



Our ref: GR/65/2(146)v3
Enquiries: Frank Tanner
Telephone: 9424 1924
Email: frank.tanner@verveenergy.com.au

5 January 2011

The Chairman
The Economic Regulation Authority
Level 6, Governor Stirling Tower
197 St Georges Terrace
PERTH WA 6000

Attention: Dr Duc Vo

Dear Sir/Madam

ESTIMATING DEBT RISK PREMIUM

We refer to the Authority's Discussion Paper: Measuring the Debt Risk Premium: A Bond-Yield Approach dated 1 December 2010 and the invitation for submissions in relation to the estimating of debt risk premium. Verve Energy thanks the Authority for the opportunity to make submissions on this issue.

Verve Energy acknowledges the challenge in the task the Authority is facing in finding a replacement method to estimating the debt risk premium given the lack of interest rate information of the 10-year tenure for corporate debts. We do not have any better approach than what the Authority has proposed. Verve Energy, however, has two comments in relation to the details in the methodology proposed.

1. Widening the referable corporate debts

Firstly, given the lack of referable corporate debts, the Authority is proposing to include BBB- rated debts in the population even though the benchmark regulated business should have a BBB/BBB+ rating. We would like to suggest that the Authority monitor this inclusion to ensure that the goal of widening the capture of referable corporate debts does not change the average rating of the included businesses from BBB/BBB+. Such a change is likely to distort (ie increase) the resulting debt risk premium, inappropriately advantaging the regulated business.

Secondly, if there are sufficient data available to the Authority, it would be desirable to confirm at an acceptable confidence level the hypothesis that the debt risk premium for benchmark regulated businesses such as APT Pipelines and Snowy Hydro equal that for a broader group of debts of the same tenure as the 15 selected.

Verve Energy ABN 58 673 830 106

Head Office: 15-17 William Steet, Perth, WA 6000
Postal Address: GPO Box F366, Perth, WA 6841
Telephone: (08) 9424 1888 - Facsimile: (08) 9424 1899
Website: www.verveenergy.com.au

DMS#: 3306552v1

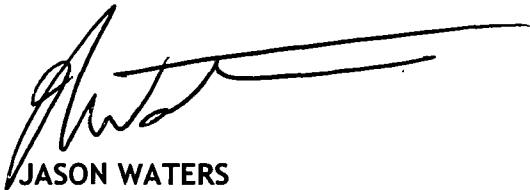
Also the Authority may wish to estimate the premium included in callable debt securities and make an adjustment when such securities are included in the population.

2. **The weighting approach**

We are also concerned that the Issues Paper, in paragraph 57, seems to suggest that the Authority could adopt a conservative bias. In this case the bias would be in favour of the regulated business. The end result of this bias will be higher prices to be paid by users of the regulated services and consequently, the end users. We would thus submit that the Authority should adopt a weighting approach which reflects the most neutral position in considering the issues.

We would be pleased to discuss these submissions or comments with the Authority at your convenience.

Yours sincerely

A handwritten signature in black ink, appearing to read 'J. Waters', with a long horizontal flourish extending to the right.

**JASON WATERS
GENERAL MANAGER
TRADING AND FUEL**