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Mr Warwick Anderson
General Manager, Networks Finance and Reporting
Australian Energy Regulator
Melbourne VIC 3001

By email: ModelReviews@aer.gov.au

12 March 2019

Dear Warwick

Feedback on Proposed Amendments to the Post Tax Revenue Model (PTRM)

Jemena welcomes the proposed amendments to the PTRM that the Australian Energy Regulator's (**AER**) have released for comments. Throughout the 2018 regulatory tax review Jemena worked collaboratively with the AER and will continue to assist with the new regulatory tax approach to be incorporated in the PTRM along with other refinements to the model.

Overall we find the changes made by the AER reasonable and consistent with the regulatory tax decision on which it consulted with distribution network service providers (**DNSP**s) in 2018. We present below a few refinements to the PTRM –

1. The current amendment to PTRM only allows for straight line depreciation for tax asset base (**TAB**). However, Jemena Gas Network's (**JGN**) TAB depreciates based on diminishing value method. We recommend providing an option to select diminishing tax depreciation method for existing TAB as well (the model already uses diminishing value method for depreciating new capital expenditure). This will allow JGN to continue depreciating its TAB based on diminishing value method and allow our customers to receive the benefits of lower tax allowance.

2. Currently the residual tax asset values are written off at the end of RAB asset lives which require the DNSPs to track each asset class separately in all following regulatory periods. A simpler approach would be to apply a single depreciation rate to capex in each asset class without a cap on the asset life. This approach would significantly reduce modelling complexity by requiring a single line for each asset class in future periods as opposed to having 5 additional lines for each asset class to track the RAB asset life.

3. There may be a potential error in Cells AB871 and BB871 in Assets sheet. The two cells under land and easement category seem to use a formula that includes in its range data for all the asset categories below this category which is inconsistent with other cells. We recommend AER review this two cells and ensure whether this an error and needs to be amended.

4. There are some inconsistent formulae in Analysis sheet (Cells G77, F109, G109, F111, F117 and F120) but are not resulting in any errors. From a best modelling practice point of view the AER may consider making these formulae consistent with other cells in the same row. Cell F111 uses the imputation credits assumption for the new regulatory period which may be different to the previous regulatory period, although there is no impact of this as the value is multiplied to zero. The AER may like to use the formula in G111 for this cell as well.

5. The revenue X-factors are currently not linked to price cap X-factors (which is the case in current Victorian determinations) and/or are not completely solved to achieve zero difference between smoothed and unsmoothed revenue. It would be beneficial to understand how the X-factors under revenue cap will be estimated.

Jemena also supports Energy Networks Association's (**ENA**) recommendation that the AER consider developing a financeability framework with stakeholders. Such a framework could be used on a regular basis to consider the impact of various reviews[1] on long term interest of customers. We are committed to working constructively with the AER and welcome any further queries in relation to the above feedback. Please contact Sandeep Kumar on [redacted] if you would like to discuss this letter further.

Yours sincerely

[redacted]

Usman Saadat
General Manager Regulation

[1] Such as rate of return, productivity, tax, etc