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Kenny Yap
Director, Network Finance and Reporting
Australian Energy Regulator
Sydney, NSW 2000

By email: ModelReviews@aer.gov.au

20 September 2019

Dear Kenny

Response to preliminary regulatory model consultation

Jemena welcomes the opportunity to comment on the preliminary draft gas regulatory models and proposed amendments to the RFM and depreciation tracking models that the Australian Energy Regulator (**AER**) has released for consultation.

Overall we find the changes made by the AER reasonable and consistent with the recent tax review on which it consulted with distribution network service providers (**DNSP**s) in 2018. We present below some additional considerations for each of the models below.

Preliminary Draft Gas PTRM

- The current gas regulatory PTRM consultation needs to include a consultation on how the inflation assumption should be applied. There is a significant difference between the estimate from AER's method of using RBA target range and the actual inflation in the current market conditions. This results in DNSPs being undercompensated relative to the nominal return used in the PTRM because the actual inflation that's applied to the regulated asset base in the RFM is significantly lower than the forecast inflation removed from the building blocks in the PTRM.

  We believe that the regulatory framework should at a minimum deliver a target nominal return on debt because corporate debt is most efficiently raised using nominal debt instruments. This is because DNSPs are required to meet interest repayment in nominal terms irrespective of whether actual inflation turns out to be higher or lower than expected at the time they entered into the debt contract. We would like the AER to consider updating PTRM annually to ensure that the inflation risk on debt payments is mitigated. This can be done at the same time when the AER updates the return on debt annually.

  A practical way to achieve could be by applying an annual adjustment in the PTRM through the revenue adjustment section. This adjustment could be determined by taking the difference between the forecast and actual inflation and applying that percentage to the debt funded portion of the forecast RAB each year (potentially with any minor modifications for internal consistency).

- It would make it easier for us to use the model if the AER includes 70 rows for tariff classes in the PTRM to allow us to use the model without inserting more rows in the Inputs and Forecast Revenue sheets.

- We recommend that AER include different formatting and cautionary notes on cell G49 of the X-factor sheet when users select option 't' on the PTRM Input sheet, cell E521.

Preliminary Draft Amended Electricity RFM

- We note there may be an inconsistent formula in row 456 of 'Total RAB roll forward' worksheet, please refer to columns J to N.

- We recommend the AER provides more controls and caution notes prior to the inputs being applied with the new ex-post review functionality. It would this section should show which tests have triggered the ex-post review adjustment.

Preliminary Draft Electricity Depreciation Tracking

- We note that the TAB worksheets are missing the equivalent functionality associated with ex-post review adjustments made in the RAB worksheets.

We note that all of the above electricity models assume each year in a regulatory period is a full twelve months and there are no changes from calendar year to financial year between regulatory periods. We understand that the AER will separately consult with us on the new regulatory models for Jemena Electricity Network.

Please note that we have not provided responses for the gas RFM and gas depreciation tracking models as they will not apply to Jemena Gas Network for determining the initial regulatory asset base for next access arrangement period (2020-25).

We are committed to working constructively with the AER and welcome any further queries in relation to the above feedback. If you wish to discuss this submission please contact Jerrie Li on [redacted] or [redacted].

Yours sincerely

[signed]

Sandeep Kumar
Manager Regulatory Analysis and Strategy