



19 May 2014

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Mr Warwick Anderson
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Return on debt – Jemena submission on the AER issues paper

Dear Mr Anderson

Jemena Limited (**Jemena**) welcomes the opportunity to respond to the Australian Energy Regulator's (**AER**'s) issues paper on the return on debt ('*Return on debt: Choice of third party data service provider*').

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 guideline.

Background

As you may know, we are busily preparing JGN's access arrangement (**AA**) revision proposal, which is due to the AER on 30 June 2014.

As part of this proposal, we are exploring many of the questions set out in the issues paper, including on the choice of third party data service provider. Although we provide some initial feedback on these questions below, JGN's proposal will contain a more complete review.

Submission

Jemena supports the Energy Networks Association (**ENA**) submission on the issues paper. This submission focuses on how the return on debt should be set in principle, pointing out that we should retain flexibility so that the return can reflect changes in market conditions and innovations, such as the newly published curves by the Reserve Bank of Australia (**RBA**).

Automatic updating

Jemena is concerned, however, that the issues paper does not say anything about how tariffs would update within a regulatory period if the trailing average return on debt were updated each year. Although this is a new requirement (if automatic updating were used), we expected to see how the AER intended this updating to work in the recent framework and approach papers for the NSW and ACT electricity networks.

We encourage the AER to explore this issue with stakeholders (including Jemena) during this return on debt consultation.

AER questions

On the questions in the issues paper, our initial views are that:

- the return on debt for a given averaging period should reflect the yields on a wide (and relevant) sample of traded bonds, consistent with recent Australian Competition Tribunal decisions on the debt risk premium (**Question 1**)
- this may mean that the same curve is not used for the duration of the regulatory period, so long as switching from one curve to another is automatic and the selected curve reflects the sample of traded bonds (**Question 2**)
- the RBA curves provide relevant information for estimating the return on debt and currently appear to better reflect the traded bond data than the equivalent Bloomberg BVAL curves (**Question 6**)
- if a RBA curve only has month-end observations, then it should be interpolated to a daily series using:
 - business days (rather than calendar days)
 - total yield (rather than spread to Commonwealth Government securities), and
 - a linear form (rather than non-linear form) (**Questions 7 and 8**).

JGN's proposal will further address these and other points.

If you wish to discuss this submission further, please contact Eli Grace-Webb on (03) 8544 9164 or at eli.grace-webb@jemena.com.au.

Yours sincerely



Robert McMillan
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