.

The AER may obtain an independent evaluation of the contingent project by an appropriate expert to help inform its assessment. This assessment will take into consideration the TNSP's justification for selecting the proposed option.

The AER's assessment will also be guided by its consultation with interested parties throughout the process. The AER will make a general call for submissions on the application and make relevant public documents available on its website. It may also liaise directly with interested parties.

The AER is required by clause 6A.8.2(f) of the NER to accept the relevant amounts and dates which the TNSP includes in its application if the AER is satisfied that the forecast total capital expenditure for the contingent project exceeds the threshold (clause 6A.8.1(b)(2)(iii)) and reflects the capital expenditure and operating expenditure criteria and factors. The AER must also be satisfied that the estimates of incremental revenue and the dates are reasonable.

If the AER is not satisfied of the matters in 6A.8.2(f), it is not bound to approve the TNSP's proposal. However, it is still bound to make a decision that meets the requirements set out in clause 6A.8.2(e). This means the AER is required to include in its decision the values that would, in its opinion, satisfy these requirements.

In making the determination the AER is required to take into account the provisions of clause 6A.8.2(g).

6.4 Amendments to the revenue determination

Amendments to a revenue determination take effect from the commencement of the next regulatory year following the AER's determination.

Amendments to the revenue determination can only be made to the extent necessary:

- to accommodate the amount of capital expenditure and incremental operating expenditure the AER considers necessary to undertake the contingent project, and

- to reflect the effect of any resultant increase in forecast capital expenditure and operating expenditure on the maximum allowed revenue and the X factor for each regulatory year in the remainder of the regulatory control period.¹⁰

When the AER makes its next revenue determination for the TNSP it will adjust the regulatory asset base to include the capital expenditure required for the contingent project. If actual expenditure is not available the AER will increase the regulatory asset base by the amount of estimated capital expenditure it has approved.¹¹

¹⁰ Clause 6A.8.2(h) of the NER.

¹¹ Schedule 6A.2.1(f)(1)-(2).

Appendix A: Clause 6A.8.2 of the NER

6A.8.2 Amendment of *revenue determination for contingent project*

- (a) Subject to paragraph (b), a *Transmission Network Service Provider* may, during a *regulatory control period*, apply to the *AER* to amend a *revenue determination* that applies to that provider where a *trigger event* for a *contingent project* in relation to that *revenue determination* has occurred.
- (b) An application referred to in paragraph (a):
 - (1) must not be made within 90 *business days* prior to the end of a *regulatory year*;
 - (2) subject to subparagraph (1), must be made as soon as practicable after the occurrence of the *trigger event*;
 - (3) must contain the following information:
 - (i) an explanation that substantiates the occurrence of the *trigger event*;
 - (ii) a forecast of the total capital expenditure for the *contingent project*;
 - (iii) a forecast of the capital and incremental operating expenditure, for each remaining *regulatory year* which the *Transmission Network Service Provider* considers is reasonably required for the purpose of undertaking the *contingent project*;
 - (iv) how the forecast of the total capital expenditure for the *contingent project* meets the threshold as referred to in clause 6A.8.1(b)(2)(iii);
 - (v) the intended date for commencing the *contingent project* (which must be during the *regulatory control period*);
 - (vi) the anticipated date for completing the *contingent project* (which may be after the end of the *regulatory control period*); and
 - (vii) an estimate of the incremental revenue which the *Transmission Network Service Provider* considers is likely to be required to be earned in each remaining *regulatory year* of the *regulatory control period* as a result of the *contingent project* being undertaken as described in subparagraph (iii); and
 - (4) the estimate referred to in subparagraph (3)(vii) must be calculated:
 - (i) on the basis of the capital expenditure referred to in subparagraph (3)(iii);
 - (ii) on the basis of the rate of return for that *Transmission Network Service Provider* for the *regulatory control period* as determined pursuant to clause 6A.6.2;
 - (iii) consistently with the manner in which depreciation is calculated under clause 6A.6.3;
 - (iv) to include the incremental operating expenditure referred to in subparagraph (3)(iii); and
 - (v) in accordance with the requirements for roll forward in the *roll-forward model* and revenue calculation in the *post-tax revenue model*.
- (c) As soon as practicable after its receipt of an application made in accordance with paragraphs (a) and (b), the *AER* must *publish* the application, together with an invitation for written submissions on the application.
- (d) The *AER* must consider any written submissions made under paragraph (c) and must make its decision on the application within 30 *business days* of its receipt of that application. In doing so the *AER* may also take into account such other information as it considers appropriate, including any analysis (such as benchmarking) that is undertaken by it for that purpose.

