

CEG Scoping Brief – Debt Risk Premium

1. Purpose

The purpose of this brief is to set out the nature, scope and purpose of work that the five Victorian electricity distribution businesses (**the businesses**) are seeking CEG to undertake in relation to debt risk premium.

2. Background

The businesses' current regulatory control period is due to expire on 31 December 2010 and the next regulatory control period will commence on 1 January 2011 and run until 31 December 2015. The businesses have submitted their revised regulatory proposals, for the upcoming regulatory control period, to the Australian Energy Regulator (**AER**). The AER has since issued a consultation paper on debt risk premium titled '*AER draft approach for measuring the debt risk premium for the Victorian Electricity Determinations, 27 September 2010*' (**the consultation paper**).

3. Scope of works for CEG

3.1. Preparation of the Report

CEG should prepare an expert report which sets out CEG's response to the following questions contained in the AER's consultation paper:

1. *Given the paucity of available data, the fact that CBASpectrum recently ceased publication of its fair yield curve, the characteristics of the recently issued APT bond and the Tribunal's recent decision on the DRP issue, the AER intends to examine the yields from the recently issued APT bond and those derived from Bloomberg in terms of their appropriateness in estimating the DRP for the Victorian DNSPs' distribution determinations. Please provide comments on the AER's intended process.*
2. *Given the uncertainty in determining whether yields from Bloomberg or from the APT bond are more appropriate in setting the DRP, the AER intends to take an average of the two. Please provide comments on the AER's intended methodology.*
3. *Do stakeholders agree with the AER's conclusions regarding information from other sources?*
4. *Are there other sources of relevant information the AER has not considered above?*
5. *Do stakeholders consider it necessary to use an alternative method for estimating the DRP during days in averaging periods where APT data are not available?*
6. *Do stakeholders consider there is justification for making adjustments to the APT bond data to generate information during days where bond data are not independently available?*

Additionally, your opinion is also sought on:

7. The appropriate method of extrapolation of the Bloomberg BBB fair value curve; and

8. In light of recent developments, including CBASpectrum ceasing publication of its fair yield curve and the recent Australian Competition Tribunal decision *Application by ActewAGL Distribution* [2010] ACompT 4, what appropriate method or methods could be adopted to provide a measurement of the debt risk premium that is consistent with the requirements of the National Electricity Rules and National Electricity Law.

Your report should cover each of the following averaging periods:

- 19 April 2010 to 31 May 2010 inclusive;
- 2 August 2010 to 27 August 2010 inclusive; and
- 13 September 2010 to 8 October 2010 inclusive.

The report must contain the following:

- The terms of reference;
- The authors of the report and their qualifications;
- Clearly and fully set out all the relevant facts;
- Explain the process of reasoning; and
- Reference any documents relied on.

All spreadsheets containing data and calculations underpinning analysis in the report should also be provided.

The report prepared by CEG will be provided to the AER. Accordingly the report may become a public report.

3.2. *Expert Witness*

The person may be required to act as an expert witness in relation to the advice provided in the report. The report must comply with the Federal Court Guidelines for Expert Witnesses, which have previously been provided to CEG.

3.3. *Contact*

Mark de Villiers will be the day to day contacts for CEG in preparing its report. CEG should direct all of its queries to:

(03) 9683 - 4907 or mdevilliers@powercor.com.au.

3.4. *Timing*

A final report should be provided by midday Monday 11 October 2010.