



Jemena Electricity Networks (Vic) Ltd

Statement of Compliance

Annual pricing proposal



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Jemena Statement of Compliance
Annual Pricing Proposal 2024-25

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1. Introduction

This statement of compliance as well as the standardised SCS and ACS pricing models form Jemena Electricity Networks' (JEN) pricing proposal for 2024-25. This is an annual pricing proposal that has been submitted at least 3 months before the commencement of the regulatory year.

Below is a full list of documents that form part of this proposal:

- Attachment 1 – JEN – 2024-25 Network Tariff Schedule – 28.03.2024 - PUBLIC
- Attachment 2 – JEN – 2024-25 Alternative Control and Public Lighting Service Charges – 28.03.2024 - PUBLIC
- Attachment 3 – JEN – 2024-25 Annual SCS Pricing Model – 28.03.2024 – CONFIDENTIAL
- Attachment 3 – JEN – 2024-25 Annual SCS Pricing Model – 28.03.2024 – PUBLIC
- Attachment 4 – JEN – 2024-25 Annual ACS Pricing Model – 28.03.2024 – PUBLIC
- Attachment 5 – JEN – 2024-25 AER – Final decision – ACS – Public lighting model – 28.03.2024 – PUBLIC
- Attachment 6 – JEN – 2024-25 PFIT – 28.03.2024 – PUBLIC
- Attachment 7 – JEN – 2024-25 TUOS letter – 28.03.2024 – CONFIDENTIAL
- Attachment 8 – JEN – 2024-25 TUOS charges – 28.03.2024 – CONFIDENTIAL
- Attachment 9 – JEN – 2024-25 AEMO South Morang invoices for 2023-24 – 28.03.2024 – CONFIDENTIAL
- Attachment 10 – JEN – 2024-25 Ausnet Charges (indicative) – 28.03.2024 – PUBLIC
- Attachment 11 – JEN – 2024-25 Costs of Service confirmation – 28.03.2024 – PUBLIC
- Attachment 12 – JEN – 2024-25 Confidentiality template – 28.03.2024 – PUBLIC
- Attachment 13 – JEN – 2024-25 Statement of compliance – 28.03.2024 – PUBLIC
- Attachment 14 – JEN – 2024-25 F factor fire start template – FY 2022 – 28.03.2024 – PUBLIC
- Attachment 15 – JEN – 2024-25 ESV – 2023-24 Levy Invoice – 28.03.2024 – PUBLIC
- Attachment 16 – JEN – 2024-25 RoLR invoices – 28.03.2024 – PUBLIC
- Attachment 17 – JEN – 2024-25 Licence fee – 2022-23 – 28.03.2024 – PUBLIC
- JEN – 2024-25 Pricing Proposal – 28.03.2024 – PUBLIC
- JEN – Cover Letter for 2024-25 Annual Pricing Submission

Additionally, JEN has submitted to the AER an application for banking a portion of STPIS revenue to lower price impacts in FY24-25.

2. Demand forecasts

JEN has provided quantity forecasts for standard control services in the 'Qty forecasts' sheet of the SCS pricing model¹.

In comparison to the previous pricing proposal's forecast, the consumption volumes and customer numbers for the current regulatory year are not materially different at a total level. However, at a tariff and tariff component level we have changed our forecasting approach to better reflect reality and provide better future price certainty for our customers and other stakeholders.

