

24 August 2007

Mr Chris Pattas
Acting General Manager
Network Regulation South
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Dear Chris

First Proposed Transmission Guidelines

Thank you for your letter of 20 August which outlined the AER's views on a number of matters arising through the consultation on the First Proposed Transmission Guidelines.

Overall, ETNOF is supportive of the positions reached by the AER in the letter, which will be reflected in the First Proposed Guidelines.

ETNOF recognises the limited timeframe within which the AER has to develop and publish its Guidelines and appreciates the opportunities the AER has afforded interested stakeholders in reaching this end. The teleconference of 22 August proved very useful in understanding how the AER reached its positions and to seek further clarification of the points raised in your letter. Following on from these discussions, ETNOF provides the following comments:

Submission Guidelines

Audit Requirements - ETNOF understands the AER position to be that an audit assurance will only be required in respect of historical capital and operating expenditure provided as part of a Revenue Proposal. This assurance will take the form of either a full-blown audit, a sample review or review of agreed upon procedures - the choice of which will be left to the TNSP to decide. In addition, there will be no requirement for a TNSP to provide certified assurance in respect of future capital or operating expenditure proposals.

Directors' Sign-off – Consistent with the Rules (schedule s6A.1.1(5) and schedule s6A.1.2(6)), Directors will be required to certify the reasonableness of the key assumptions underpinning the capital and operating expenditure forecasts.

Recognition of Ex-ante Framework - All references to an ex-post prudency review will be removed. However, the project-specific past capex information templates will remain.

In relation to the information template headings, only the headings will be considered mandatory. All line items below the headings can be agreed between the individual TNSP and AER during pre-lodgement meetings.

Cost Allocation Guidelines

Level of Detail - ETNOF understands that the AER only requires sufficient information to enable it to replicate a TNSP's reported outcomes. That is, to demonstrate how TNSPs have applied the cost allocation principles.

Audit Requirements - Audit requirements will be clarified and limited to an assurance of compliance with a TNSP's stated approach. In addition, any references to the cost allocation methodology being applied when preparing capital and operating forecasts will be removed.

Directors' Statement - Directors will be required to attest that the business' approved cost allocation methodology has been applied.

Efficiency Benefit Sharing Scheme

Negative Carryover – the Guidelines will make explicit that the AER will consider the reasons which give rise to a negative carryover in deciding whether to apply a net negative carryover in a subsequent regulatory period. In reaching its decision, the AER will also take into account the overarching requirement for the TNSP to be able to recover the efficient costs of meeting its regulatory and other obligations.

Sharing Ratio – the Guidelines to provide explanation of why the AER considers a sharing ratio of 30:70 in favour of customers to be a fair sharing arrangement.

Roll-Forward Model

ETNOF seeks clarification as to whether TNSPs are expected to maintain the tax roll-forward against their respective tax asset registers.

A number of other issues have been identified regarding the CPI index, grossing-up of capital expenditure to end of year values and inflation adjustment. Please see attached memo from NERA on the Roll Forward Model.

Service Target Performance Incentive Scheme

A number of TNSPs scheduled to submit Revenue Proposals in the next year or so have been involved in discussions with AER staff on the schemes to apply to those businesses in the next regulatory period. These TNSPs have found the discussions to be very positive and constructive.

Information Guidelines

ETNOF understands that, due to time constraints, interested stakeholders will not have any further opportunity to comment on the Information Guidelines. Given that a number of issues raised in ETNOF's submission on the Information Guidelines have not been addressed in previous discussions on the First Proposed Guidelines, ETNOF asks that the AER revisit the submission to ensure that appropriate account has been taken of ETNOF's concerns therein. In particular, in relation to the reconciliation of accounting and regulatory asset values, requirements for

disaggregated information for transmission services other than prescribed transmission services and the unnecessary requirement for certain pro forma sheets to be provided (such as the cash flow statement and summary of provisions).

Notwithstanding this, the AER indicated that to the extent that there is overlap between the Information Guidelines and other Guidelines, the positions enunciated to date by the AER will be similarly reflected in the Information Guidelines.

Finally, ETNOF agrees with the AER's conclusion that limitation of historic capital and operating expenditure information to five years as part of a TNSP's Revenue Proposal is appropriate.

If you have any queries in relation to these matters, please contact Merryn York on (07) 3860-2143.

Yours sincerely

Merryn York
Convenor, ETNOF Regulatory Managers