



ElectraNet Pty Limited

ABN 41 094 482 416

ACN 094 482 416

PO Box 7096

Hutt Street Post Office

Adelaide 5000 South Australia

T (08) 8404 7966

F (08) 8404 7104

W [www.electranet.com.au](http://www.electranet.com.au)

20 April 2007

Mike Buckley  
General Manager  
Network Regulation North  
Australian Energy Regulator  
PO Box 1199  
Dickson ACT 2602

By email: [powerlinkreset@aer.gov.au](mailto:powerlinkreset@aer.gov.au)

Dear Mike,

### **Inflation forecast – Bias in the Real Risk Free Rate**

The AER has sought comments from interested parties on additional information provided by Powerlink on the estimated inflation forecast used in its draft revenue cap decision. Powerlink's submission explains an apparent observed bias in indexed Commonwealth bond yields which are used as a proxy for the real risk free rate. Powerlink's submission was based on a report by NERA on this issue.

The AER has also invited views on whether this issue can be properly addressed in the time remaining for finalising the Powerlink decision, currently May 2007.

ElectraNet has reviewed the NERA report and analysis on this issue and finds the evidence of a downward bias in indexed CGS bond yields compelling. Our understanding of the analysis is that the proposed adjustment of 20 basis points to the real risk free rate is a conservative one.

The effect of applying the proposed adjustment is to reduce the expected inflation rate by 20 basis points.

ElectraNet observes that based on current market data this would bring the inflation forecast determined from the real and nominal risk free rates (the methodology applied by the AER) down to a level that is more in line with the inflation forecast provided by other economic forecasters.

ElectraNet believes that the AER's consideration of this issue should be relatively straightforward and that the proposed adjustment should be accepted on the basis of the evidence provided.

Please don't hesitate to contact me on (08) 8404 7983 to discuss any aspect of this submission.

Yours sincerely,

*Rainer Korte*

**RAINER KORTE  
NEM DEVELOPMENT AND REGULATION MANAGER**