Jemena Electricity Networks (Vic) Ltd

2026-31 Electricity Distribution Price Review Regulatory Proposal

Attachment 06-01

Operating expenditure

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Glossary

current regulatory period	The regulatory control period covering 1 Jul 2021 to 30 Jun 2026
next regulatory period	The regulatory control period covering 1 Jul 2026 to 30 Jun 2031
previous regulatory period	The regulatory control period covering 1 Jan 2016 to 31 Dec 2020

Abbreviations

A&O	Administration and overheads
ABS	Australian Bureau of Statistics
ACS	Alternative Control Services
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulatory
BISOE, BIS	BIS Oxford Economics
bppa	Basis Points Per Annum
CAM	Cost Allocation Methodology
CCP	Customer Challenge Panel
CEG	Competition Economics Group
CY	Calendar Year
DMIA	Demand Management Innovation Allowance
DNSP	Distribution Network Service Provider
DRC	Debt Raising Costs
ECA	Energy Consumers Australia
EBSS	Efficiency Benefit Sharing Scheme
EDPR	Electricity Distribution Price Review
ESC	Essential Services Commission of Victoria
ESV	Energy Safe Victoria
FY	Financial Year
GIS	Geographical Information System
GSL	Guaranteed Service Level
ICT	Information and Communication Technology
IFRIC	International Financial Reporting Standards Interpretation Committee
IFRS	International Financial Reporting Standards
JEN	Jemena Energy Networks (Vic) Ltd
MPFP	Multilateral Partial Factor Productivity
MTFP	Multilateral Total Factor Productivity
NER	National Electricity Rules
O&M	Operating & Maintenance
OEF	Operating Environment Factors
OH&S	Occupational Health and Safety
PPI	Partial Performance Indicators
PTRM	Post Tax Revenue Model
RAB	Regulatory Asset Base

REFCL	Rapid Earth Fault Current Limiter
RIN	Regulatory Information Notice
SaaS	Software as a Service
SCS	Standard Control Services
SFA	Stochastic Frontier Analysis
SGC	Superannuation Guarantee Charge
SGSPAA	SGSP (Australia) Assets Pty Ltd
STPIS	Service Target Performance Incentive Scheme
VEBM	Victorian Government's Emergency Backstop Mechanism
WPI	Wage Price Index

Overview

Key messages

- Operating expenditure is critical to our ability to deliver our standard control services. Customer feedback played a crucial role in shaping the operating expenditure forecast, ensuring it aligns with their expectations and needs.
- Consistent with past practice, we have used the AER's preferred base, step, trend method to forecast our efficient operating expenditure over the next regulatory period. To apply this method, we:
  - Start with our estimated operating expenditure in 2024-25 (as our base)
  - Trend it forward over the 2026–31 period using forecast network growth, changes in labour costs, and assumed productivity
  - Add step changes to pick up the costs from new or changed obligations, material changes in costs and efficient operating expenditure / capital expenditure trade-offs
  - Add category-specific forecasts for guaranteed service level payments, innovation funding, and debt-raising costs.
- This leads to a forecast operating expenditure of $615 million over the next regulatory period.
- Our forecast builds on our current period performance, where we have realised significant efficiencies from our transformation program in 2019. By starting with our 2024-25 expenditure, we ensure that these efficiencies flow through to our customers through a lower operating expenditure forecast. These efficiencies have helped us to benchmark well against our peers.
- Whilst most of our operating expenditure is generally recurrent in nature, funding the regular operations required to deliver reliable network services, we have some step changes for new obligations and changes in best practice. These include ongoing transition of information communications technology to the cloud, investment in Consumer Energy Resources, and costs for reliability and safety measures. We also incur costs associated with major external factors outside our control associated with our Information, Communication and Technology spend for costs that have been treated as capital expenditure in the past but are now treated as operating expenditure.
- At the same time, our network is fast growing. Significant new load from large connections, such as data centres, and electrification of transport (e.g., electric vehicles) and gas substitution is putting upward pressure on our forecast expenditure.
- Customer feedback on our draft 2026 plan reinforced that we were on the right track with our operating expenditure priorities. We have further built on that feedback through deep dive sessions held in November 2024.

Chapter 6 of Jemena Electricity Networks (Vic) Ltd's (**JEN**) 2026 proposal sets out the forecast operating expenditure requirements for standard control services (**SCS**) for the 2026-31 regulatory control period (next regulatory period). The purpose of this document is to provide additional information on our historical and forecast operating expenditure requirements, including an explanation of how we have developed our operating expenditure forecast for our SCS for the next regulatory period. It explains how the feedback that we have received

from our customers has informed the development of our operating expenditure forecast and it seeks to demonstrate that the operating expenditure forecast is prudent, efficient and compliant with the National Electricity Rules (**NER**).

Our operating expenditure includes the costs of operating and maintaining our electricity network. These activities include ongoing network maintenance, such as inspections and repairs and responding to emergencies, for example, removing trees that have fallen on our electricity power lines. We also perform customer functions like responding to enquiries and providing billing information to retailers.

Climate change, consumer choices, technology and policy changes have all accelerated the transformation of the energy market in Australia, meaning Distribution network Service providers (DNSPs) like ours constantly need to adapt and innovate in the way we serve our customers, moving electricity to and from their homes and businesses. Similar to the capital expenditure necessary to meet this objective, we will also incur operating expenditure, depending on the initiative being deployed and the required treatment of expenditure.

At the same time, customers have told us that issues of affordability—particularly in the context of current cost of living pressures—continue to be front-of-mind and challenging. They want us to ensure that electricity remains affordable for customers in the longer term while we transition to a net zero future.

We are committed to keeping operating expenditure per customer stable over time, despite cost pressures arising from the energy transition and changes in our regulatory and reporting obligations.

Forecasting approach

We forecast our operating expenditure using the AER's preferred forecast method, 'base, step, trend'. This method forecasts future operating expenditure using a base year – where the operating costs are representative of the efficient costs necessary to operate and maintain the network, and to meet regulatory obligations. According to the AER's 2024 benchmarking report, JEN benchmark well in relation to operating expenditure, capital expenditure and total costs.

Whilst most of our operating expenditure is generally recurrent in nature, funding the regular operations required to deliver reliable network services, we have some step changes for new regulatory obligations, major external factors outside our control associated with our Information, Communication and Technology (**ICT**) costs due to transferring some costs from capital expenditure to operating expenditure for new capacity requirements, costs for vegetation management and reliability measures, and to improve customer communication and education as strongly supported by stakeholder engagement outcomes.

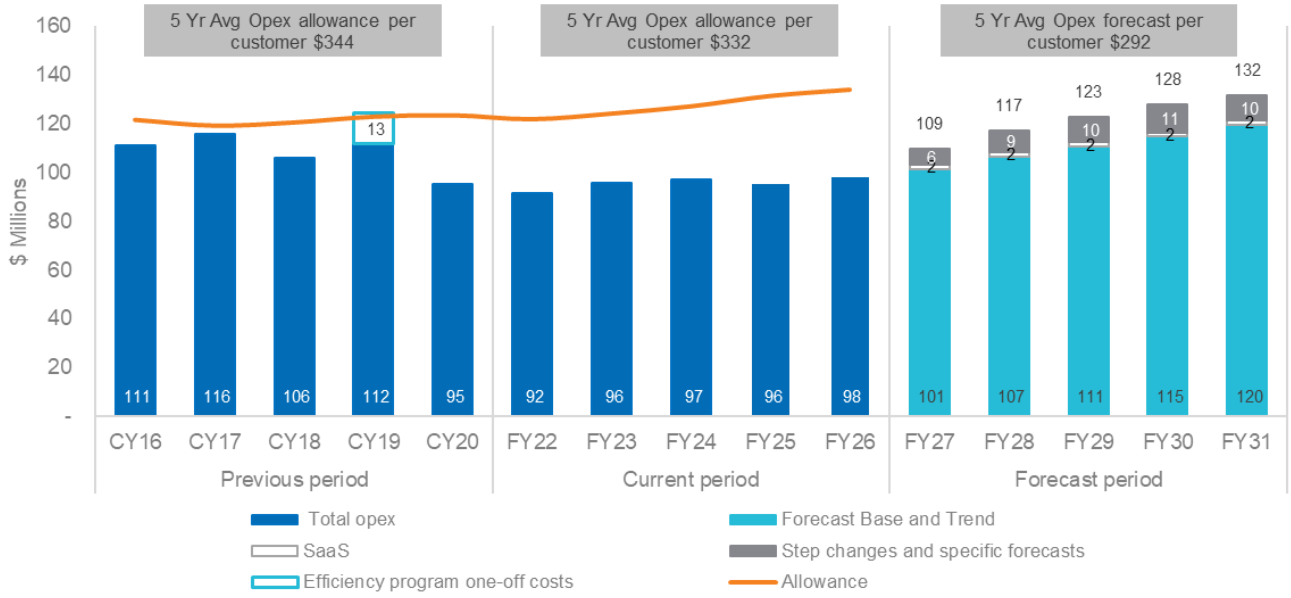
We have also used specific forecasts for items for which the base year operating expenditure does not provide a reasonable basis for forecasting future operating expenditure requirements. For example, we have done so for costs associated with Guaranteed Service Level (**GSL**) payments, innovation funds and debt-raising costs.

