



OFFICE OF THE CHIEF EXECUTIVE

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31 October 2014

Chris Pattas  
General Manager  
Networks (Investment and Pricing)  
Australian Energy Regulator  
GPO Box 520  
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Dear Chris

**Framework and Approach  
Powerlink 2017/18 to 2021/22 Regulatory Determination Process**

As a result of changes to the National Electricity Rules (the Rules) in late 2012, Powerlink understands that the first step in the Australian Energy Regulator's (AER's) regulatory determination process is now a Framework and Approach (FAP) process. This process requires that the AER publish a FAP paper at least 23 months before the end of Powerlink's current regulatory period (by 30 July 2015), after consulting with Powerlink and other persons the AER considers appropriate.

While the Rules are clear on the specific processes to be followed where there is an existing FAP paper in place, they are less clear on the process where there is not – as is the case for Powerlink.

Notwithstanding this, Powerlink notes that the Australian Energy Market Commission (AEMC) referred to a position paper on the FAP in its Determination<sup>1</sup>, with release prior to publication of the AER's (final) FAP paper. Informal advice from the AER in June 2014 also indicated that, consistent with its current practice, the AER would publish a position paper on Powerlink's FAP for its next regulatory determination process in February 2015. This would provide Powerlink and others with an opportunity to review and provide comment on the AER's proposed approach.

As this is the first time that a FAP paper will apply to Powerlink in relation to a regulatory determination process, Powerlink would like to confirm its intention to participate in the AER process prior to its finalisation of a FAP applicable to Powerlink.

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<sup>1</sup> AEMC (2012), Rule Determination, National Electricity Amendment (Economic Regulation of Network Service Providers) Rule 2012, 29 November, p177.

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Powerlink notes that the current timetable on the AER website does not reflect the currently applicable situation of no FAP existing at this time. To this end, Powerlink seeks confirmation from the AER on the timeframes applicable to its regulatory determination process, in particular when the position paper on the FAP that will apply to Powerlink will actually be published.

### **Top-Down Approach**

One matter of particular interest to Powerlink at this stage is the potential to undertake a top-down forecasting approach to establish its capital expenditure requirements for the next regulatory period. Such an approach would not only significantly reduce the burden (particularly in terms of preparation time, resources and costs) on Powerlink to prepare its next Revenue Proposal, but may similarly assist the AER and stakeholders in terms of the time, effort and cost to review and assess Powerlink's proposal.

A fundamental element of a top-down approach is the level of information and analysis required to support the forecast. Powerlink considers that it would be reasonable for the level of justification required by the AER to be commensurate with the approach. In other words, it would not be consistent, practical or appropriate to expect a detailed, bottom-up justification for the capex forecast once the service provider lodged its Revenue Proposal, when it had been prepared on a top-down basis. Powerlink intends to liaise further with the AER about this approach.

### **Other Matters**

Powerlink wishes to advise that there may be other matters which arise in the lead up to commencement of the FAP process which may need to be considered.

If you have any queries in relation to this matter, please contact Jennifer Harris.

Yours sincerely



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**Chief Executive**

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