

06 November 2017

Mr Warwick Anderson  
General Manager, Network Finance and Reporting  
Australian Energy Regulator  
GPO Box 3131 Canberra ACT 2601  
via email: [rateofreturn@aer.gov.au](mailto:rateofreturn@aer.gov.au)

Dear Mr Anderson,

### **Response to AER's Preliminary Positions paper - Regulatory treatment of inflation**

Energy Networks Australia welcomes the opportunity to make a submission to the Australian Energy Regulator (AER) in response to its recent Preliminary Positions paper called Regulatory Treatment of Inflation (Preliminary Positions paper).

Energy Networks Australia is the national industry body representing businesses operating Australia's electricity transmission and distribution and gas distribution networks. Member businesses provide energy to virtually every household and business in Australia.

The Preliminary Position paper proposes no change to current regulatory practice with respect to inflation. More specifically, the Preliminary Position paper:

- » Proposes to retain the AER's current approach to estimating expected inflation with some minor modifications; and
- » Proposes no change to the current treatment of inflation within the Post-tax Revenue Model (PTRM) and RAB Roll-forward Model (RFM).

The focus of Energy Networks Australia continues to be on the first issue - ensuring that the regulatory process uses a best estimate of expected inflation. This is to ensure that network service providers (NSPs) are allowed to recover efficient financing costs and consumers pay no more or less than they should. If stakeholders have this level of comfort, then further adjustments to the regulatory framework, such as that contemplated in the second point above, are less important.

In its submission, Energy Networks Australia identifies specific issues with the analysis the AER has relied on when arriving at the conclusions set out in the Preliminary Position paper. Energy Networks Australia requests that the AER address these matters in its final decision on the regulatory treatment of inflation to enhance the capability of the decision being accepted by stakeholders. We particularly emphasise the need for a balanced consideration of all relevant evidence and information available. This is an important dimension of good public policy.

We note that the AER has expressed interest in receiving further submissions and evidence on how a glide path approach could be implemented in practice. Energy Networks Australia does not put forward a preferred glide path approach at this time, but we are willing to work constructively with other stakeholders and the AER to further investigate the pros and cons of alternative options for implementing a glide path, if it is to be actively considered for application.

If further information is sought on this matter, please contact Garth Crawford, Executive Director, Economic Regulation, on 02 6272 1507.

Yours sincerely,



**Andrew Dillon**  
Interim CEO