Operating expenditure forecast

We propose a total operating expenditure of $615M for the next regulatory period (including debt-raising costs). This is about 4 per cent lower than the operating expenditure allowance approved by the AER for the 2021-26 regulatory control period (**current regulatory period**) and 22% higher than our estimated operating expenditure in the current regulatory period. We consider our proposed operating expenditure to be efficient and would allow us to meet our regulatory obligations and customers' expectations.

Figure OV–1 shows our total operating expenditure for SCS over the 2016-20 regulatory control period (**previous regulatory period**), current regulatory period and next regulatory period along with the total operating expenditure allowance for the 2016-20 and current regulatory period. Through deliberate action, we managed to reduce our expenditure below our allowance for the current regulatory period. Our proposed allowance for the next regulatory period builds on this success.

Figure OV–1: Total operating expenditure, previous, current and forecast period ($2026, million, excl. debt raising costs)



Note: HY21 (Jan to Jun 2021) is not included for visualisation purposes. It does not impact the operating expenditure forecast.

The drivers of the increase in SCS operating expenditure over the next regulatory period compared to the current regulatory period is primarily due to step changes for:

- The transition to cloud-based and other ICT services ($22M), including $4M for reform initiatives and $8M for Consumer Energy Resources (**CER**) Integration Strategy)
- Asset management CER Integration Strategy initiatives ($3M)
- Management of rapid earth fault current limiters (**REFCLs**) ($5M)
- Investment in resilience and safety measures ($8M)
- Investment in Customer Communication and Education ($4M)

These step changes are partially offset by assumed productivity improvements of $9M (which will be challenging for us to achieve).

We undertook a thorough assessment to determine that our forecast operating expenditure represents the amount required to efficiently meet our obligations and customers' expectations and to promote our customers' long-term interests.

Structure of this attachment

This attachment is focused on JEN's SCS and is structured as follows:

- Section 1 presents and explains JEN's SCS operating expenditure forecast
- Section 2 provides an overview of what we have heard from our customers and how we have incorporated their feedback into our 2026 Plan
- Section 3 describes JEN's operating cost categories
- Section 4 provides an overview of our current period operating expenditure performance
- Section 5 provides an overview of our operating expenditure forecasting approach

- Section 6 explains why our proposed base year is the relevant starting point for setting our recurrent operating expenditure forecasts, including our benchmarking performance. This section also explains the adjustments made to the base year operating expenditure to add Software as a Service (**SaaS**) costs
- Section 7 explains our approach for trending the base operating expenditure
- Section 8 provides an overview of our SCS step changes, and
- Section 9 explains the estimation of our specific cost forecasts, such as GSL payments and debt-raising costs.

Unless stated otherwise, all dollar amounts are on a real FY 2026 dollar basis.

List of operating expenditure attachments

Table OV–1: List of operating expenditure attachments

Attachment	Name	Author
5-07	Real cost escalation	Oxford Economics
6-01	Operating expenditure (this document)	JEN
6-02	Debt raising transaction costs	Competition Economists Group (**CEG**)
6-03M	Operating expenditure forecasting model	JEN
6-04	Operating expenditure step change explanation	JEN
6-05M	Opex benchmarking roll-forward model	JEN

1. Our operating expenditure forecast for SCS

Operating expenditure is a major component of our building block costs, accounting for approximately 33% of JEN's total cost of service over the next regulatory period. Table 1–1 details our forecast operating expenditure over the next regulatory period for our SCS. The forecast operating expenditure model is provided in *JEN - Att 06-03M SCS opex model FY22-26 - 20250131 - Public*.

Table 1–1: Forecast SCS operating expenditure for 2026–31 period ($2026, million)

Category	Description	Total forecast operating expenditure ($M)
Establish efficient base year	Our proposed base year is 2024-25. The estimated base year operating expenditure before adding SaaS costs is $96M. This estimate will be updated in our revised proposal, due December 2025, to reflect the full year actual audited costs.	479
Adjust base year operating expenditure	We have adjusted the base year operating expenditure to: • remove category specific forecasts in the base year (GSL payments, Energy Safe Victoria (**ESV**) levies and any debt raising costs) • re-allocate SaaS costs (ICT project costs) from capital expenditure to operating expenditure in line with the AER's guidance reflecting the accounting treatment at the time of setting the allowance[1] • add incremental ICT project operating expenditure associated with establishing and implementing new ICT cloud-based service capacity • remove costs funded by the Demand Management Innovation Allowance (**DMIA**) • remove movements in provisions • account for the increment from base year to final year in the model.	23
Estimate trend	We have trended the efficient base forward by applying rate of changes. This includes: • Output growth (customer number, circuit length and ratcheted maximum demand) of $59M • Price growth (labour) of $10M • Ongoing productivity improvements of 0.50 per cent per annum, which equates to a reduction of $9M over 5 years	60
Develop category specific forecasts	We have developed specific forecasts for items where base year costs are not representative of the costs we expect to incur. This includes: • Innovation Fund $4M • GSL payments $1M • Debt raising costs $7M	12
Forecast step changes	We have proposed the following step changes: • ICT services $22M • CER Integration strategy $3M • REFCL testing $5M • Resilience investment $5M	41

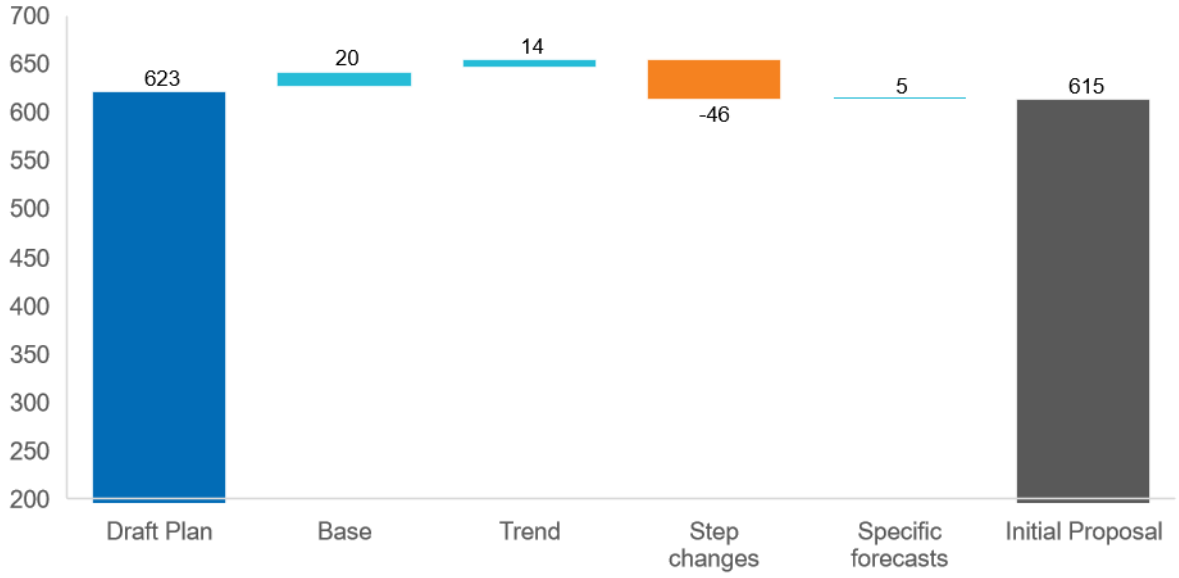
[1] In April 2021, the International Financial Reporting Standards (**IFRS**) Interpretations Committee released a guidance note requiring SaaS implementation costs treated as operating expenditure. When the 2020-25 allowances were determined for JEN in April 2021, these costs were classified as capital expenditure. To ensure our reported actuals and allowances are comparable based on consistent accounting treatments, the AER provided guidance for us to continue applying the old accounting treatment (i.e. capitalising SaaS implementation costs) for the current regulatory period 2021–26 and apply the new accounting treatment from the 2026–31 period. We have adjusted our operating expenditure and capital expenditure accordingly in line with the AER's guidance for both the 2021–26 and 2026–31 periods.

	• Safety initiative $3M • Customer communication and education $4M	
Total		**615**

1.1 Changes from our Draft Plan

In our Draft Plan, our forecast operating expenditure for SCS was $623M over 2026–31 period, compared with our proposed $615M. This is a reduction of $8M. Figure 1–1 shows a comparison between our Draft 2026 Plan and our regulatory proposal.

Figure 1-1: Operating expenditure forecast between Draft Plan and regulatory proposal ($2026, millions) M, 26,M)



This is a result of the following key changes since we published our Draft Plan:

- Increase in base year operating expenditure due to increased costs to implement the Victorian Emergency Backstop Mechanism
- Updated estimates on output growth from updated demand forecast and labour escalation based on external experts forecasts from the AER's latest benchmarking report and Oxford Economics.
- Reduction in step changes based on the latest cost forecasts and customer feedback
- Increase in specific forecasts due to the introduction of the Innovation Fund.

2. What we have heard from our customers

To understand the needs and expectations of our customers and to ensure that they have informed our operating expenditure proposals for the next regulatory period, we have undertaken an extensive engagement program which we discuss in chapter 2 of our proposal.

