Jemena Electricity Networks (Vic) Ltd

2026-31 Electricity Distribution Price Review Regulatory Proposal

Attachment 04-02

Price control mechanisms

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Glossary

Current regulatory period	The regulatory control period covering 1 July 2021 to 30 June 2026.
Next regulatory period	The regulatory control period covering 1 July 2026 to 30 June 2031.

Abbreviations

ABS	Australian Bureau of Statistics
AER	Australian Energy Regulator
DMIS	Demand Management Incentive Scheme
DNSP	Distribution Network Service Provider
DPPC	Designated Pricing Proposal Charges
F&A	Framework and approach
JCRS	Jurisdictional Cost Recovery Scheme
JEN	Jemena Electricity Networks (Vic) Ltd
NEL	National Electricity Law
NER	National Electricity Rules
PTRM	Post Tax Revenue Model
RAB	Regualted Asset Base
WACC	Weighted Average Cost of Capital

Overview

This regualtroy proposal attachment outlines how we propose to adjust our prices for each year in the 2026-31 regulatory control period (next regulatory period) and how we will comply with the requirements of the National Electricity Rules (**NER**) that relate to setting prices.

Specifically:

- Section 1 outlines the control mechanisms for direct control services and how we demonstrate compliance with these

- Section 2 outlines our approach for recovering the payments we make to other networks, which are recovered through Designated Pricing Proposal Charges

- Section 3 outlines our approach to recovering the payments we make for jurisdictional schemes

- Section 4 demonstrates the process for annual pricing proposal revenue true-ups.

Our approach to setting out the formulae used to set prices in the next regulatory period is consistent with the Australian Energy Regulator's (**AER's**) final framework and approach paper (**F&A paper**)[1] that was released in August 2024.

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[1]   AER, _Framework and approach: AusNet Services, CitiPower, Jemena, Powercor and United Energy 2026-31,_ July 2024.

1. Control mechanisms

The F&A paper outlines mechanisms under which it controls the way prices are set for JEN's direct control services. Specifically, for standard control services and alternative control services, JEN must demonstrate how it will comply with these controls.[2] More details on the types and classification of services are provided in Attachment 04-01.

By adhering to the formulae outlined in this attachment, JEN considers it would meet the requirement of cl. 6.12.1(13) of the NER to demonstrate compliance with the relevant control mechanism.

1.1 Price control mechanism – direct control services

The AER's F&A paper sets out the price control mechanism that JEN applies to determine charges applicable for the direct control service offered in the next regulatory period. These charges are adjusted annually via an annual pricing proposal. We will submit an initial pricing proposal following the AER's final determination on this regulatory proposal by 31 March of each remaining year in the next regulatory period.[3]

The AER's price control mechanisms for direct control services include:

• A revenue cap for standard control services

• A revenue cap for type 5, type 6 and smart meters

• Caps on the prices for other services classified as alternative control services.

Below, we outline the formula to apply in each of these situations.

1.1.1 Revenue cap for standard control services

A revenue cap on standard control services means that we cannot recover more or less from our charges than the total revenue allowed. Where price levels and actual demand levels result in an under or over-recovery of revenue in any one-year (year t-2), we must adjust future (year t) prices to correct this. Adjustments to revenue for the service target performance incentive scheme (**STPIS**) and other cost recoveries occur outside of this true-up process.

Below, we present our proposed control mechanism for standard control services in CPI-X format, consistent with the NER's requirements.[4] This is also set out in the F&A paper.

Formula	Equation	where
1.	$$\text{TAR}_t \geq \sum_{i=1}^{n} \sum_{j=1}^{m} p_t^{ij} q_t^{ij}$$	$i = 1, \ldots, n$ $j = 1, \ldots, m$ $t = 1, 2, 3, 4, 5$
2.	$\text{TAR}_t = \text{AAR}_t + I_t + B_t + C_t$	$t = 1, 2, 3, 4, 5$
3.	$\text{AAR}_t = \text{AR}_t$	$t = 1$
4.	$\text{AAR}_t = \text{AAR}_{t-1} \times (1 + \Delta\text{CPI}_t) \times (1 - X_t)$	$t = 2, 3, 4, 5$
5.	$B_t = b_t + A_t$	$t = 1, 2, 3, 4, 5$
6.	$b_t = -O_t \times (1 + \text{WACC}_t)^{0.5}$	$t = 1, 2, 3, 4, 5$

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[2]   NER s. 6.8.2(c)(3).

