

Mr Chris Pattas
General Manager
Network Regulation South
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3000

Dear Sir

Re: AER Draft SP-Ausnet Revenue Cap Determination – TransGrid Response

Reference is made to the Draft SP-Ausnet Revenue Cap Determination by the Australian Energy Regulator (AER) dated 31 August 2007. The opportunity to comment on this Draft Determination is appreciated.

The matter of primary interest to TransGrid is the appropriateness of the 3% inflation rate estimate adopted by the AER in the Draft Determination. Based on the advice provided to TransGrid by NERA (copy attached), it appears likely that this outcome, and the approach adopted by the AER in coming to this outcome, do not meet the requirements of Clause 6A.5.3 (b) (1) of the National Electricity Rules to produce the 'best estimates of expected inflation'.

TransGrid notes that an alternative approach to this estimate, adopted by the Australian Competition Tribunal (the Tribunal) in relation to the Application by GasNet Australia (operations) Pty Ltd [2003], appears to more closely align with the requirements of the Rules. Of particular concern is that, according to NERA, adopting an approach, similar to that adopted by the Tribunal to the SP-Ausnet decision would result in inflation estimate of between 2.60% and 2.65%. It is also apparent that this would have a material impact on the revenue outcomes for SP-Ausnet, and TransGrid, if this approach is also adopted in the upcoming TransGrid revenue cap determination.

For these reasons TransGrid asks the AER to reconsider its approach to estimating inflation for adoption in the final SP-Ausnet revenue cap decision, along the lines proposed by NERA in the attached report.

Yours sincerely



P McIntyre
General Manager/Network Development and Regulatory Affairs