We established customer voice groups to provide input on key themes. We also ran a series of deep dive sessions, including more recently on 19 and 25 November that built on the feedback provided on the Draft 2026 Plan and from the Customer Voice Group.[2] We also surveyed customers about our Draft 2026 Plan.[3]

Table 2–1 summarises what we heard on key themes relevant to our proposed operating expenditure and what we have done in response.

Table 2–1: Customer feedback by theme

Theme	What we heard	What we have done
Affordable electricity supply	Customers are, quite understandably, concerned about cost of living pressures and want us to explore ways to keep costs down. The Disability Customer Voice Group said that some people with disabilities can be particularly vulnerable to high electricity costs. The Mental Health Customer Voice Group explained that uncertainty over electricity prices can trigger anxiety, fear, and stress, and can impact mental health. The Seniors Customer Voice Group highlighted that many seniors are on the age pension with low income, with the Young People Customer Voice Group noting the same for young people.	We have worked hard over the current regulatory period to realise operating expenditure efficiencies, using this as the starting point (i.e., base) for our proposed expenditure for the next regulatory period.
Cyber security and data protection	Cyber security and data protection was critical, especially sensitive customer data. This was a particular focus for the First Nations Customer Voice Group and the Seniors Customer Voice Group, with concerns about customer safety cited by the former.	We are proposing a step change to cover ICT services, including those that support our cyber security and data protection.
Reliability and resilience	Customers want us to maintain high levels of reliability and increase the resilience of the network by responding quickly to extreme weather events. The Disability Customer Voice Group highlighted the importance of outage notifications. The Mental Health Customer Voice Group felt it essential for us to withstand and recover from extreme weather events. This was view was echoed by the Multicultural Customer Voice Group and the Seniors Customer Voice Group. The Young People Customer Voice Group said that young people want us to focus on futureproofing our network. Customers at our recent deep dive sessions reinforced these views, providing positive feedback on three network resilience packages.	We are also proposing step changes, with a focus on resilience.
Customer education and ongoing engagement	The Disability Customer Voice Group, the Seniors Customer Voice Group, and the Young People Customer Voice Group saw great value in increasing our customer education and helping empower customers by building energy literacy and a greater understanding of energy-saving tips, how to navigate through the energy system and what the future of energy will look like. These groups would also like to see us maintain ongoing customer engagement, particularly to give customers with a disability and other customer groups a voice and be able to see the changes customers are advocating for on an ongoing basis, and to ensure that communication was clear and accessible.	We intend to launch an integrated education program, which we have proposed as a step change for the next regulatory period.

2 See: *JEN - MosaicLab Att 02- 22- Customer Deep Dive Outcomes Report - 20241209 - Public*.

3 See: *JEN - Att 02 -21 - Draft Plan Feedback Report – Public*.

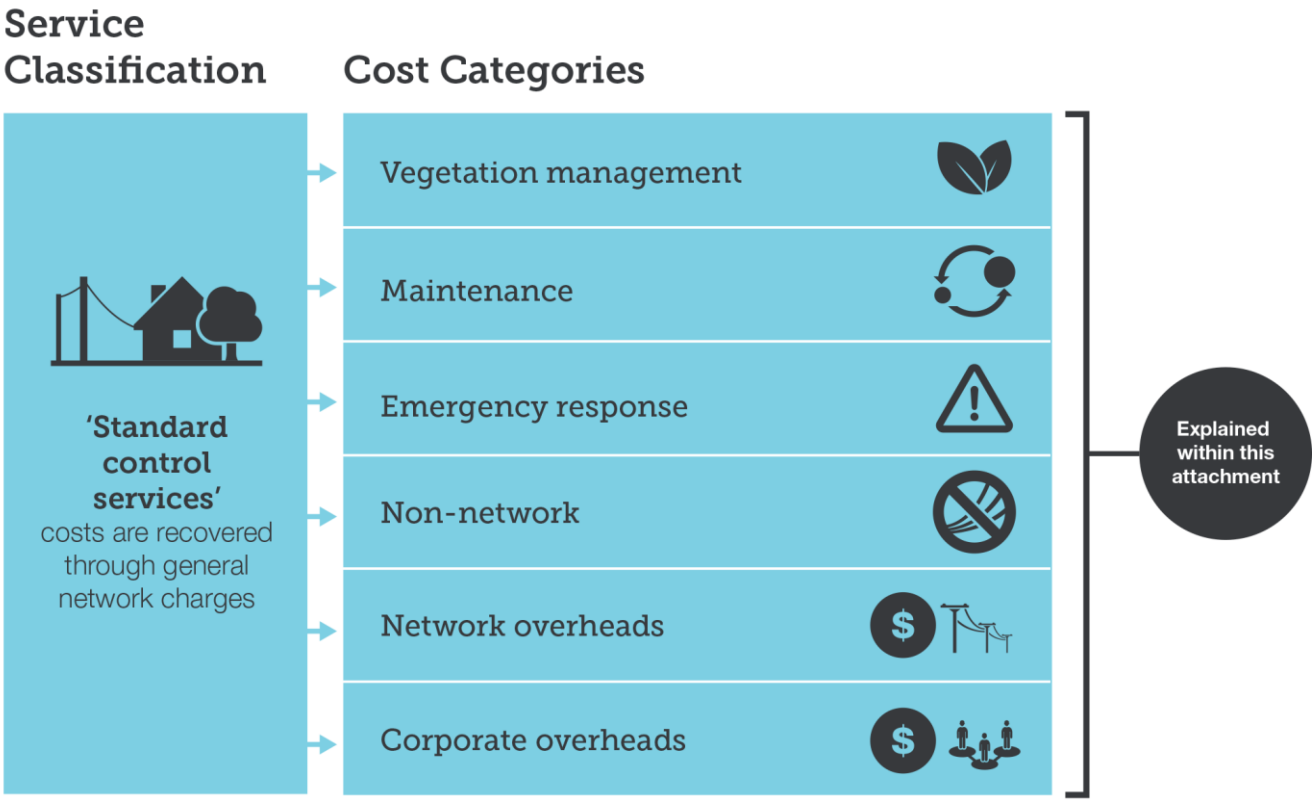
Theme	What we heard	What we have done
	The Multicultural Customer Voice Group saw great value in utilising new technologies that enable multicultural customers to have their say on energy and have two-way conversations with customer service teams in their own language. The survey feedback supported efforts to help keep customers informed and provide ongoing education. We tested alternative customer education packages at our recent deep dive sessions.	
Future networks	Customers generally supported effort to modernise our network. The Mental Health Customer Group and Seniors Customer Voice Group wanted us to invest in the network to adopt new technologies by digitising and automating the network to be prepared for future energy-related issues. The Multicultural Customer Voice group wanted us to incorporate Artificial Intelligence and invest in new technologies to digitise and automate the electricity network as much as possible to prepare for future demand while upgrading outdated or old technologies. We tested alternative innovation fund packages at our recent deep dive sessions.	Our proposed CER Integration Strategy initiatives step changes will help us evolve into the network of the future.
Innovation	Customers supported our focus on innovation. We tested alternative innovation fund packages at our deep dive sessions, with feedback helping to shape our proposal. Attendees emphasised the importance of collaboration, resourcing, and proactive investment in green energy, supported by government and third party funding, to ensure benefits for future generations.	We are proposing to establish an Innovation Fund that aligns with customer feedback

3. Operating cost categories and cost allocation

3.1 Operating cost categories for our SCS

We incur operating expenditure by undertaking a range of activities to maintain and support our network. These activities include ongoing network maintenance, such as inspections, repairs, and emergency response for unplanned outages or incidents. We also incur operating expenditure in network planning and design, customer service, field operations, and corporate support, such as ICT.

Figure 3-1: Our operating expenditure categories for our SCS



Appendix A includes an overview of each operating expenditure cost category.[4]

3.2 Cost allocation for our services

The JEN Cost Allocation Method[5] (**CAM**) governs how costs are allocated to SCS, Alternative Control Services (**ACS**) and Unclassified Services provided by means of the JEN network, in accordance with clause 6.5.6(b)(2) of the NER. The CAM has been applied to report SCS costs separately—that is, costs allocated to other services are excluded from the operating expenditure forecast.