Key changes made in the 2024-25 forecast include:

- An assumption around consumption per customer for A100, A120 and A200 customers that reflects recent historical consumption *excluding* pandemic-impacted years 2020-22 as they had quite unusual consumption patterns. As of 2023, consumption behaviour in these tariffs seems to mirror that in pre-pandemic years. We have therefore used 2018-19 and 2023 as the foundation for our consumption forecasts for these customers.
- A readjustment of the assumed peak/off-peak ratio for A120 based on observed consumption data. When the new A120 Residential Time of Use tariff began in FY22, assumptions around the expected peak to off-peak ratio were based on our best estimate at the time. The reality turned out to be far different from the forecast, leading to much of JEN's under-recovery in previous years. This has been adjusted to ensure that the forecast reflects actual consumption pattern.
- A more moderate assumption around customer movement between transitional Summer Demand Incentive Charge (SDIC) tariffs and fully cost-reflective tariffs. Again, with the fully cost-reflective tariffs being new in FY22, more optimistic assumptions on customer transition to these tariffs were incorporated which led to further under-recoveries for JEN. The assumptions have now been based on observed data.
- Apart from the above adjustments, using historical growth data for forecasting customer numbers, consumption and demand. We had previously relied on growth rates provided as part of the 2021-26 price reset. There have been major disruptions to the market in the time since these growth rates were forecast, and using historical actuals is a more sound approach.

Our quantity forecast for 2024-25, based on observed historical actuals, reflects modest increases that we believe are the most likely outcome for customer consumption and demand in 2024-25.

Further details may be found in the pricing proposal document accompanying this statement of compliance².

¹ JEN – 2024-25 Annual SCS Pricing Model, 28.03.2024

² JEN – 2024-25 Pricing Proposal – 28.03.2024

3. Tariffs

3.1 Standard control services

The 'Tariff schedule' sheet of the SCS pricing model sets out the proposed 2024-25 prices for standard control services.

All tariffs remain in the same tariff class and retain the same charging parameters as the current tariff structure statement³. This is demonstrated in tariff schedule 3 of the SCS pricing model⁴.

Below is a summary of each charging parameter:

Charging parameter	Unit	Explanation
Standing charge	\$/year	Applied to customer bills as a \$/day.
Unit rate	c/kWh	Applies any time.
Peak unit rate	c/kWh	Residential peak 3pm-9pm (local time) every day. Small business peak 9am-9pm weekdays (local time) for A210, 7am-11pm weekdays (local time) for A230/A23N/A290, 7am-11pm Mon-Sun (local time) for A270.
Off peak unit rate	c/kWh	Residential off-peak all other times except for A180 dedicated circuit (i.e. hot water) secondary tariff, 11pm-7am daily (AEST). Small business off-peak all other times.
Demand rate	\$/kW/year	Residential maximum demand set 3pm-9pm (local time) work days and reset monthly. Small business maximum demand set 10am-8pm work days using the maximum level of the last 12 months where data is available for A20D, or at any time using the maximum level of the last 12 months where data is available for A230/A23N/A270.
Annual demand charge	\$/kVA/year	Demand charge subject to minimum chargeable demand of 120 kVA (A300, A30C, A30E), 250 kVA (A320, A32C, A32E, A340, A34C, A34E, A34M), 450 kVA (A370, A37M), 1,000 kVA (A400, A40C, A40E, A40R, A40T), 10,000 kVA (A480, A48C), or 15,000 kVA (A500, A50C, A50A, A50T, A50E, A50X, A50M). Maximum demand for the demand charge set 8am-8pm Monday to Friday (local time) using the maximum level of the last 12 months where data is available

³ Jemena Electricity Networks (Vic) Ltd, *Tariff Structure Statement For 1 July 2021 to 30 June 2026*, pp 13, 15-16

⁴ JEN – 2024-25 Annual SCS Pricing Model, 'Tariff schedule', 28.03.2024

SDIC	c/kVA/day	<p>There is no minimum demand for SDIC.</p> <p>Maximum demand for the SDIC set 4pm-7pm workdays (local time) each month in December to March and reset monthly.</p>
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The expected weighted average revenue for each tariff class for the current and forecast years is demonstrated in output table 5 of the SCS pricing model⁵.

The expected weighted average revenue raised for each tariff class does not exceed the corresponding expected weighted average revenue for the preceding regulatory year by more than the permissible percentage. This permissible percentage is calculated in accordance with the AER's 2021-26 final determination⁶. This is demonstrated in compliance table 3 of the SCS pricing model⁷.

