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Dear Dr Funston,

### **Jemena's response to the draft 2026-31 Framework and Approach decision**

Jemena Electricity Networks (Vic) Ltd. (Jemena) is a distribution network service provider (DNSP) providing direct control services to customers in the northwest region of the greater Melbourne Metropolitan area and is subject to economic regulation administered by the Australian Energy Regulator (AER). As a part of economic regulation, Jemena is also subject to the 2026-31 price review, which will—amongst considerations—assess the efficient expenditures to provide services to our customers.

In March, the AER released a draft Framework and Approach paper (paper), which sets out the key elements of the price review and outlines how it will assess the proposals from the Victorian DNSPs. Jemena has reviewed the draft paper and provides this submission in response to the request for feedback.

### **Capital Efficiency Sharing Scheme**

The paper outlines several incentive schemes that it proposes to incorporate into its 2026-31 price review decision for the Victorian DNSPs; the Capital Efficiency Sharing Scheme (CESS) is one of those mechanisms.

The CESS is a mechanism designed to incentivise efficient capital expenditure. It was developed in accordance with the incentive framework outlined in the National Electricity Law and is designed to promote the National Electricity Objective (NEO) of working towards the long-term interests of customers. Jemena supports the use of well-designed and balanced incentive mechanisms that work together in an overall incentive framework. However, we consider incorporating new customer connection capital expenditure within the CESS causes incentives to be imbalanced.

In this submission, we seek changes to the application of the CESS to address these concerns, and to better support achievement of the NEO.

We outline our concerns with the CESS in its current form and recommend ways to improve the design below.

(i) *Overlap with other efficiency mechanisms for new connection customers*

In Victoria, DNSPs are required to undertake market-based testing of works related to connection services made by a connection applicant.<sup>1</sup> This requirement means that the most efficient price will be incorporated into the Victorian DNSPs regulatory proposal capital expenditure forecasts for the 2026-31 period, meaning the opportunity to find further efficiencies does not exist.

This contributes to the non-symmetrical nature of the CESS, and an imbalance of incentive mechanisms.

(ii) *Non-controllable new connection expenditure*

Most aspects of Jemena's capital investment program are within Jemena's control. However, Jemena is sometimes required to incur capital expenditure for reasons outside of its control.

For example, under the National Electricity Rules (NER), Jemena and other DNSPs must provide customer connection services.<sup>2</sup> While Jemena forecasts the volume of connection services that will need to be provided in the future in preparing our regulatory proposal, the actual volume of connection services required to be provided cannot be predicted with certainty, particularly in the outer years of the regulatory control period.

A range of factors influence the volume of connection services provided, including housing growth rates in the Jemena distribution area and other market forces. This means that Jemena must to incur capital expenditure related to providing these connection services, such as investment in distribution infrastructure, which Jemena has no control over.

The overarching objective of the CESS is to set incentives for DNSPs—such as Jemena—to undertake efficient capital expenditure during a regulatory control period.<sup>3</sup> Within this objective, our view is that the CESS should only apply to the part of Jemena's capital expenditure program that is within Jemena's control. Parts of our capital expenditure program that are outside of our control should be excluded from the CESS.

Jemena raised this issue in our submission to the AER's incentive scheme review, with reference to the customer engagement of our gas distribution business, Jemena Gas Networks (NSW) Ltd (**JGN**), for its 2020-25 access arrangement proposal:

*The purpose of the CESS is to incentivise capex savings under which NSPs have control. However, connections capex is demand-driven and outside the control of NSPs. Consistent with the principle of balance—as noted above—this potential change to the CESS would align with the approach in the EBSS, which only considers controllable opex savings.<sup>4</sup>*

(iii) *Inability to adapt to the rapid pace of change caused by transformation*

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<sup>1</sup> Essential Services Commission, "Electricity Distribution Code of Practice", version 2, 1 May 2023, s5.2.1(a).

<sup>2</sup> NER, Chapter 5A, part C.

<sup>3</sup> AER, [Capital Expenditure Incentive Guideline for Electricity Network Service Providers](#), 28 April 2023.

<sup>4</sup> Jemena, [Submission to the AER's review of incentive schemes for networks discussion paper](#), 11 March 2022, section 1.4.

In making a distribution determination for the prices we can charge over the five-year regulatory control period, the AER takes account of our forecast capital expenditure. However, throughout the regulatory control period, we must make adjustments to our capital expenditure program, including deferral of or additions of capital expenditure, to account for changes in our business, customer and stakeholder needs, and our operating environment. This is important to ensure we flexibly respond to changes and continue to meet required standards.

As a result of a range of policy reforms and rule changes currently being progressed by governments and energy market bodies, and the increasing pace of the energy transition, capital expenditure is becoming less predictable and harder to forecast in advance. This, in turn, means that material unforeseen projects requiring capital expenditure are more frequently arising within a regulatory control period that the AER has not taken into account in making a distribution determination.