4 NER, S6.1.2(1)(iv).

5 JEN, *Cost Allocation Methodology*, 29 March 2019.

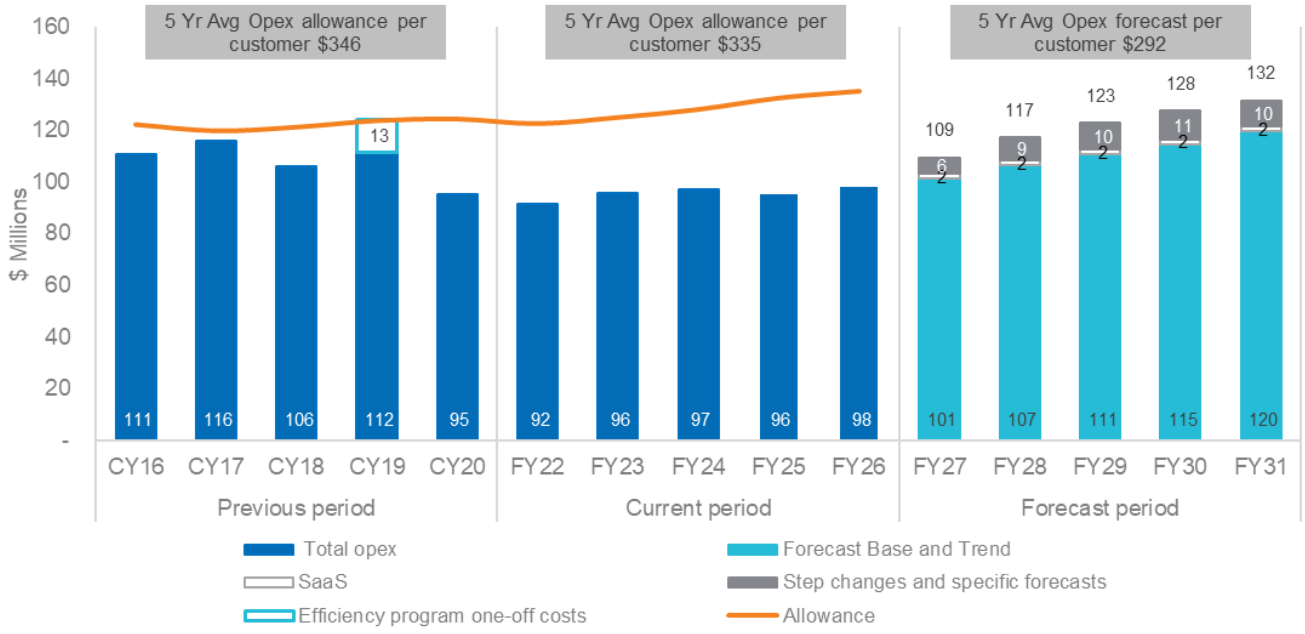
4. Overview of current period performance

Over the current regulatory period, we expect to incur $479M of operating expenditure. This is $165M or 26 per cent below the allowance approved by the AER.

Our operating costs for the current period are significantly less than the allowance due to operating efficiencies we have achieved from our efficiency program commencing in 2019 and less maintenance work during the COVID-19 pandemic. Our base year operating expenditure has reduced by $10M or 9 per cent from the previous period (from $106M in CY18 to $96M in 2024-25).

Figure 4-1 shows our actual and estimated operating expenditure spend against the AER allowances over the current regulatory period for our SCS, and our forecast operating expenditure over the next regulatory period.

Figure 4-1: JEN actual and forecast operating expenditure over 2021–31 ($2026, million, excl. debt raising costs)



The underspend is largely driven by the following factors:

- improved cost efficiencies from JEN's 2019 operational efficiency transformation program
- lower non-network (property) costs due to JEN's proactively reducing office space, following the adoption of a hybrid working model

4.1 Analysis of operating expenditure by category

We capture expenditure at a cost level as shown in Figure 3-1. Further information on the types of costs incurred by category is outlined in Appendix A. Figure 4 provide a breakdown of our operating expenditure in the previous, current and next regulatory periods by cost category, along with the total operating expenditure allowance where applicable.[6]

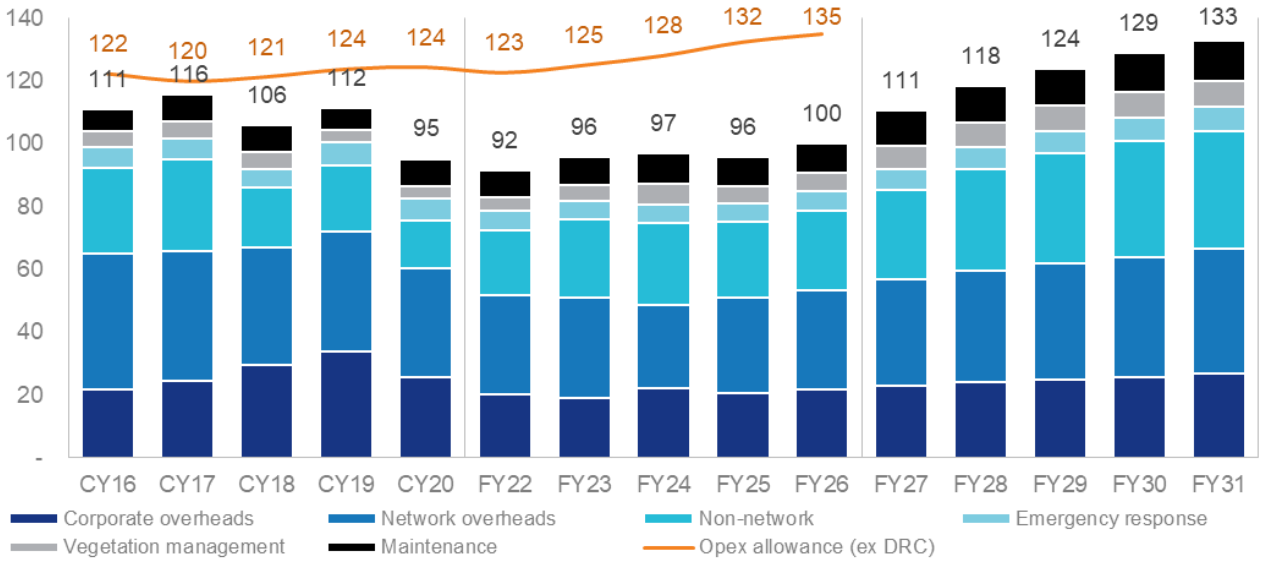
[6] NER, S6.1(7).

As shown, there is a proposed increase in operating expenditure from the current to the next regulatory period, which is due primarily to:[7]

- significant growth across our network driven by electrification of transport, gas conversions and large connections (e.g., data centres) (see section 7.3)
- operating expenditure step changes (see section 8).

The chart also shows how our proposed operating expenditure for the next regulatory period aligns with the current period allowance.

Figure 4-: Operating expenditure by cost category ($2026, million, excluding debt raising costs)



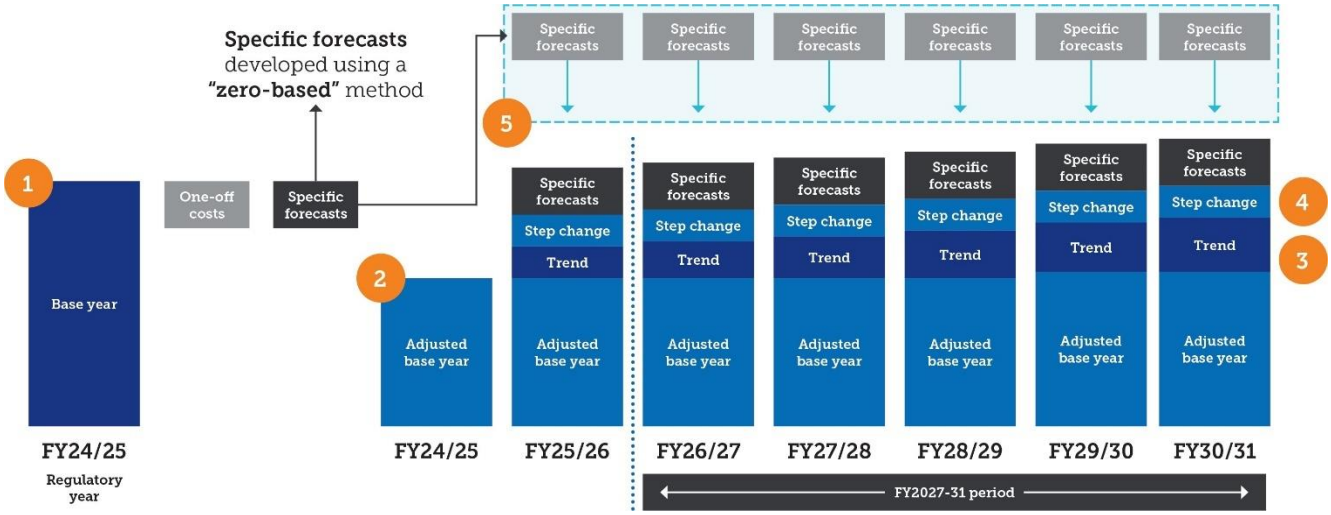
[7] NER S6.1.2(8).

5. Overview of our forecasting approach

5.1 Forecasting method

We used the AER's base-step-trend method to forecast required SCS operating expenditure (see Figure 5).[8] Category-specific forecasts and step changes were used to capture the cost categories, where base year costs are not representative of the costs that we expect to incur over the next regulatory period.

Figure 5-: Our operating expenditure forecasting approach for SCS



5.1.1 Establishing an efficient base year

. We nominate 2024-25 as the base year for our operational expenditure forecast. his will be the latest financial year of actual operating expenditure available at the time of the AER making its final decision for the next regulatory period. It represents the efficient costs necessary to operate and maintain our network and meet regulatory obligations. We then exclude from the efficient base year non-recurring operating expenditure and category-specific forecasts, such as GSL payments, which are not forecasted using a single-year revealed cost approach.

5.1.2 Trending the base year forward

We then trend our base operating expenditure forward to account for:

- forecast output growth to ensure sufficient funding for servicing a larger network
- forecast input cost growth to reflect changes in input costs such as labour and materials

[8] This is consistent with our Expenditure Forecasting Methodology for the next regulatory period submitted to the AER on 28 June 2024.

- productivity improvements reflecting our ongoing commitment to achieving cost reductions over the next regulatory period.