3.2 Alternative control services

The ACS pricing model sets out the proposed 2024-25 prices for alternative control services.

JEN will offer the same list of services for metering, public lighting, and ancillary network services as approved in the AER's final determination for alternative control services⁸. The list of services for metering, public lighting, and fee-based services is provided in the ACS pricing model. Quoted services are provided in line with the approved control mechanism formula⁹ using the applicable labour rates in the ACS pricing model.

3.3 Tariff variations

We are not anticipating variations or adjustments to our tariff prices, tariff class or charging parameters within the 2024-25 period.

We note that AEMO (the Australian Energy Market Operator) has flagged the possibility of increasing its charges during the 2024-25 period, to pass through VicGrid costs. However, we view that changing our TUOS (Transmission Use of System) tariffs during the regulatory year would place an undue burden on our customers. We expect that any additional 2024-25 charges communicated to us by AEMO will be collected as a TUOS under-recovery adjustment in the 2025-26 period.

3.4 Sub-threshold tariffs

JEN is proposing two continue its sub-threshold tariffs for the 2024-25 regulatory year. These are:

- Low voltage community battery tariff trial: introduced in 2023-24
- Site-specific subtransmission tariff trial: introduced in 2023-24.

JEN notified the AER of these sub-threshold tariffs no later than four months before the start of the regulatory year in which they commenced. These are available on the [AER website](#).

⁵ JEN – 2024-25 Annual SCS Pricing Model, 'Tables', 28.03.2024

⁶ AER, *Final decision – AusNet Services, CitiPower, Jemena, Powercor and United Energy 2021-26*, Attachment 14: Control mechanisms, pp 31-32

⁷ JEN – 2024-25 Annual SCS Pricing Model, 'Compliance', 28.03.2024

⁸ AER, *Final decision – Jemena Distribution Determination 2021 to 2026*, Attachment 16: Alternative control services, pp 16, 27-28, 29, 31, 32

⁹ AER, *Final decision – AusNet Services, CitiPower, Jemena, Powercor and United Energy 2021-26*, Attachment 14: Control mechanisms, p 39

Each sub-threshold tariff has a forecast revenue that is less than 1 per cent of total allowable revenue, and all sub-threshold tariffs have a combined forecast revenue less than 5 per cent of total allowable revenue. This is demonstrated in compliance table 4 of the SCS pricing model¹⁰.

¹⁰ JEN – 2024-25 Annual SCS Pricing Model, 'Compliance', 28.03.2024

4. Pricing Principles

The revenue expected to be recovered from each tariff class lies on or between an upper bound representing the standalone cost of serving the retail customers who belong to that class and a lower bound representing the avoidable cost of not serving those retail customers. This is demonstrated in compliance table 5 of the SCS pricing model¹¹. These bounds were calculated as part of our tariff structure statement (TSS) along with long-run marginal cost.

To estimate the avoidable costs for each of the tariff classes on our network, we undertook the following steps in our TSS and escalated these costs by inflation to arrive at FY24-25 level:

- Determine for each of the categories of operating and capital expenditure the proportion of costs that are incurred directly by customers using our network - i.e., whether these costs would not be incurred if the tariff class were no longer supplied;
- Determine the underlying driver of these avoidable costs, i.e., whether these costs are driven by:
 - the energy served for each tariff class - e.g., the amount of maintenance expenditure that we incur is directly affected by customer consumption on the network and the assets required to serve this consumption; or
 - the number of customers in each tariff class - e.g., the cost required to operate our call centre is determined by the number of customers on the network, rather than the consumption on the network itself; then
- Allocate avoidable costs to each tariff class in the proportion of energy served or customer numbers, as relevant.