- (e) If the *AER* is satisfied that the *trigger event* has occurred, and that the forecast of the total capital expenditure for the *contingent project* meets the threshold as referred to in clause 6A.8.1(b)(2)(iii), it must:
- (1) determine:
 - (i) the amount of capital and incremental operating expenditure, for each remaining *regulatory year* which the *AER* considers is reasonably required for the purpose of undertaking the *contingent project*;
 - (ii) the total capital expenditure which the *AER* considers is reasonably required for the purpose of undertaking the *contingent project*;
 - (iii) the likely commencement and completion dates for the *contingent project*; and
 - (iv) the incremental revenue which is likely to be required by the *Transmission Network Service Provider* in each remaining *regulatory year* as a result of the *contingent project* being undertaken as described in subparagraphs (i) and (ii) ...
 - (2) calculate the estimate referred to in subparagraph (1)(iv):
 - (i) on the basis of the capital expenditure referred to in subparagraph(1)(i);
 - (ii) to include the incremental operating expenditure referred to in subparagraph(1)(i); and
 - (iii) otherwise in accordance with paragraph (b)(4); and
 - (3) amend the *revenue determination* in accordance with paragraph (h).
- (f) In making the determinations referred to in paragraph (e)(1), the *AER* must accept the relevant amounts and dates, contained in the *Transmission Network Service Provider's* application, as referred to in paragraphs (b)(3)(ii) - (vii), if the *AER* is satisfied that:
- (1) the forecast of the total capital expenditure for the *contingent project* meets the threshold as referred to in clause 6A.8.1(b)(2)(iii);
 - (2) the amounts of forecast capital expenditure and incremental operating expenditure reasonably reflect the *capital expenditure criteria* and the *operating expenditure criteria*, taking into account the *capital expenditure factors* and the *operating expenditure factors* respectively, in the context of the *contingent project*;
 - (3) the estimates of incremental revenue are reasonable; and
 - (4) the dates are reasonable.
- (g) In making the determinations referred to in paragraphs (e)(1) and (f), the *AER* must take into account:
- (1) the information included in or accompanying the application;
 - (2) submissions received in the course of consulting on the application;
 - (3) such analysis as is undertaken by or for the *AER*;
 - (4) the expenditure that would be incurred in respect of a *contingent project* by an efficient and prudent operator in the circumstances of the *Transmission Network Service Provider*;
 - (5) the actual and expected capital expenditure of the *Transmission Network Service Provider* for *contingent projects* during any preceding *regulatory control periods*;
 - (6) the extent to which the forecast capital expenditure for the *contingent project* is referable to arrangements with a person other than the *Transmission Network Service Provider* that, in the opinion of the *AER*, do not reflect arm's length terms;
 - (7) the relative prices of operating and capital inputs in relation to the *contingent project*;
 - (8) efficient substitution possibilities between operating and capital expenditure in relation to the *contingent project*; and
 - (9) whether the total labour costs included in the capital and operating expenditure forecasts for the *regulatory control period* are consistent with the incentives provided by the *service target performance incentive scheme* that is to apply to the provider in respect of the *regulatory control period*.

- (h) Amendments to a *revenue determination* referred to in paragraph (e)(3) must only vary the determination to the extent necessary:
 - (1) to adjust the forecast capital expenditure for that *regulatory control period* to accommodate the amount of capital expenditure determined under paragraph (e)(1)(i) (in which case the amount of that adjustment will be taken to be accepted by the *AER* under clause 6A.6.7(c));
 - (2) to adjust the forecast operating expenditure for that *regulatory control period* to accommodate the amount of incremental operating expenditure determined under paragraph (e)(1)(i) (in which case the amount of that adjustment will be taken to be accepted by the *AER* under clause 6A.6.6(c));
 - (3) to reflect the effect of any resultant increase in forecast capital and operating expenditure on
 - (i) the *maximum allowed revenue* for each *regulatory year* in the remainder of the *regulatory control period*; and
 - (ii) the *X factor* for each of the remaining *regulatory years* of the *regulatory control period*
- (i) Amendments to a revenue determination take effect from the commencement of the next regulatory year of the *regulatory control period*.

