8 November 2011

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By online submission

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Total Factor Productivity for Distribution Network Regulation—reference ERC0068

Dear Sirs

Thank you for the opportunity to comment on the Commission's draft rule determination published in connection with its review of the rule change proposed by the Minister for Energy and Resources (Victoria) which would allow the use of a Total Factor Productivity based methodology in determining distribution prices and revenues (the rule change request).

Jemena supports the Commission's draft determination not to make the rule proposed in the rule change request, and concurs with the Commission's reasons for making that draft determination.

If you wish to discuss this supplementary submission, please contact me on 02 9455 1551 or warwick.tudehope@jemena.com.au.

Yours sincerely

Warwick Tudehope
Manager Network Regulation, Gas and Water

Attachment 1 – Example

Consider two network businesses A and B where the only difference between the two is the load characteristics of the markets they serve:

- the networks are physically identical in every respect
- the capital and operating costs of the two networks are identical in every respect and unchanging from year to year
- the capacities of the two networks are the same and such that they can just meet the peak demand of the markets they serve without interruption i.e. there is no spare peak capacity in either network
- the load served by network A is such that peak demand and load factor are the same from year to year i.e. network utilisation is constant from year to year
- the load served by network B has the same maximum peak demand as that served by network A but peak demand does not reach the maximum every year and load factor varies from year to year i.e. network utilisation is variable from year to year
- there is no underlying growth in demand for either network
- both networks have the same weighted average price cap and a range of similarly structured charges per connection and tariffs based variously on throughput, booked capacity and actual peak consumption.

In Jemena's view the productivity of the two networks should be the same. The two different markets each require the same physical assets to serve them, and the two businesses utilise identical inputs to deliver those assets. However, it is clear that under the PEG TFP specification, where outputs are heavily weighted towards throughput measures, network B's TFP growth would vary from year to year but network A's would not.