*(iv) Non-symmetry between deferrals and bringing forward capital expenditure*

To calculate the CESS, deferred capital expenditure is excluded; however, the CESS is not adjusted where Jemena necessarily incurs additional capital expenditure (unforeseen at the time of the distribution determination) on projects arising out of the energy transition or due to new connections. We consider that this results in unintended outcomes for the CESS through the lack of symmetry.

*Recommendation*

Jemena recommends that new connection capital expenditure be excluded from the CESS for the 2026-31 period to address the above-mentioned concerns. We further recommend that the new connection capital expenditure should also be removed when calculating CESS in the current regulatory control period (covering financial years 2021 to 2026).

**Service classification**

As a part of its price review process, the AER must assess the services provided by DNSPs for the regulatory control period. The AER has reviewed submissions made by the Victorian DNSPs and considered these in its draft paper.

In 2023, the Victorian DNSPs came together to undertake a comprehensive engagement with Victorian distribution customers and key stakeholders—including the Victorian Government, customer representatives and electricity retailers—to seek their views on the items in the paper, but predominantly to discuss the services we provide to customers. The forum process was independently facilitated over two separate forums on 18 May 2023 and 9 Aug 2023. The outcomes of the process resulted in recommendations to consider several key areas of additional services; these include:

- Customer export services
- Essential system services
- Network data sharing and advisory services
- Stand-alone power system services

As a part of its deliberations in the paper, the AER split essential system services between mandatory and non-mandatory services, with the latter being services that could be traded in a competitive market. In its paper, the AER accepted the mandatory services as direct control services but chose not to classify the non-mandatory essential systems services.

In our submission to the AER, we identified a way to manage the value proposition of non-mandatory system services by sharing the benefits with customers through various incentive mechanisms. Jemena believes that an opportunity exists for customers to realise benefits, and we continue to support the full suite of services we proposed, including the non-mandatory essential system services.

In addition to this service, we proposed several drafting improvements in the service classification to keep up with changes in the regulatory framework. An example of this is the reference to Victorian Guideline 14 for new connections, which is no longer in effect. We have provided a markup version of several drafting improvements in attachment A that we propose in the final paper.

Notwithstanding these concerns, Jemena generally supports the proposed service classification decision made by the AER in its draft decision.

On all other aspects of the paper, Jemena is generally supportive of the AER's draft paper.

If the AER have questions in relation to this submission please contact Matthew Serpell on [REDACTED] or via email [REDACTED]

Kind Regards,

[REDACTED]  
Ana Dijanosic  
General Manager, Regulation

## Attachment A – Recommended changes to the draft Victorian 2026-31 F&A paper on service classifications

Section	Draft F&A decision	Proposed alternative	Reasoning
Common distribution Service	third party-initiated network asset relocations/re-arrangements, including under ESCV Guideline 14	third party-initiated network asset relocations/re-arrangements, including under the Victorian Electricity Distribution Code of Practice (EDCoP) <sup>5</sup>	<p>The Essential Service Commission of Victoria retired the Electricity Distribution code and introduced the EDCoP.</p> <p>The proposed change will keep the service classification current with the relevant obligations.</p>
Multiple	Mixed references to 'Distributor' and "DNSP"	Recommend using 'DNSP' only	<p>Consistency in wording will support a consistent understanding and remove potential misunderstandings.</p> <p>DNSP is a definition more aligned with the NER</p>
Type 5 and 6 (inc. smart metering) services where the distributor remains responsible	At the request of a retailer or metering coordinator, provide notification to affected customers and facilitate the disconnection / reconnection of customer metering installations, where a retailer-planned interruption cannot be conducted	Remove	<p>Per the order in council,<sup>6</sup> Retailers must appoint the DNSP as the metering coordinator (s5) for type 5 and 6 services. The DNSPs are also responsible for installing meters in Victoria (s 6).</p> <p>This change is consistent with the title of the Service Group, 'where the distributor remains responsible.'</p> <p>The change appears to come from other jurisdictions where metering competition exists.</p>

<sup>5</sup> This classification applies where a customer contribution is calculated and applied in accordance with Essential Services Commission (ESCV) [Guideline 14 EDCoP](#) or where a customer contribution is calculated and applied in accordance with any other relevant Victorian legislation or regulation, including regulations made under the National Electricity (Victoria) Act, 2005. The party requesting such works under this classification must pay the net cost of the works, subject to any rebates specified in [Guideline 14 the EDCoP](#) or by any other relevant Victorian legislation or regulation.

<sup>6</sup> [GG2017S342.pdf \(gazette.vic.gov.au\)](#)