Appendix B: Capital expenditure criteria and factors; and the operating expenditure criteria and factors

‘Capital Expenditure Criteria’¹²

- (1) the efficient costs of achieving the *capital expenditure objectives*;
- (2) the costs that a prudent operator in the circumstances of the relevant *Transmission Network Service Provider* would require to achieve the *capital expenditure objectives*; and
- (3) a realistic expectation of the demand forecast and cost inputs required to achieve the *capital expenditure objectives*.

‘Capital Expenditure Factors’¹³

- (1) the information included in or accompanying the *Revenue Proposal*;
- (2) submissions received in the course of consulting on the *Revenue Proposal*;
- (3) such analysis as is undertaken by or for the *AER* and is *published* prior to or as part of the draft decision of the *AER* on the *Revenue Proposal* under rule 6A.12 or the final decision of the *AER* on the *Revenue Proposal* under rule 6A.13 (as the case may be);
- (4) benchmark capital expenditure that would be incurred by an efficient *Transmission Network Service Provider* over the *regulatory control period*;
- (5) the actual and expected capital expenditure of the *Transmission Network Service Provider* during any preceding *regulatory control periods*;
- (6) the relative prices of operating and capital inputs;
- (7) the substitution possibilities between operating and capital expenditure;
- (8) whether the total labour costs included in the capital and operating expenditure forecasts for the *regulatory control period* are consistent with the incentives provided by the applicable *service target performance incentive scheme* in respect of the *regulatory control period*;
- (9) the extent to which the forecast of required capital expenditure of the *Transmission Network Service Provider* is referable to arrangements with a person other than the provider that, in the opinion of the *AER*, do not reflect arm’s length terms; and
- (10) whether the forecast of required capital expenditure includes amounts relating to a project that should more appropriately be included as a *contingent project* under clause 6A.8.1(b).

‘Operating Expenditure Criteria’¹⁴

- (1) the efficient costs of achieving the *operating expenditure objectives*;
- (2) the costs that a prudent operator in the circumstances of the relevant *Transmission Network Service Provider* would require to achieve the *operating expenditure objectives*; and
- (3) a realistic expectation of the demand forecast and cost inputs required to achieve the *operating expenditure objectives*.

‘Operating Expenditure Factors’¹⁵

- (1) the information included in or accompanying the *Revenue Proposal*;

¹² Clause 6A.6.7(c)(1-3) of the NER.

¹³ Clause 6A.6.7(e)(1-10) of the NER.

¹⁴ Clause 6A.6.6(c)(1-3) of the NER.

¹⁵ Clause 6A.6.6(e)(1-10) of the NER.

- (2) submissions received in the course of consulting on the *Revenue Proposal*;
- (3) such analysis as is undertaken by or for the *AER* and is *published* prior to or as part of the draft decision of the *AER* on the *Revenue Proposal* under rule 6A.12 or the final decision of the *AER* on the *Revenue Proposal* under rule 6A.13 (as the case may be);
- (4) benchmark operating expenditure that would be incurred by an efficient *Transmission Network Service Provider* over the *regulatory control period*;
- (5) the actual and expected operating expenditure of the provider during any preceding *regulatory control periods*;
- (6) the relative prices of operating and capital inputs;
- (7) the substitution possibilities between operating and capital expenditure;
- (8) whether the total labour costs included in the capital and operating expenditure forecasts for the *regulatory control period* are consistent with the incentives provided by the applicable *service target performance incentive* scheme in respect of the *regulatory control period*;
- (9) the extent to which the forecast of required operating expenditure of the *Transmission Network Service Provider* is referable to arrangements with a person other than the provider that, in the opinion of the *AER*, do not reflect arm's length terms; and
- (10) whether the forecast of required operating expenditure includes amounts relating to a project that should more appropriately be included as a *contingent project* under clause 6A.8.1(b).