

Jemena Electricity Networks (Vic) Ltd

2016-20 Electricity Distribution Price Review Regulatory Proposal

Revocation and substitution submission

Attachment 6-3 Future averaging periods

Public

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1. PROPOSED AVEARGING PERIODS

1.1 SUMMARY

1. Jemena Electricity Networks (Vic) Ltd (**JEN**) proposed to use:
 - the 15 business days from 16 November 2015 to 4 December 2015 (inclusive) as the period to estimate the annual return on debt observation for the first year of the 2016 regulatory period,¹ and
 - the 20 business days from 16 November 2015 to 11 December 2015 (inclusive) as the period to estimate the risk-free rate used to estimate the return on equity for all years of that period.²
2. The Australian Energy Regulator (**AER**) accepted this proposal.³
3. JEN also proposed a mechanism for setting subsequent averaging periods for updating the return on debt allowance within the 2016 regulatory period. The AER rejected this proposal in its preliminary determination—and we have responded to the AER’s reasons for rejecting it in Attachment 6-1.
4. For reasons set out in Attachment 6-1, JEN maintains its proposal for a mechanism to allow selection of averaging periods within the access arrangement period. Therefore JEN has retained the proposed selection mechanism in its April 2015 proposal.
5. The purpose of this attachment is to set out our proposed averaging periods for year two to year five of the 2016 regulatory period *if our proposal to retain the averaging period setting mechanism is rejected*. For clarity, proposing these periods in this attachment does not mean we accept the preliminary decision to require all averaging periods for the 2016 regulatory period to be included in the final decision.

1.2 AVERAGING PERIODS FOR YEARS TWO TO THREE OF THE 2016 REGULATORY PERIOD

6. If required, then JEN proposes the following averaging periods for year two to year five of the 2016 regulatory period:
 - 2017: [c-i-c] – [c-i-c] (inclusive)
 - 2018: [c-i-c] – [c-i-c] (inclusive)
 - 2019: [c-i-c] – [c-i-c] (inclusive)
 - 2020: [c-i-c] – [c-i-c] (inclusive).

¹ JEN, *Regulatory proposal—Attachment 9-3: Averaging period proposal (confidential)*, 30 April 2015; Acting General Manager—Regulation (JEN), *Letter to AER: Rate of return averaging periods for the 2016–2020 regulatory control period*, 10 July 2015 (Confidential); and JEN, *Regulatory proposal—Attachment 9-2: Rate of return proposal*, 30 April 2015, pp. 101–102.

² General Manager – AER Networks, *Letter to JEN: Rate of return averaging periods for the 2016–20 regulatory control period*, 29 June 2015 (Confidential); and Acting General Manager—Regulation (JEN), *Letter to AER: Rate of return averaging periods for the 2016–2020 regulatory control period*, 10 July 2015 (Confidential).

³ AER, *Preliminary Determination, Jemena Electricity Networks determination 2016 to 2020, appendix K— Rate of return – equity and debt averaging periods*, October 2015.

1.3 CONFIDENTIALITY

7. Consistent with the rate of return guideline and previous regulatory practice, we propose keeping the dates for each averaging period confidential until after they have passed. This gives JEN an opportunity to align its actual funding costs with the allowed rate of return estimated over this period without the risk of other market participants using this information against our legitimate commercial interests.