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By email: rateofreturn@aer.gov.au

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Mr Warwick Anderson
General Manager Network Regulation
Australian Energy Regulator
GPO BOX 3131
Canberra, ACT 2601

Dear Mr Anderson,

Rate of Return Guideline - Jemena submission on the draft guideline

Jemena Limited (**Jemena**) welcomes the opportunity to respond to the Australian Energy Regulator's (**AER's**) draft rate of return guideline and supporting explanatory statement.

Jemena owns two regulated network businesses: Jemena Gas Networks (NSW) Limited (**JGN**) and Jemena Electricity Networks (Vic) Limited (**JEN**). Jemena also has ownership interests in the United Energy electricity distribution business in Victoria (34%) and the ActewAGL gas and electricity distribution partnership in the ACT (50%). Accordingly, Jemena has a significant interest in the content of the rate of return guideline.

Jemena's submission

Jemena supports the Energy Networks Association (**ENA**) submission on the draft rate of return guideline. This submission—along with the ENA submission on the issues and consultation papers—provides a robust body of relevant evidence that the AER should consider when developing the final guideline and setting the rate of return for energy network businesses.

Jemena also has particularly strong views on what benchmark the AER should use to set the cost of debt. As set out in our submission on the consultation paper, Jemena:

- favours the hybrid cost of debt approach because it leads to lower financing costs for smaller networks like JEN and JGN, which benefits both the firms and their customers
- if the trailing average approach is used, favours a transition mechanism from the current cost of debt benchmark to the new benchmark because this ensures that the assumed efficient debt management practices are fairly transitioned between the two.

Finally, we recognise the AER's preference for the guideline to set out only one cost of debt approach (i.e. the trailing average approach). We also note that the guideline is not binding and the National Electricity Rules and National Gas Rules allow for alternative cost of debt approaches. We therefore look forward to further consulting with the AER on alternative approaches during the JEN and JGN price reviews.

If you wish to discuss our submission please contact me on (03) 8544 9053 or at robert.mcmillan@jemena.com.au.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'R McMillan', written in a cursive style.

Robert McMillan
General Manager
Regulation