5.1.3 Step changes in expenditure required

Lastly, we add step changes and specific forecasts to our operating expenditure forecast. This relates to items for which the base year operating expenditure does not provide a reasonable basis to forecast future expenditure requirements. Step changes normally arise from factors such as;

- new regulatory obligations,
- costs for services that our customers recommended we should prioritise, or
- efficient operating expenditure / capital expenditure trade-offs.

We undertook a comprehensive assessment to ensure that our forecast operating expenditure is efficient and sustainable, it represents the amount required to meet our obligations and customers' expectations, and promotes the long term interests of our customers.

5.2 Key inputs and assumption

NER section S6.1.2(3) requires us to set out the forecasts of the key variables we relied on in applying the base, step and trend method to forecast our operating expenditure, as well as the methods and assumptions we used to forecast these variables.

Sections 6 to 9 describe and substantiate the key inputs and assumptions underlying JEN's operating expenditure forecast, including the basis for our specific forecasts. These sections should be read in conjunction with *JEN - Att 06-03M SCS opex model FY22-26 - 20250131 - Public*, which is our operating expenditure forecasting model and *JEN - Att 06-04 Operating expenditure step changes - 20250131 - Public,* which provides more details on our proposed step changes.

6. Establishing an efficient base year

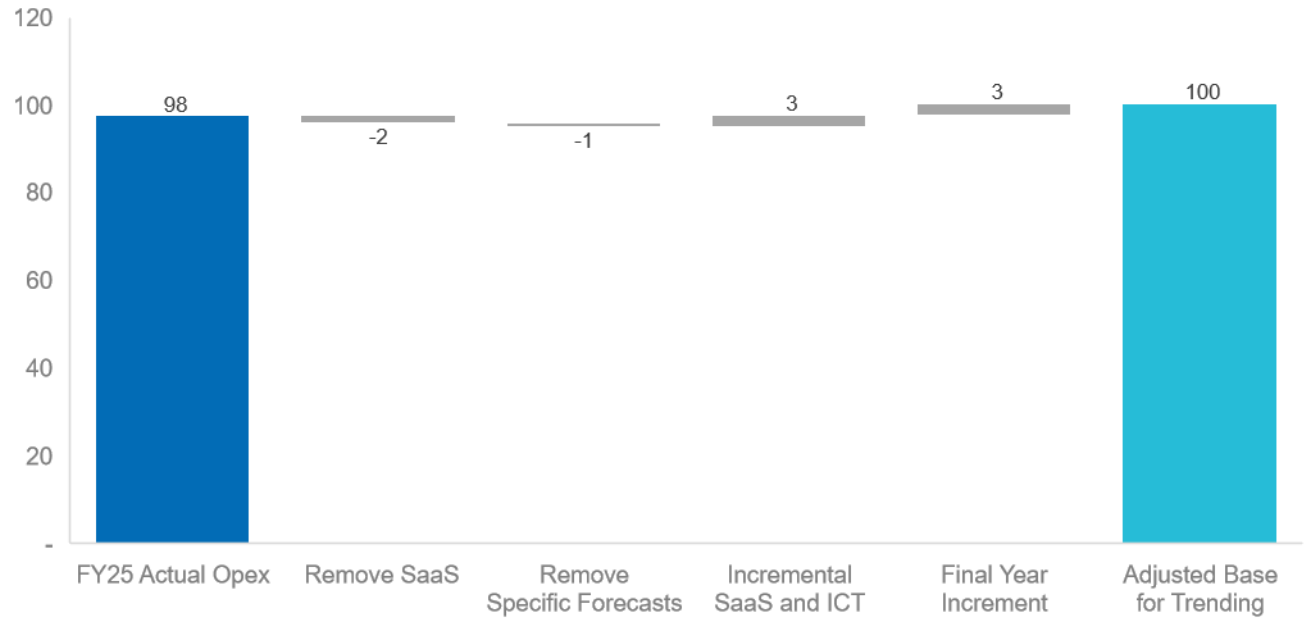
6.1 Overview

Base year expenditure is the *key* input to the base, step, trend forecasting method. It should reflect the most recent efficient costs of delivering services. We propose using our 2024-25 operating expenditure as our efficient base year to forecast operating expenditure for the next regulatory period.

- Section 6.2 explains why we have selected 2024-25,
- Section 6.3 shows our benchmarking efficiency
- Section 0 steps through the adjustments we proposed.

Figure 6 shows our build-up of the proposed base operating expenditure of $100M for 2025-26. This starts with our estimate of 2024-25 actual operating expenditure ($98M). Once SaaS costs are removed, this gives the $96M noted in Table 1–1.

Figure 6-: Our proposed base year operating expenditure ($2026, million)



6.2 Selection of the base year

We propose to use 2024-25 as our base year for forecasting the efficient operating expenditure for the next regulatory period. This approach is consistent with the AER's preferred approach. While our audited actual costs for 2024-25 will not be available in time for the submission of our initial proposal, it will be available when we submit our revised proposal in December 2025.

We consider our base year expenditure to be efficient for the following reasons:

- we are subject to a regulatory incentive framework for both operating and capital expenditure and have responded to these incentives by realising significant reductions in operating expenditure, as discussed in section 4,
- our estimated 2024-25 operating expenditure is below the allowances determined by the AER for the current regulatory period

- benchmarking analysis supports the efficiency of our expenditure—as shown in section 6.3 below, the AER's 2024 benchmarking report demonstrates that JEN has continued to improve its cost efficiencies over the current regulatory period and that our proposed base year (2024-25) operating expenditure is an efficient basis to forecast our SCS operating expenditure for the next regulatory period.

We consider that our 2024-25 costs represent the efficient costs necessary to operate and maintain the network and meet our regulatory and legal obligations in regard to safety, reliability, security, and the environment, consistent with clause 6.5.6(a) of the NER.

We have made the following adjustments to our base year to ensure it represents our recurrent expenditure:

- remove category specific forecasts that are in the base year (GSL payments etc.)
- adjust for SaaS costs that will be treated as operating expenditure going forward
- adjust for incremental ICT project costs
- adjust for movements in provisions in accordance with the AER's preferred approach
- remove costs funded by the DMIA.

Table 6–1 sets out the adjustments we have made to our base year operating expenditure.

Table 6–1: Derivation of base operating expenditure before trending ($2026, million)

Operating expenditure category	Value
Estimated 2024-25 operating expenditure for our SCS (including SaaS)	97.5
Adjust to remove SaaS costs (see section 6.4.1)	(1.8)
Estimated 2024-25 operating expenditure for our SCS (excluding SaaS)	95.8
Base year adjustments:	
Add back SaaS costs (see section 6.4.1)	1.8
Adjust for incremental ICT project costs (see section 6.4.2)	0.8
Adjust for movements in provisions	(0.5)
Adjust for costs funded for by the DMIA	(0.0)
Remove category specific forecasts	(0.1)
Increment from base year (2024-25) to final year (2025-26)	2.6
Base operating expenditure before trending	**100.3**

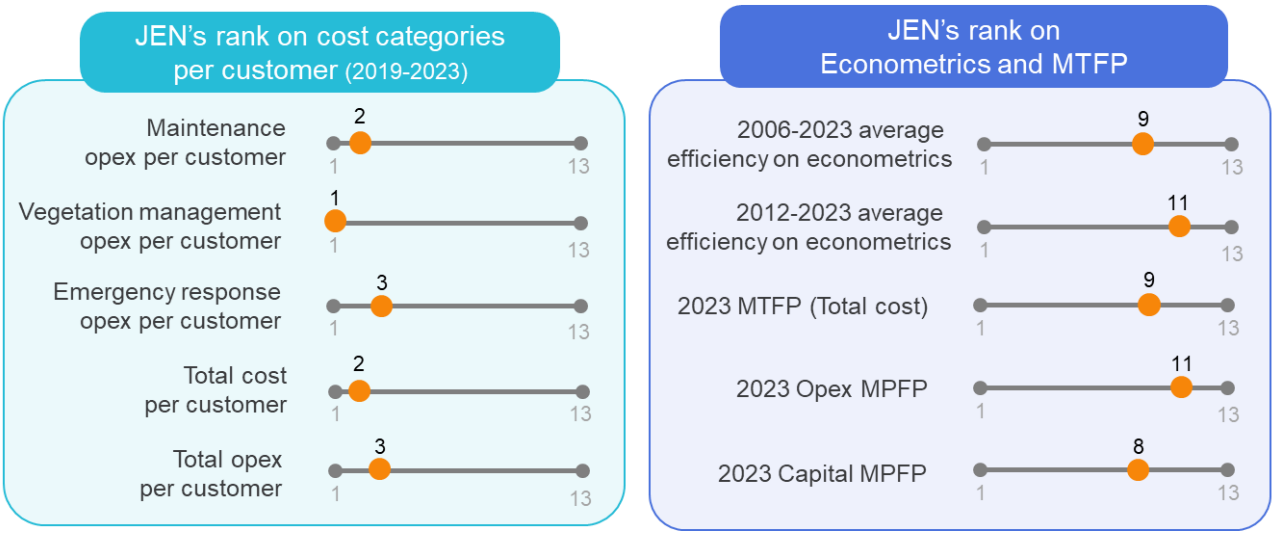
6.3 Base operating expenditure efficiency

6.3.1 Overall performance

The NER requires the AER to have regard to network benchmarking results when assessing capital and operating expenditure and publish the benchmarking results annually. This aims to provide consumers with useful information about the relative performance of their electricity distributors and provide the AER an assessment tool to evaluate distributors' cost efficiencies.