Similar to avoidable costs, the standalone costs were also estimated as part of our TSS and these have been escalated by CPI since then. To estimate the standalone costs for each tariff class in the TSS, we:

- Estimated those costs that we consider to be non-avoidable, i.e., those not included in the avoidable cost calculations;
- Determined the extent of these costs that would be required to serve each tariff class as a standalone network, e.g., subtransmission customers do not require the low voltage network; and
- Added these costs onto the avoidable costs for each tariff class to determine the total cost of serving each network on an individual basis.

The sum of the revenue expected to be recovered from each tariff allows JEN to recover the expected revenue for the relevant services in accordance with the determination. This is demonstrated in compliance table 1 of the SCS pricing model¹².

The long run marginal costs were estimated as part of our TSS and have been escalated by inflation to arrive at FY24-25 level. Apart from escalating the standalone, avoidable and long-run marginal cost estimates by CPI, these estimates are unchanged from the previous pricing proposal.

¹¹ JEN – 2024-25 Annual SCS Pricing Model, 'Compliance', 28.03.2024

¹² JEN – 2024-25 Annual SCS Pricing Model, 'Compliance', 28.03.2024

5. Indicative prices

Revised indicative prices for standard control services are provided in input table 29 and 30 of the SCS pricing model¹³. Revised indicative price caps for alternative control services are provided in the ACS pricing model¹⁴. These indicative price levels have been determined in accordance with the current tariff structure statement and updated to account for this pricing proposal.

Furthermore, revised indicative prices for sub-threshold tariffs are provided in input table 32 of the SCS pricing model¹⁵.

The proposed tariff prices are materially different to the corresponding indicative prices and this is demonstrated in compliance table 6 and 7 of the SCS pricing model. Brief notes have been written in column AC of the 'Price comp. ind.' sheet explaining the reasons for the difference. Furthermore, we explain below in greater detail the source(s) for the material differences between the proposed tariff prices and their corresponding indicative prices

- Under-recoveries in previous years have driven JEN's Total Allowable Revenue increase of 13.8% for 2024-25.
- At the time of forecasting the indicative prices for 2024-25 while creating the 2023-24 model, we did not expect a price rise of this magnitude to eventuate in 2024-25. Our proposed prices for 2024-25 therefore differ materially from our indicative prices for 2024-25 provided in the 2023-24 model.

¹³ JEN – 2024-25 Annual SCS Pricing Model, 'Indicative prices', 28.03.2024

¹⁴ JEN – 2024-25 Annual ACS Pricing Model, 'Ancillary Network Services', 'Labour rates', 'Public Lighting', 'Metering', 28.03.2024

¹⁵ JEN – 2024-25 Annual SCS Pricing Model, 'Trial tariffs', 28.03.2024

6. Tariff components

6.1 Distribution Use of System charges

Tariffs designed to pass on distribution use of system charges are available in the ‘Tariff schedule’ sheet of the SCS pricing model. The revenue expected to be recovered from these tariffs does not exceed the estimated amount of distributed use of system charges adjusted for over or under recovery. This is demonstrated in output table 6 of the SCS pricing model¹⁶.

The over or under recovery amount is calculated in a manner consistent with the AER’s final decision for control mechanisms¹⁷.

Since 2023-24, JEN has been allowed to claim funds not paid to us as a result of Retailer of Last Resort (RoLR) events, in which a retailer stops being solvent. We calculate the amount of owed funds through obtaining the GST-exclusive totals from unpaid invoices¹⁸ and network billing files¹⁹.

Other adjustments to our DUoS charges include the fire factor²⁰, which is calculated through an AER-provided model, the Essential Services Commission (ESC) licence fee, which is escalated by two years of nominal vanilla Weighted Average Cost of Capital (WACC), and the Service Target Performance Incentive Scheme (STPIS), of which we have opted to bank a portion until 2025-26.

