

Mr. Sebastian Roberts
General Manager
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Jemena Electricity
Networks (Vic) Ltd
ABN 82 064 651 083

Level 16, 567 Collins Street
Melbourne, VIC 3000
PO Box 16182
Melbourne, VIC 3000
T +61 3 9173 7000
F +61 3 9173 7516
www.jemena.com.au

By email: [REDACTED]

6 March 2020

Dear Sebastian,

Submission regarding extremely low return on equity from short term market fluctuations

Jemena welcomes the opportunity to comment on the recent financial market volatility and the impact on Jemena Gas Network's (**JGN**) 2020-25 revenue allowance.

This letter reflects the concerns of our Board and investors in relation to impact of historically low interest rates during our equity averaging period on the revenue allowance and price path profile. These were expressed at a meeting yesterday between the AER Board and the JGN Board.

Over the last two months the financial markets have been extremely volatile due to the impact of coronavirus on global economic activity and investment. Recently the Reserve Bank of Australia (**RBA**) dropped the cash reserve rate to an all-time low of 0.50% and the Federal Government is discussing fiscal measures to avoid an impending recession.

We respect that the Rate of Return Instrument (**RORI**) is binding on both us and the AER. Our proposal for 2020-25 is delivering significant price reductions for customers (21% over 5 years), investing efficiently and prudently to meet customer requirements, and it will maintain desired levels of safety and reliability.

In this context we are requesting the AER to consider the "decision as a whole" and one that balances an award-winning customer-centric proposal with the desired certainty and predictable cashflows each year to meet its investment needs and customers' expectations in unprecedented financial market conditions.

We believe that there may be two options to consider this:

- **Changes to forecast inflation approach** –The inflation approach used in draft decision was delivering a significantly higher estimate compared to other market

based measures which resulted in overall negative ROE adjusted for revaluation (see page 6 of Attachment 7.2 of JGN Revised Proposal).

JGN proposed that the AER should consider either adopting a more market based approach or an average of its approach and market based approach with a cross check to ensure that it delivers positive cash dividends to equity holders (see page 8 of Attachment 7.2 of JGN Revised Proposal).

We also proposed this in our response to AER's Review of Regulatory Gas Financial Models (dated 20 January 2020). This change in forecasting approach would not only align the inflation estimate to market expectations but also ensure that there is sufficient cash flow to provide necessary incentives for continued investment and in the long term interests of consumers.

- **Back-ending the revenue impact from recent deterioration in the risk free rate**– A key feature of the AER decision making process is the adoption of a price path that smooths out volatility in prices. We recommend that the AER consider back-ending some of the revenue impact from the low return on equity due to current drop in the risk free rate.

This will help ensure that JGN has sufficient cash each year to remain financeable, and for continued investment in maintenance and upgrade of the network which remains in the long term interests of consumers.

We welcome the opportunity to work with AER staff to develop a suitable price path to achieve this.

Final Comments

We believe that despite the RORI being binding in nature, the AER has the discretion to respond in an agile manner to the current extreme market conditions, and ensure that JGN can continue to provide uninterrupted energy service to the community.

We remain committed to working constructively with the AER and welcome any further queries in relation to this letter. If you wish to discuss this submission please contact Sandeep Kumar on [REDACTED] or [REDACTED].

Yours sincerely



Usman Saadat
General Manager - Regulation