The AER employs several techniques to undertake its benchmarking analysis. For most benchmarking methods we rank well amongst our peers, as illustrated in Figure 6 below. These techniques include partial performance indicators (**PPI**), multilateral total factor productivity (**MTFP**), multilateral partial factor productivity (**MPFP**), and econometric cost functions.

Figure 6-: JEN's benchmark position against our peers[9]



Source: AER 2024 Annual Benchmarking Report – Electricity distribution network service providers – November 2024

6.3.2 Partial performance indicators

The PPI technique is a simple form of benchmarking that compares inputs (e.g., expenditures) to one output, offering a general indication of DNSP performance in delivering a specific output. While it doesn't account for interrelationships between inputs and outputs like the other benchmarking measures, it is informative when used alongside other benchmarking methods.

Our PPI performance compares well to our peers when looked at per customer basis while less well when compared on a cost per kilometre of circuit length basis[10]. This is due to our relatively high customer density when compared to many of our peers—especially those with rural networks.

We are among the top three DNSPs when looked at on a cost-per-customer basis for total costs, total operating expenditure, and category-level costs such as maintenance, vegetation management, and emergency responses. Although we rank lower on cost per kilometre of circuit length and MW of ratcheted maximum demand, cost per customer provides a better indication of our cost efficiency as it aligns better with how customers pay for their network bills and it being a larger driver of operating expenditure. This view is consistent with the output weights derived from the AER's benchmarking results, which place roughly 3 times more weight on customer numbers than circuit length (see section 7.3).

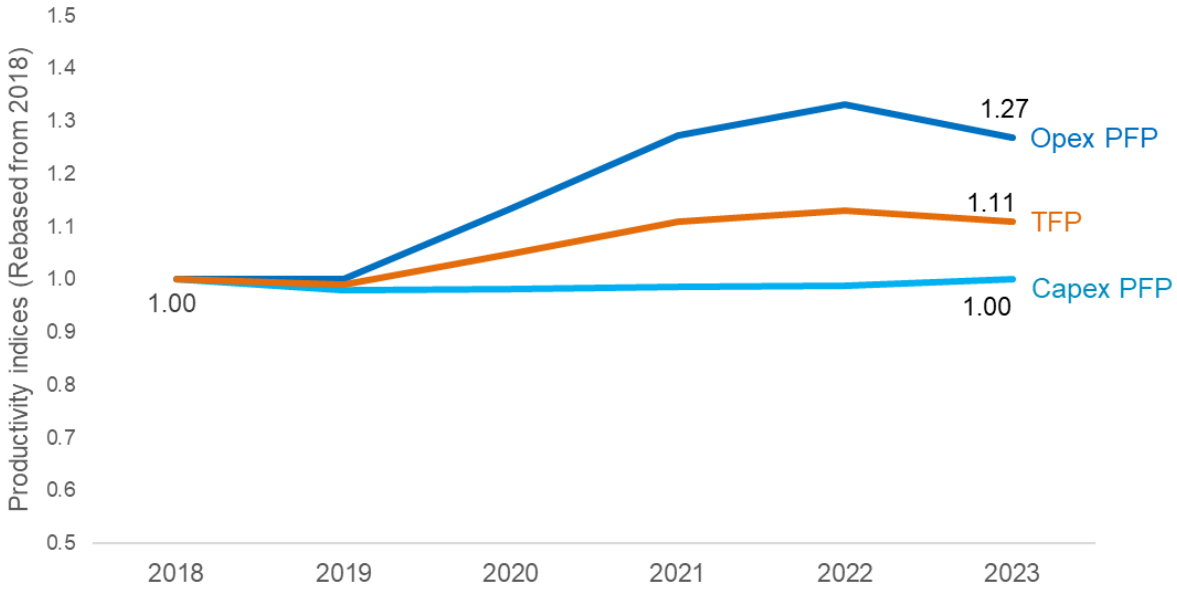
6.3.3 Productivity

We have improved our productivity significantly in recent years from our base year in the last price reset determination (2018) to the latest year where data is available (2022-23), as shown in Figure 6. Our operating expenditure productivity has improved by 27%, while the total cost productivity improved by 11 percent from 2018 to 2023. It represents our continuous efforts in efficiency improvements. It also demonstrates our ability to deliver the same services at much lower costs compared to the last regulatory period, making it more affordable for our customers.

9 The output weights used in the productivity index calculation (for MTFP and MPFP) is currently estimated using data up to 2018 and based on 2014 CAM, which creates an inconsistency with the data used for calculating productivity indices. The AER has indicated that it will update the output weights in the 2025 Annual Benchmarking report. This update will likely increase JEN's measured productivity further.

10 JEN ranks 11th on both opex per km of circuit length and total cost per km of circuit length. JEN ranks 6th on both opex per MW of ratcheted maximum demand and total cost per MW of ratcheted maximum demand

Figure 6-: JEN's productivity improvements from 2018 to 2023



Source: Calculated from the AER's 2024 Annual Benchmarking Report - Electricity distribution network service providers – November 2024, attachment 'DNSP24-MTFPtables-charts-16Sep2024.xlsx'.

6.3.4 Econometric models

We benchmark efficiently on econometric models under both the long sample period (2006–2023) and the short sample period (2012–2023). The AER estimates efficient operating expenditure based on econometric cost functions and uses them to test whether the base operating expenditure proposed by a DNSP is efficient or not.[11]

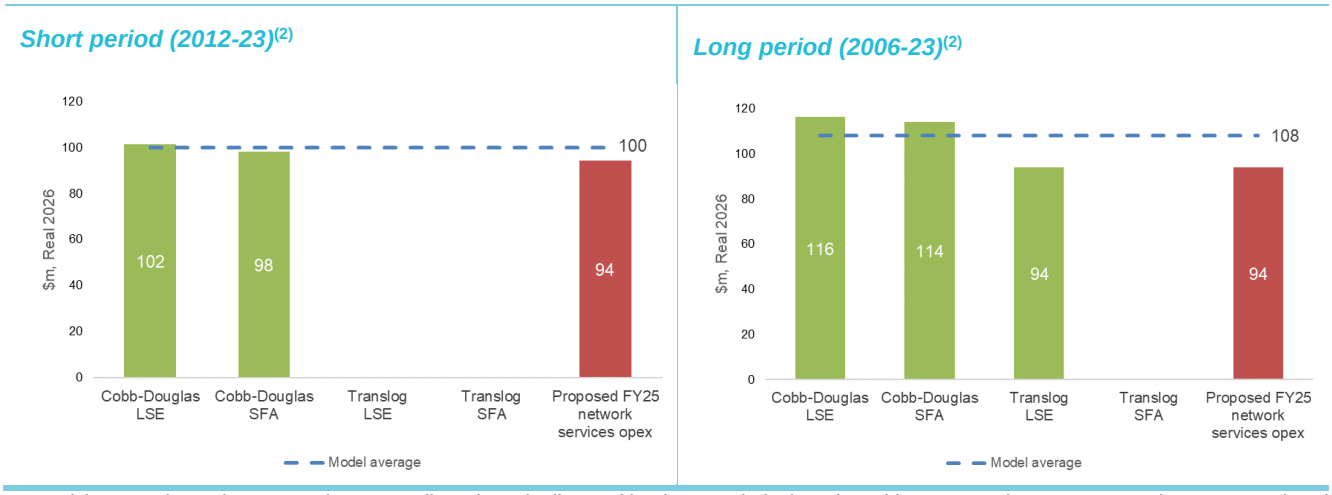
Replicating that approach (as shown in Figure 6) suggests that network services component of our proposed base year operating expenditure[12] ($94M of the $96M) is below the efficient operating expenditure derived from the econometric models, and therefore no adjustment is needed to the proposed base year amount.[13] This supports our proposal to adopt 2024-25 as our base year for forecasting operating expenditure in the next regulatory period.

[11] For instance, in recent decisions the AER has estimated efficient base operating expenditure by using the outputs from the econometric cost functions to determine the average efficient expenditure over a given period (e.g., 2006–2022 or 2012–22) and then rolling this forward to the base year nominated by the DNSP. That efficient expenditure is adjusted for OEFs and then compared to the base expenditure proposed by the DNSP. If a DNSP's proposed base operating expenditure is materially higher than the derived value, then the AER may reduce the base operating expenditure down to an efficient level.

[12] Network services operating expenditure is typically used by the AER in its benchmarking approach. It represents the amount related to shared network costs, which is slightly lower than the SCS operating expenditure for JEN

[13] We have included our operating expenditure roll-forward model as *JEN - Att 06-05M Opex benchmarking Roll Forward - 20250131 - Public*. To prepare this we started with the model the AER used in its 2024–29 determination for NSW DNSPs and then updated the inputs, including to incorporate the parameters from the 2024 annual benchmarking report and JEN's forecast cost and outputs.

Figure 6-: JEN's base year network services[1] operating expenditure efficiency in econometric models (2026$M)



Note: (1) Network services operating expenditure is typically used by the AER in its benchmarking approach. It represents the amount related to shared network costs, which is slightly lower than the SCS operating expenditure.