[3]   Should 31 March fall on a weekend or public holiday then the submission will be by the first business day following 31 March.

[4]   NER s. 6.2.6(a).

Formula	Equation	where
7.	$A_t = a_t^1 + a_{t-1}^2 \times (1 + WACC_t) + a_{t-2}^3 \times (1 + WACC_{t-1}) \times (1 + WACC_t)$	$t = 1, 2, 3, 4, 5$
8.	$WACC_t = (1 + rvWACC_t) \times (1 + CPI_t) - 1$	$t = 1, 2, 3, 4, 5$

Where:

Variable	represents
t	the relevant regulatory year, with t = 1 being the 2026–27 financial year.
TAR_t	the total annual revenue for year t, calculated as per formula 2 above.
p_t^{ij}	the price of component 'j' of tariff 'i' for year t.
q_t^{ij}	the forecast quantity of component 'j' of tariff 'i' for year t.
AR_t	the annual smoothed revenue requirement in the Post Tax Revenue Model (PTRM) for year t.
AAR_t	the adjusted annual smoothed revenue requirement for year t, calculated as per formulae 3 and 4 above.
I_t	the sum of incentive scheme adjustments for year t. To be decided in the distribution determination.
B_t	the sum of annual adjustment factors, including any bespoke adjustments the AER deems necessary (through the A factor), to balance the unders and overs account for year t. To be decided in the distribution determination.
C_t	the approved pass-through amounts (positive or negative) for year t, as determined by the AER. It will also include any annual or end of period adjustments for year t. To be decided in the distribution determination.
ΔCPI_t	the annual percentage change in the Australian Bureau of Statistics' (ABS) Consumer Price Index (CPI) All Groups, Weighted Average of Eight Capital Cities[5] from December in year t–2 to December in year t–1. For example, for 2026–27, t–2 is December 2024 and t–1 is December 2025.
X_t	the X factor in year t, incorporating annual adjustments to the PTRM for the trailing cost of debt where necessary. To be decided in the distribution determination.
b_t	the true-up for the balance of the DUoS unders and overs account in year t, calculated as per formula 6 above.
O_t	the opening balance of the DUoS unders and overs account in year t.
$WACC_t$	the approved weighted average cost of capital (WACC) used in regulatory year t in the DUoS unders and overs account. The WACC is updated annually to apply actual inflation, calculated as per formula 8 above. It is also applied to true-up mechanisms to adjust for the time value of money.
A_t	the sum of bespoke adjustments, including the application of the time value of money where appropriate, calculated as per formula 7 above.
a_t^1	the bespoke adjustment '1' for year t. Formula 7 above demonstrates the application of the time value of money for different bespoke adjustments relating to different regulatory years.
$rvWACC_t$	the real vanilla WACC provided in the annually updated PTRM for year t.

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[5]   If the ABS does not or ceases to publish the index, then CPI will mean an index which the AER considers is the best available alternative index.

1.1.2 Side constraints for standard control services

In addition to the SCS price control formulae, we will apply the side constraints requirement per cl. 6.18.6 of the NER, which limits the number of price variations between tariff classes.

To comply with the requirements of cl. 6.18.6(b) and (c) of the NER we will limit price variation between tariff classes to the greater of:

$$(1+CPI)\ (1-X)\ (1+2\%)$$

Or:

$$(1+CPI)\ (1+2\%)$$

1.1.3 Revenue cap for type 5, type 6 and smart regulated metering

Similar to the approach adopted for setting prices for standard control services, the AER has set out a revenue cap for type 5, type 6 and smart regulated metering in the F&A.[6] We outline the formula for setting prices for these services below, which is consistent with the F&A and, therefore, with the NER's requirements.[7]

