



Jemena Gas Networks
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Mr Mike Buckley
General Manager, Network North Branch
Australian Energy Regulator
23 Marcus Clarke Street
CANBERRA ACT 2601

JGN access arrangement revision proposal: JGN further response to the draft decision

Dear Mike

Jemena Gas Networks (NSW) Ltd (**JGN**) provides this public submission in addition to the materials provided in its initial response¹ to the Australian Energy Regulator's (**AER**) draft decision and in subsequent responses to the AER's clarification questions.

JGN provides this submission in the context of the AER's public consultation on its draft decision and JGN's revised access arrangement revision proposal. It provides further support for the positions JGN has already put, addresses a number of matters raised by the AER in the draft decision, and confirms JGN's understanding of the status of the AER's information gathering and analysis leading up to its final decision.

Material with this submission

This submission includes several components:

- *Cost of capital* — a submission (**Attachment 1**) setting out further support for JGN's proposed cost of equity and cost of debt forecasting methods and responding to the AER's draft decision on these issues
 - *Cost of equity* — expert evidence from Oxera Consulting (**Oxera**)(Attachment 1a) which provides further material to support a conclusion that the Fama-French three factor model (**FFM**) is a well accepted financial model, that the capital asset pricing model does not provide superior forecasts of the cost of equity than the FFM, and that, overall, the NERA reports—presented in Appendices 5.1 and 5.2 of JGN's initial response—correctly specify and apply the FFM

¹ JGN, *Initial response to the draft decision*, 19 March 2010 (**initial response**).

- *Cost of debt* — a further expert letter from PricewaterhouseCoopers (**PwC**) (Attachment 1b) assessing the AER’s recent analysis of the cost of debt as published in its final decision for ActewAGL and explaining why this analysis does not change the conclusions reached in PwC’s earlier report on this topic—provided as Appendix 5.5 of JGN’s initial response
- *Plastics escalators* — a submission (**Attachment 2**) responding to the AER’s recent analysis of the plastics escalators as published in its final decision for ActewAGL, and detailing what types of plastic piping JGN uses, how plastic piping prices have historically escalated significantly above CPI and why the AER’s draft decision to apply zero real escalation is inconsistent with the National Gas Law s24(2) requirement that JGN be permitted to recover at least its efficient costs
- *Public submissions* — a collated set of public submissions that JGN has provided since 19 March 2010, which the AER has not yet published on its website, in relation to:
 - JGN response to the AER’s 31 March questions (public version), which JGN submitted on 9 April 2010 (**Attachment 3**)
 - JGN’s summary of minor changes to the revised AA that were not made in response to issues raised in the draft decision, which JGN submitted on 10 April 2010 (**Attachment 4**)
 - PwC expert assessment of AER errors in the draft decision, which JGN submitted on 15 April 2010 (**Attachment 5**)
 - Expert report from Ernst & Young demonstrating how JGN’s capitalisation policy complies with the relevant accounting standards, which JGN submitted on 19 April 2010 (**Attachment 6**)

Conclusion of AER’s information gathering and analysis

JGN used its best endeavours to respond actively to the issues raised in the draft decision and the AER’s information requests in the most timely and complete manner possible. In each case, JGN has provided the information it understands the AER has required and that is necessary for the AER to conduct its powers and functions under the national gas law and rules.

Unless the AER informs JGN otherwise, JGN assumes that:

- *Adequacy of information* — the AER finds JGN’s responses clear and sufficient for the AER’s purposes and that the AER holds no doubt about the accuracy, consistency or reliability of the information JGN has provided
- *Full understanding* — The AER has been able to gain a full and thorough understanding of JGN’s written information and financial models.

Should the above assumptions not be correct, JGN requests that the AER raise any concerns it has as a matter of urgency. This will enable JGN to respond in a timely manner and best support the AER’s decision making process.

Review of stakeholder submissions, subsequent advisors reports and new AER reasoning

As indicated in its initial response², JGN must be afforded a reasonable opportunity to respond to all materials that are relevant to the AA review process, including any new information the AER intends to take into account or any change in thinking on issues upon which the AER has not previously consulted JGN.

Where stakeholders raise new issues in submissions responding to JGN's revised AA revision, or the AER conducts further analysis as a part of making its final determination, JGN has a reasonable expectation that it will have an opportunity to review and, where appropriate, respond to, such submissions and new information prior to the AER making its final decision and in sufficient time for the AER to have regard to JGN's response to that material.

Similarly, if the AER intends to rely on any expert reports that has not be exposed with the draft decision, JGN must also be provided with an opportunity to review and respond to that material prior to the AER making its final decision and in sufficient time for the AER to have regard to any submissions that JGN wishes to make in response to that material.

If you have any questions regarding this letter please contact me on (02) 9270 4512 or sandra.gamble@jemena.com.au.

Yours sincerely

A handwritten signature in cursive script that reads "Sandra Gamble".

Sandra Gamble
Group Manager Regulatory
Jemena Limited

² Initial response, p. 15.