(2) Consistent with the AER's past practice, certain Translog models are excluded from the charts above as they do not satisfy the monotonicity requirement or do not converge. Monotonicity is a key economic property that requires that an increase in output can only be achieved with an increase in inputs (operating expenditure), holding other things constant.

6.4 Adjustments to base year operating expenditure

We have adjusted our base year costs to:

- remove SaaS implementation costs, which are currently treated as capital expenditure for regulatory purposes for consistency with the AER's treatment of them in the CESS and EBSS. SaaS costs will be treated as operating expenditure in the next regulatory period and therefore we add them back to base operating expenditure resulting in a net zero impact
- add incremental ICT project operating expenditure
- remove movement in provisions
- remove costs funded for by the DMIA, and
- remove costs that we develop category specific forecasts for.

Table 6–2 sets out the adjustments we have made to our base year.[14]

Table 6–2: Base year adjustment ($2026, millions)

Description	Total operating expenditure base year adjustment
SaaS costs provided as capital expenditure allowance (see section 6.4.1 below)	1.8
Incremental ICT project operating expenditure (see section 6.4.2 below)	0.8
Remove movement in provisions	(0.5)
Remove costs funded by the DMIA	(0.0)
Remove costs that we develop category specific forecasts for	(0.1)
Net adjustment to base year operating expenditure	**2.0**

14 This excludes the separate adjustment made for the estimated change in operating expenditure between the base year and the final year (of $2.6M).

6.4.1 SaaS implementation costs

Using the 2024-25 estimated operating costs of $96M as our base year (excluding SaaS costs), we adjust it by re-allocating SaaS implementation costs of $1.8M from capital expenditure to operating expenditure in line with the AER's guidance due to a change in the accounting treatment.

In April 2021, the International Financial Reporting Standards (**IFRS**) Interpretations Committee released a guidance note requiring SaaS implementation costs be treated as operating expenditure—which have significant implications for the accounting treatment of ICT costs. Under the new guidelines, costs associated with configuring or customising SaaS and other software platforms are now classified as operating expenditure when they were previously classified as capital expenditure. Expenses related to software development activities that enhance, modify, or add capability to existing on-premises systems continue to be treated as capital expenditure in relation to intangible software assets. These changes directly impact how we account for ICT-related costs. Specifically, this has led to a significant increase in operating expenditure, which was presented as capital expenditure in the current regulatory period proposal.

Importantly, when the current regulatory period allowances were determined for JEN in April 2021, these costs were classified as capital expenditure. To ensure our reported actuals and allowances are comparable based on consistent accounting treatments, the AER provided guidance suggesting DNSPs to continue applying the old accounting treatment (i.e. capitalising SaaS implementation costs) for the current regulatory period and apply the new accounting treatment from the next regulatory period. This ensures that a consistent treatment is reflected in both the allowed and actual or estimated expenditure for the current regulatory period while ensuring that the new treatment applies over the next regulatory period.

We have adjusted our operating expenditure and capital expenditure accordingly. The change in accounting treatment of SaaS implementation costs does not increase our total expenditure forecast; our capital expenditure forecast reduces accordingly after re-allocating costs to operating expenditure. This ensures that our customers are not impacted by changes in accounting treatments.

6.4.2 Incremental ICT project operating expenditure

When implementing new non-recurrent ICT capacity, we incur costs to establish and—if necessary—customise, ICT cloud services. These costs comprise SaaS, Infrastructure as a Service (**IaaS**), and Platform as a Service (**PaaS**), and change management and training related to system changes, which we classify as 'non-recurrent' ICT project operating expenditure.

However, although those costs relate to non-recurrent projects, the activity of implementing new non-recurrent ICT capacity is recurring in nature. It is just that the level of activity is expected to fluctuate across years and periods. To ensure that our operating expenditure forecast for the next regulatory period reflects this reality, we adjust our base expenditure to reflect the expected level of activity over that period.

We estimated that adjustment by comparing the costs of implementing any non-recurrent projects over the next regulatory period against the costs expected in the 2024-25 base year. This is shown in Table 6–3 below. We have used the information in *JEN – RIN – Support – Technology Plan – 20250131 – Public*, which sets out our proposed non-recurrent ICT projects for the 2026–31 period. As shown in the table, we estimate average annual costs of $7.8M. Deducting the $6.8M of non-recurrent ICT project operating expenditure expected for 2024-25, gives the $0.8M base adjustment that we propose. We have also included a step change for ICT services, which we discuss further in Section 8.

Table 6–3: Incremental ICT project operating expenditure ($2026, million)

Project name	$2026M
Maintaining existing services, functionalities, capability and/or market benefits	
Customer systems lifecycle	1.0
SAP migration	12.9
Network Operations Geospatial enhancements	0.4
Digitising Network Switching	3.9

Project name	$2026M
Cyber program	6.0
Complying with new / altered regulatory obligations / requirements	
Enterprise Content Management Uplift	4.0
Data foundations and governance	1.9
Reform – Market Interface Technology Enhancements	0.3
Reform - Flexible Trading arrangements	1.1
Outage Preparedness and Response	0.8
Contract lifecycle management	0.8
New or expanded ICT capability, functions and services	
Customer education	2.3
Dynamic Network planning with automation	1.8
CER Integration – Strategic Network Analytics Platform (SNAP) - Data Hub	0.3
CER Integration – Network Analytics program	0.6
Total non-recurrent operating expenditure (a)	**38.2**
Annual non-recurrent operating expenditure (b=a/5)	**7.6**
Less non-recurrent ICT project operating expenditure expected in 2024-25 (c)	(6.8)
Incremental ICT project operating expenditure (b-c)	**0.8**

Totals might not add due to rounding

6.4.3 Other adjustments

Consistent with the AER's standard approach, we have also adjusted base operating expenditure to remove any movement in provisions, costs funded by the DMIA, and any costs that we forecast separately using category specific forecasts.

Although we have not identified any at present, we also propose to remove any non-recurrent one-off costs from 2024-25 operating costs once known.

7. Trending the base year operating expenditure

7.1 Rate of change in operating expenditure

We trend our base operating expenditure forward for forecast growth in outputs, input prices and productivity for the next regulatory period consistent with the AER's requirements:

- **Forecast real input price**— this adjustment ensures that our costs reflect the expected rate of change in labour and other cost components. Changes to labour costs are based on independent expert forecasts from Oxford Economics and Deloitte Access Economics (**DAE**). We applied zero real escalation to non-labour costs consistent with the AER's standard practice.
- **Forecast output growth**—such as forecasting increases in customer numbers, ratcheted maximum demand, and circuit line length. This adjustment allows us to meet the increased costs of operating our expanding network.
- **Productivity improvement**—reflects the efficiency improvements, or cost reductions we are committing to deliver as a result of increased automation, process improvements and/or adoption of new technologies. We forecast a 0.5 per cent per annum reduction, which delivers $9M cost reductions in the next period.

These components are combined into a single rate of change as follows:

$$Annual\ rate\ of\ change = (1 + input\ cost\ growth) \times (1 + output\ growth) \times (1 - productivity\ growth) - 1$$

We have applied these three adjustments to our base operating expenditure for the next regulatory period. Table 7–1 shows the forecast rate of change for 2026–31.

Table 7–1: Forecast rate of change (per cent)

	2026-27	2027-28	2028-29	2029-30	2030-31	2026–31 Average
Output growth trend (%)	2.81%	4.97%	3.66%	3.34%	4.08%	3.77%
Input cost trend (%)	0.55%	0.49%	0.61%	0.72%	0.68%	0.61%
Productivity adjustment (%)	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
Total operating expenditure rate of change (%)	2.86%	4.96%	3.76%	3.57%	4.26%	3.88%

Table 7–2 shows the forecast operating expenditure trend over the next regulatory period. These costs will increase our operating expenditure by $60M or 12% of base operating expenditure in the next regulatory period. In Figure 4-1, the forecast base year operating expenditure and trend-related costs are combined.

Table 7–2: Forecast operating expenditure trend ($2026, million)

	2026-27	2027-28	2028-29	2029-30	2030-31	2026–31 Total
Output growth trend	2.8	7.9	11.9	15.7	20.4	58.7
Price change trend	0.6	1.1	1.9	2.8	3.7	10.1
Productivity adjustment	(0.5)	(1.1)	(1.7)	(2.4)	(3.1)	(8.7)
Total operating expenditure rate of change	**2.9**	**8.0**	**12.1**	**16.1**	**21.0**	**60.1**

We discuss each of the rate of change components below.

7.2 Price change

Our base year operating expenditure reflects the current prices of our inputs. These input costs consist of labour and non-labour items. This is calculated by:

- applying the AER's standard approach of using a weighted average of forecast labour and non-labour cost growth to determine our overall input cost growth, with the benchmark weighting of 59% for labour and 41% non-labour to our operating expenditure.
- estimating the real labour escalation by taking the average of two state-specific utility industry wage price index growth forecasts. This includes estimating the average real labour escalator forecasts from Oxford Economics[15] and DAE's real wage price index (**WPI**) forecast commissioned by the AER for the Queensland electricity distribution networks.[16]
- have not included an uplift for the Superannuation Guarantee charge (**SGC**). Unlike recent AER decisions, an uplift is not needed at this stage as no further SGC increases are expected over the 2026–31 period.
- applying zero real escalation to the non-labour portion of our operating expenditure

Table 7–3 shows our forecast input cost over the next regulatory period.