Formula	Equation	where
1.	$$TARM_t \geq \sum_{i=1}^{n} \sum_{j=1}^{m} p_t^{ij} q_t^{ij}$$	$i = 1, \dots, n$ $j = 1, \dots, m$ $t = 1, 2, 3, 4, 5$
2.	$TARM_t = AAR_t + B_t + C_t$	$t = 1, 2, 3, 4, 5$
3.	$AAR_t = AR_t$	$t = 1$
4.	$AAR_t = AAR_{t-1} \times (1 + \Delta CPI_t) \times (1 - X_t)$	$t = 2, 3, 4, 5$
5.	$B_t = b_t + A_t$	$t = 1, 2, 3, 4, 5$
6.	$b_t = -O_t \times (1 + WACC_t)^{0.5}$	$t = 1, 2, 3, 4, 5$
7.	$A_t = a_t^1 + a_{t-1}^2 \times (1 + WACC_t) + a_{t-2}^3 \times (1 + WACC_{t-1}) \times (1 + WACC_t)$	$t = 1, 2, 3, 4, 5$
8.	$WACC_t = (1 + rvWACC_t) \times (1 + CPI_t) - 1$	$t = 1, 2, 3, 4, 5$

where:

Variable	represents
t	the relevant regulatory year, with t = 1 being the 2026–27 financial year.
$TARM_t$	the total annual revenue for metering services in year t, calculated as per formula 2 above.
p_t^{ij}	the price of component 'j' of tariff 'i' for year t.
q_t^{ij}	the forecast quantity of component 'j' of tariff 'i' for year t.
AR_t	the annual smoothed revenue requirement in the metering Post Tax Revenue Model (PTRM) for year t.
AAR_t	the adjusted annual smoothed revenue requirement for year t, calculated as per formulae 3 and 4 above.
B_t	the sum of annual adjustment factors, including any bespoke adjustments the AER deems necessary (through the A factor), to balance the metering unders and overs

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[6] Including for 'installation, operation, repair & maintenance, and replacement' and 'collection of meter data, processing and storage of meter data, and provision of access to meter data' alternative control services

[7] NER s. 6.2.6(b).

Variable	represents
	account for year t. To be decided in the distribution determination.
C_t	the approved metering pass-through amounts (positive or negative) for year t, as determined by the AER. It will also include any annual or end of period adjustments for year t. To be decided in the distribution determination.
ΔCPI_t	the annual percentage change in the Australian Bureau of Statistics' (ABS) Consumer Price Index (CPI) All Groups, Weighted Average of Eight Capital Cities[8] from December in year t–2 to December in year t–1. For example, for 2026–27, t–2 is December 2024 and t–1 is December 2025.
X_t	the X factor in year t, incorporating annual adjustments to the metering PTRM for the trailing cost of debt. To be decided in the distribution determination.
b_t	the true-up for the balance of the metering unders and overs account in year t, calculated as per formula 6 above.
O_t	the opening balance of the metering unders and overs account in year t.
$WACC_t$	the approved weighted average cost of capital (WACC) used in regulatory year t in the metering unders and overs account. The WACC is updated annually to apply actual inflation, calculated as per formula 8 above. It is also applied to true-up mechanisms to adjust for the time value of money.
A_t	the sum of bespoke adjustments, including the application of the time value of money where appropriate, calculated as per formula 7 above.
$a1_t$	the bespoke adjustment '1' for year t. Formula 7 above demonstrates the application of the time value of money for different bespoke adjustments relating to different regulatory years.
$rvWACC_t$	the real vanilla WACC provided in the annually updated metering PTRM for year t.

1.1.4 Cap on the prices of individual services for other alternative control services[9,10]

For other alternative control services (other than those discussed in section 1.1.3 above), the price control mechanism we propose is a cap on the prices of individual services. We have adopted the AER's price control mechanism for fee-based services, as set out in the final F&A paper.

For our quoted services, we also adopt the AER's price control mechanism for fee-based services, as set out in the final F&A paper.

1.1.4.1 Fee-based alternative control services

Formula	Equation	where
1.	$$\bar{p}_t^i \geq p_t^i$$	$i = 1, \ldots, n$ $t = 1, 2, 3, 4, 5$
2.	$$\bar{p}_t^i = \bar{p}_{t-1}^i \times (1 + \Delta CPI_t) \times (1 - X_t^i) \times (1 + A_t^i)$$	$i = 1, \ldots, n$ $t = 2, 3, 4, 5$

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[8]   If the ABS does not or ceases to publish the index, then CPI will mean an index which the AER considers is the best available alternative index.