As specified in JEN’s tariff structure statement (TSS)²¹, the Summer Demand Incentive Charge for Large Business customers has been escalated to 75% of the fully cost-reflective rate for the matching fully cost-reflective tariffs, with the increase to these customers’ demand charges reduced accordingly to maintain an approximately average increase for these customers.

6.2 Designated Pricing Proposal Charges

Tariffs designed to pass on designated pricing proposal charges (DPPC) are available in the ‘Tariff schedule’ sheet of the SCS pricing model. The revenue expected to be recovered from these tariffs does not exceed the estimated amount of designated pricing proposal charges adjusted for over or under recovery. This is demonstrated in output table 6 of the SCS pricing model.

The over or under recovery amount is calculated in a manner consistent with the AER’s final decision for control mechanisms²² and is compliant with the NER.

Our approach to the DPPC forecast is to pass through our AEMO and AusNet expenditures. We have received only indicative pricing from AusNet prior to our submission date, so this year have chosen to escalate the AusNet portions of our 2023-24 DPPC expenditure estimate by 15%, in line with the escalation seen in AEMO DPPC charges. Embedded generation is estimated from historical actuals. Our forecast of cross-boundary revenue is kept flat to our 2023-24 cross-boundary revenue estimate, and netted out with cross-boundary expenditure in the 2024-25 annual SCS pricing model²³. Our AEMO expenditure estimate of \$89.5M varies from the AEMO charges by \$212,000, which is the annual expenditure associated with South Morang terminal station as verified through AEMO monthly invoices for South Morang²⁴. For 2023-24 estimates we have used half of last year’s forecast

¹⁶ JEN – 2024-25 Annual SCS Pricing Model, ‘Tables’, 28.03.2024

¹⁷ AER, *Final decision – AusNet Services, CitiPower, Jemena, Powercor and United Energy 2021-26*, Attachment 14: Control mechanisms, pp 23, 40-42

¹⁸ JEN – 2024-25 RoLR invoices, 28.03.2024

¹⁹ JEN, *RE: 2024-25 annual pricing – pre-lodgement engagement process*, email by S. Kumar, 18th March 2024

²⁰ JEN – 2024-25 F factor fire start template – FY2022, 28.03.2024

²¹ Jemena Electricity Networks (Vic) Ltd, *Tariff Structure Statement For 1 July 2021 to 30 June 2026*, pp 15, 17

²² AER, *Final decision – AusNet Services, CitiPower, Jemena, Powercor and United Energy 2021-26*, Attachment 14: Control mechanisms, pp 46-48

²³ JEN – 2024-25 Annual SCS Pricing Model, ‘Input|Financial’, 28.03.2024

²⁴ JEN – 2024-25 AEMO invoices for South Morang terminal station, 28.03.2024

combined with six months of 2023-24 actuals, while leaving placeholders in place for embedded generation and cross-boundary revenue.

6.3 System strength charges

Jemena is not planning to pass through system strength charges for system strength connection points for the 2024-25 period.

If system strength charges arise, JEN will pass through these charges in accordance with NER clauses 6.20.3A(b) and 6.20.3A(c). We will bill Distribution Network Users, identifying the relevant system strength connection points and providing other information required by the Distribution Network Users to verify the charges. The bills will be on a pass-through basis, and replicate as far as is reasonably possible the amount, structure and timing of the corresponding system strength charges billed to us by the relevant System Strength Service Provider (AEMO or AusNet).

6.4 Jurisdictional scheme amounts

JEN's jurisdictional schemes have not been amended since the last jurisdictional scheme approval date. We note that the largest component of our jurisdictional scheme amounts, the Premium Feed-In Tariff (PFIT) scheme, will be ending during the 2024-25 year.

Tariffs designed to pass on jurisdictional scheme amounts are available in the 'Tariff schedule' sheet of the SCS pricing model. The revenue expected to be recovered from these tariffs does not exceed the estimated amount of jurisdictional scheme amounts adjusted for over or under recovery. This is demonstrated in output table 6 of the SCS pricing model²⁵.

