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

Mr Warwick Anderson  
General Manager Network Regulation  
Australian Energy Regulator  
GPO BOX 3131  
Canberra, ACT 2601

Dear Mr Anderson,

### **Rate of Return Guidelines - Jemena submission on the consultation paper**

Jemena Limited (**Jemena**) welcomes the opportunity to respond to the Australian Energy Regulator's (**AER's**) consultation paper on the rate of return guidelines.

Jemena owns two regulated network businesses: Jemena Gas Networks (NSW) Limited (**JGN**) and Jemena Electricity Networks (Vic) Limited (**JEN**). Jemena also has ownership interests in the United Energy electricity distribution business in Victoria (34%) and the ActewAGL gas and electricity distribution partnership in the ACT (50%). Accordingly, Jemena has a significant interest in the content of the rate of return guidelines.

### **Jemena's submission**

Jemena has particularly strong views on what benchmark the AER should use to set the cost of debt, and this is the focus of our submission. While the AER currently favours a single trailing average benchmark, selecting this as the only benchmark has material negative consequences for smaller network service providers (NSPs) like JEN and JGN (and their customers).

Jemena's submission argues that:

- The AEMC's rule change decision on the rate of return envisaged, and the AER should provide for, flexibility for using more than one benchmark approach
- Jemena favours the hybrid approach, which would minimise cost of debt for smaller NSPs like JEN and JGN, and result in lower tariffs for their customers— we can expect a cost of debt about 25 to 28 basis points lower under the hybrid approach than under the other benchmark approaches
- If the AER were to adopt the trailing average benchmark as its only approach, then smaller NSPs like JEN and JGN would face unavoidable, efficient extra

costs and risks that would need to be compensated through higher cost of debt or equity allowances, or both.

Please find attached to this letter Jemena's submission, which discusses the above, and other points, in more detail. If you wish to discuss the submission please contact me on (03) 8544 9053 or at [robert.mcmillan@jemena.com.au](mailto:robert.mcmillan@jemena.com.au).

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'R McMillan', with a long horizontal flourish extending to the right.

**Robert McMillan**  
General Manager Regulation  
Jemena Limited.