[9]   Excludes alternative control services provided under "type 5, type 6 and smart regulated metering".

[10]   Whilst public lighting is classified as alternative control service it will be calculated using a limited building block model which is effectively compliant with this price control model.

where:

Variable	represents
t	the regulatory year with t = 1 being the 2026–27 financial year.
$\bar{p}_t^i$	the cap on the price of service 'i' for year t.
p_t^i	the price of service 'i' in year t. The initial value is to be decided in the distribution determination.
$\bar{p}_{t-1}^i$	the cap on the price of service 'i' for year t-1.
ΔCPI_t	the annual percentage change in the Australian Bureau of Statistics' (ABS) Consumer Price Index (CPI) All Groups, Weighted Average of Eight Capital Cities[11] from December in year t–2 to December in year t–1. For example, for 2026–27, t–2 is December 2024 and t–1 is December 2025.
X_t^i	the X factor for service i in year t. The X factors are to be decided in the distribution determination.
A_t^i	the sum of any adjustments for service 'i' in year t. To be decided in the distribution determination.

1.1.4.2 Quoted alternative control services

Formula	Equation	Where
1.	$\bar{p}_t = Labour_t + Contractor\ Services_t + Materials_t + Margin_t + Tax_t$	$t = 1, 2, 3, 4, 5$
2.	$Labour_t = Labour_{t-1}(1 + \Delta CPI_t) \times (1 - X_t^i)$	$t = 2, 3, 4, 5$

Where

Variable	Represents
t	the regulatory year with t = 1 being the 2026–27 year.
$\bar{p}_t$	the applicable price cap for the requested service.
Labour	the labour costs directly incurred in the provision of the service which may include labour on-costs, fleet on-costs and overheads. Labour is escalated annually by CPI-X. The initial values are to be decided in the distribution determination.
$\Delta CPIt$	the annual percentage change in the Australian Bureau of Statistics' (ABS) Consumer Price Index (CPI) All Groups, Weighted Average of Eight Capital Cities36 from December in year t–2 to December in year t–1. For example, for 2026–27, t–2 is December 2024 and t–1 is December 2025.
Xit	the X factor for labour rate 'i' in year t. The X factors are to be decided in the distribution determination.
Contractor Services	the costs associated with the use of external labour including overheads and any direct costs incurred. The contracted services charge applies the rates under existing contractual arrangements. Direct costs incurred are passed on to the customer.
Materials	the cost of materials directly incurred in the provision of the service, material storage and logistic on-costs and overheads.
Margin	definition to be decided in the distribution determination.

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[11] If the ABS does not or ceases to publish the index, then CPI will mean an index which the AER considers is the best available alternative index.

Variable	Represents
Tax	definition to be decided in the distribution determination.

In the F&A, the AER notes its intention to decide on margin and tax for quoted alternative control services.

Defining Tax in quoted services

In its draft decision for South Australian Power Networks,[12] the AER defined Tax as:

> *the tax payable at the company tax rate of 30% on the capital component of the expenditure (revenue less expenses) that incurs a tax liability*

We support this definition of tax; however, we seek to change the reference to a fixed 30% for the five years of the regualtroy control period to link to the prevailing corporate tax rate issued by the Australian Taxation Office.

Defining Margin in quoted services

In its draft decision for South Australian Power Networks,[13] the AER defined Margin as:

> *6% multiplied by the sum of labour, contractor services, and materials, calculated as per formula 3 above*

We support this definition of margin and propose adopting this definition for JEN in the price reset determination for the next regulatory period.

1.2   Application of control mechanism for alternative control services

The NER requires JEN to demonstrate the application of the control mechanisms and provide supporting information for alternative control services.[14] We demonstrate the application of the control mechanism and provide the relevant supporting information in:

- Attachment 10-01 (Advanced Metering Infrastructure)

- Attachment 11-01 (Alternative control services)

- Attachment 12-01 (Public lighting services).

Each attachment sets out the forecast prices for the first year of the next regulatory period, as supported by the model calculations that apply the control mechanism. As part of the annual pricing proposal, the models mathematically solve prices for each service in accordance with the constraints of the price control formula for each year of the regulatory control period.