The over or under recovery amount is calculated in a manner consistent with the AER's final decision for control mechanisms²⁶ and is compliant with the NER.

JEN's jurisdictional scheme amounts have two components, PFIT and the ESV levy. The ESV levy invoice will not be received until July, so a CPI escalation of the prior year's figure²⁷ has been used to estimate this component. The PFIT component is based on an average of prior years' historical PFIT revenues. For 2024-25, this has been adjusted to one third of the total average PFIT, reflecting the end date of the PFIT program four months into 2024-25. The 2023-24 estimated PFIT total is based on half of last year's forecast combined with six months of actuals.

²⁵ JEN – 2024-25 Annual SCS Pricing Model, 'Tables', 28.03.2024

²⁶ AER, *Final decision – AusNet Services, CitiPower, Jemena, Powercor and United Energy 2021-26*, Attachment 14: Control mechanisms, pp 49-51

²⁷ JEN – 2024-25 ESV 2023-24 Levy Invoice, 28.03.2024

7. Compliance

7.1 Compliance with the determination

We confirm that our tariff assignment policy and the methodology in which we review and assess the basis on which a customer is charged is unchanged from the current TSS and is compliant with the NER²⁸²⁹.

We also confirm that we are complying with the current TSS where we have made a commitment to increase cost-reflectivity for large customers, make Time of Use tariffs cheaper than single-rate tariffs, improving cost-reflectivity by rebalancing the recovery of costs towards fixed charges, and to rebalance TUOS allocation across tariff categories to be more in line with DUOS allocation.

We are maintaining our commitment to increasing cost-reflectivity for large customers by continuing to increase the Summer Demand Incentive Charge (SDIC) tariff component for customers on transitional SDIC tariffs to 75% of the relevant fully cost-reflective SDIC tariff levels.

We are maintaining our commitment to making cost-reflective Time of Use tariffs cheaper than single-rate tariffs through ensuring this is true in comparison of typical customers.

We are maintaining our commitment to make tariffs more cost reflective and rebalancing the recovery of our largely fixed costs towards fixed charges.

We are maintaining our commitment to rebalancing TUOS allocation across tariff categories to be more in line with DUOS allocation by meeting and exceeding the 2025-26 targets laid out in the TSS, while still leaving room to increase further in future years. This reduces the impact of TUOS volatility on large customers.

There are no other material changes that should be brought to the attention of the AER.

7.2 Compliance table

Rule reference	Section reference
6.18.2(a)	Chapter 1 - Introduction
6.18.8(a)(3)	Chapter 2 - Demand forecasts
6.18.2(b)(2)	Chapter 3 - Tariffs
6.18.2(b)(3)	
6.18.2(b)(4)	
6.18.6	
6.18.2(b)(5)	
6.18.1C	
11.141.8	
6.18.5(e)	Chapter 4 - Pricing principles
6.18.5(f)	
6.18.5(g)(2)	
6.18.2(d)	Chapter 5 - Indicative prices
6.18.2(e)	
6.18.2(b)(7A)	

²⁸ Jemena Electricity Networks (Vic) Ltd, *Tariff Structure Statement Attachment A: Tariff assignment and reassignment policy*, 3rd December 2020

²⁹ Jemena Electricity Networks (Vic) Ltd, *Tariff Structure Statement For 1 July 2021 to 30 June 2026*

6.18.2(b)(6)	Chapter 6 - Tariff components
6.18.2(b)(6A)	
6.18.2(b)(6B)	
6.18.2(b)(6C)	
6.18.7	
6.18.7A	
6.18.3	Chapter 7 - Compliance
6.18.4	
6.18.2(b)(7)	
6.18.2(b)(8)	

I, *[Sandeep Kumar, Group Manager Regulatory Analysis, Pricing and Strategy]*, confirm that the above statements are true and correct.

[signature]

[date]