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12   AER, *Draft Decision SA Power Networks Electricity Distribution Determination 2025 to 2030 (1 July 2025 to 30 June 2030), Attachment 14, Control mechanisms*, September 2024.

13   AER, *Draft Decision SA Power Networks Electricity Distribution Determination 2025 to 2030 (1 July 2025 to 30 June 2030), Attachment 14, Control mechanisms*, September 2024.

14   NER, s. 6.8.2(c)(3).

2.   Designated pricing proposal charges

Designated Pricing Proposal Charges (**DPPC**)[15] recover the payments we make for:

- Transmission charges that are payments for using a Transmission Network Service Provider's (**TNSP's**) high-voltage network

- Inter-distribution business charges that relate to recognising cross-boundary settlements between networks. This applies when a neighbouring network supplies customers located near the network border

- Amounts paid for avoided Transmission Services in accordance with section 5.5(j) of the NER, which are payments recognising that energy supplied to the DNSP by an Embedded Generator (e.g. large-scale solar and wind farms) would have otherwise been supplied from a TNSP's high voltage network.

To recover these charges, JEN proposes to include the same true-up method that applies in the current regulatory period for the under or over-recovery of DPPC costs incurred during the t-2 year. The method adjusts for the time value of money by calculating the present value of actual DPPC revenue equal to the present value of recoverable charges. The mechanism to recover these charges is demonstrated by way of the example in section 4.

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[15]   NER cl. 6.18.7.

3.   Jurisdictional cost recovery scheme

The Jurisdictional Cost Recovery Scheme (**JCRS**)[16] provides for cost recovery for services that are required within the Victorian Jurisdiction. These include, but are not limited to, Essential Services Commission of Victoria licence fees[17] and Energy Safe Victoria charges.[18]

JEN proposes to include a true-up as required by the NER[19] and used in the current regulatory period for the under or over-recovery of JCRS costs incurred during the t-2 year as part of its annual pricing proposal. The method adjusts for the time value of money by calculating the present value of actual JCRS revenue equal to the present value of recoverable charges. The mechanism to achieve this is best displayed by way of the example provided in section 4.

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[16]   NER cl. 6.18.7A.

[17]   AER, *Jurisdictional scheme determination, Licence fees under Electricity Industry Act 2000 (Vic)*, July 2024

[18]   AER, *Determination Request for the ESV Levy Scheme to be determined a jurisdictional scheme*, March 2021

[19]   NER cl. 6.18.7A(b).

4. Annual pricing proposal revenue true-ups

The revenue cap form of price control requires a true-up of the actual revenue received as it varies to revenue allowance—in the case of standard control services and type 5 and 6 regulated metering services—or costs—in the case of DPPC and JCRS.

To undertake these adjustments, we will follow the process demonstrated in Box 4-1.

In all calculations, the balance amounts must be adjusted for the time value of money using the weighted average cost of capital (**WACC**) consistent with the rate the AER approved in the final determination in the year in which the determination is applicable, that is, the WACC in previous regulatory periods—updated for the trailing cost of debt—will be used where the formula crosses multiple regulatory periods.

Box 4-1 Demonstration of revenue true-up

In year t, we are truing up revenue under and over recoveries for t-2; the over or under-recovery in year t itself won't be trued up until t+2. The following example demonstrates how we will perform the calculations:

	t-2	t-1	t
(A) Revenue from tariffs	247,500	247,000	249,511
(B) Allowed revenue	247,000	248,000	249,000
(C) Pass through	-	2	14
(D) Revenue under / (over) recovery (A) – ((B) + (C))	500	- 1,002	497
(E) WACC	10.00%	10.00%	10.00%
(F) Opening balance (J) from t-1	-	524	- 474
(G) Interest on opening balance	-	52	- 47
(H) Revenue under / (over) recovery (D)	500	- 1,002	497
(I) Interest on under / (over) recovery[1]	24	- 49	24
(J) Closing balance (F) + (G) + (H) + (I)	524	- 474	0[2]

[1] Calculated using a half-year effect on the WACC, i.e., $(1+WACC)^{0.5}-1$

[2] Must set tariffs at rates that cause this value to be close to zero