Table 7–3: Forecast input cost growth 2026-31

	2026-27	2027-28	2028-29	2029-30	2030-31	Total
DAE real labour forecast (A)	0.70%	0.70%	0.80%	1.10%	1.10%	
Oxford Economics real labour forecast (B)	1.16%	0.97%	1.25%	1.35%	1.20%	
Average real labour forecast (C = (A+B)/2)	0.93%	0.84%	1.03%	1.22%	1.15%	
Labour contribution to price growth trend (D)	59.20%	59.20%	59.20%	59.20%	59.20%	
Adjusted real labour forecast (E=C x D)	0.55%	0.49%	0.61%	0.72%	0.68%	
Real other forecast (F)	-	-	-	-	-	
Price growth trend (E+F)	0.55%	0.49%	0.61%	0.72%	0.68%	
Input cost growth (2026$M)	**0.6**	**1.1**	**1.9**	**2.8**	**3.7**	**10.1**

7.3 Output growth

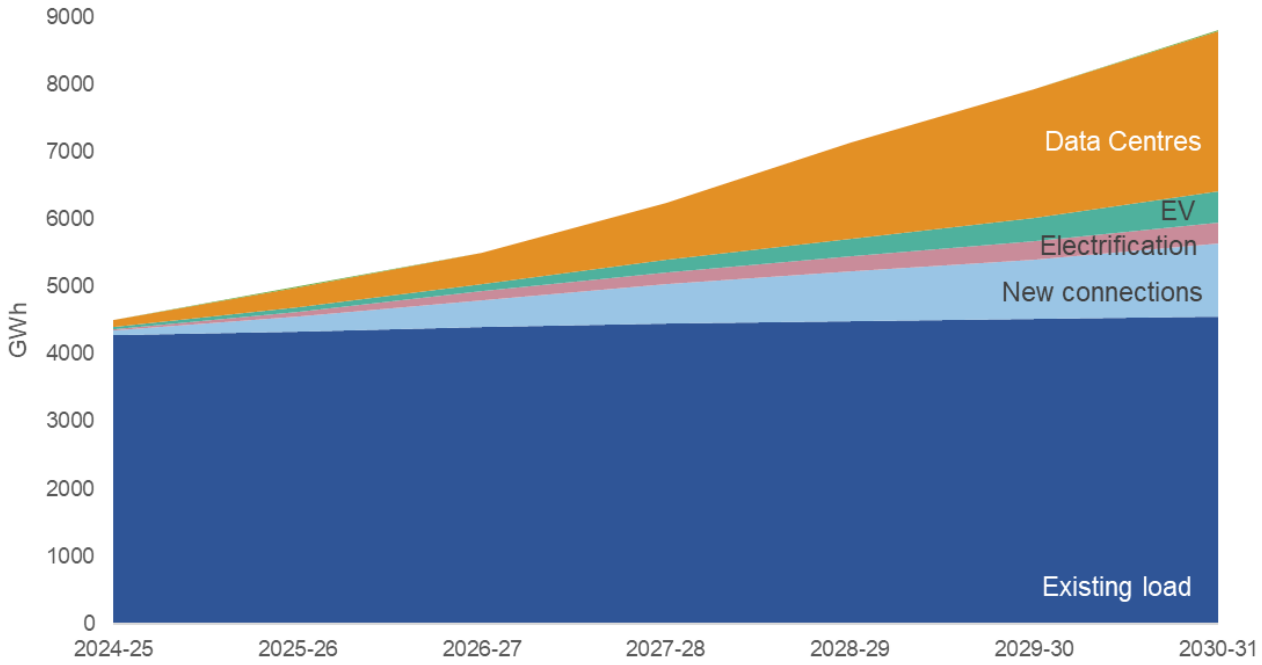
We expect significant growth in ratcheted maximum demand due to new large connections—particularly data centres—to continue over the next regulatory period. This is projected to lead to an increase in the trend component of the operating expenditure forecast.

The growth is illustrated in Figure 7, which shows how energy usage is expected to change over the next regulatory period and the main drivers of this change. These key drivers include; proliferation of data centres, gas substitution, electrification of transport) and other new connections.

15 see JEN - Oxford Economics Att 05-07 Real cost escalation report - 20250131 - Public

16 The AER's draft decisions for Ergon and Energex rely on forecasts prepared by its consultant, DAE. We have applied DAE's Australian national WPI forecasts as placeholder values and assumed that the 2030-31 WPI will match that for 2029-30. This will be updated by the AER in its draft and final decisions for JEN. See: Deloitte Access Economics, *Labour price growth forecasts: Prepared for the Australian Energy Regulator*, 20 August 2024; see AER - Draft Decision - Ergon Energy - 2025-30 Distribution revenue proposal - DAE - Labour price growth forecasts - August 2024 - Public.pdf.

Figure 7-1: Energy forecast by technology type



Source: Blunomy Energy Usage Forecast – October 2024

Our base operating expenditure reflects the cost of delivering JEN's current outputs and services to our current customer base. This element of the rate of change captures growth in our operating expenditure requirements to reflect growth in line with our customer base, circuit length, and ratcheted maximum demand. These output growth measures are weighted together to determine a single growth rate for each year of the next regulatory period.

We have adopted the output weights based on econometric analysis prepared by Quantonomics and published with the AER's 2024 annual benchmarking report.[17] The econometric analysis implies average weights for customer numbers (39.1%), circuit length (20.0%) and ratcheted maximum demand (40.9%).

We have applied the AER's standard approach to determine the forecast changes in outputs using demand forecasts developed by Blunomy.[18] We have calculated the impact of these changes on operating expenditure by multiplying the forecast increase in each output measure by the corresponding output weights.

The results are detailed in Table 7–4. This translates to a 2% to 4% annual increase in operating expenditure due to output growth over the 2026–31 period.

Table 7–4: Forecast output growth 2026–31

	2026-27	2027-28	2028-29	2029-30	2030-31	Total
Customer numbers	1.72%	1.80%	1.77%	1.73%	1.70%	
Circuit length	1.79%	1.61%	1.40%	1.36%	1.34%	
Ratcheted maximum demand	4.35%	9.64%	6.56%	5.84%	7.69%	
Forecast output growth	2.81%	4.97%	3.66%	3.34%	4.08%	
Forecast output growth ($2026M)	**2.8**	**7.9**	**11.9**	**15.7**	**20.4**	**58.7**

As shown, forecast growth in ratcheted maximum demand is the largest driver. Adding demand to our network increases our operating costs in several ways. For instance, to meet additional demand, we often must add

[17] Quantonomics, 15 October 2024, *Economic Benchmarking Results for the Australian Energy Regulator's 2024 DNSP Annual Benchmarking Report*, pp.144–146; see: Quantonomics - Benchmarking results for the AER - distribution - October 2024_1.pdf.

[18] see *JEN - Blunomy Att 05-03 Peak demand - 20250131 – Public*.

additional capacity, such as new zone substations, transformers and other equipment, that is not reflected in the additional circuit length output measure. We then must inspect and maintain that equipment and manage vegetation and security. We also often need to expend more effort managing the load on our network (e.g., demand response and other strategies). Installing new equipment also has consequential impacts on other costs, such as insurance, which increases as more assets are covered.

7.4 Productivity

For the next regulatory period, we have adopted the AER's preferred industry-wide productivity assumption of 0.5%per year.[19] This implies that we expect to achieve an annual efficiency improvement of 0.5% across our operating expenditure programs.

We consider this to be a challenging target, given the changing nature of our operating environment and the increasing demands from our customers and stakeholders. We have applied this productivity assumption in our base-step-trend operating expenditure forecast.

Table 7–5 sets out our forecast productivity adjustments for the next regulatory period.

Table 7–5: Forecast productivity adjustment 2026–31 ($2026, millions)

	2026-27	2027-28	2028-29	2029-30	2030-31	Total
Productivity adjustment	(0.5)	(1.1)	(1.7)	(2.4)	(3.1)	(8.7)

[19] AER, March 2019, *Forecasting productivity growth for electricity distributors*, Final decision paper.

8. Step changes

Step changes are costs we incur in undertaking new activities or meeting new obligations that are not part of our base year costs. These are additional to base operating expenditure that funds the regular operations necessary to deliver reliable network services today.

We propose $41M step changes in total for the next regulatory period, or around 7% of our trended base operating expenditure. Our proposed step changes set out in Table 8–1 reflect the outcome of an extensive review.[20]

Table 8–1: Forecast operating expenditure step changes ($2026, millions)

Step change	Driver	2026-27	2027-28	2028-29	2029-30	2030-31	Total
Customer communications and education	Supported by our customers through engagement and to meet accepted good industry practice	0.9	0.8	0.9	0.9	0.8	4.3
ICT services	New regulatory obligations, supported by our customers through engagement, operating expenditure / capital expenditure trade off and/or to meet accepted good industry practice that result in net benefits to customers	1.5	3.7	5.3	6.0	5.1	21.6
CER Integration Strategy Initiatives	Reflects accepted good industry practice, operating expenditure / capital expenditure trade off, that result in net benefits to customers and supported by our customers through engagement	0.2	0.6	0.7	0.8	0.8	3.0
New Coolaroo REFCL	New regulatory obligation	1.0	1.0	1.0	1.0	1.0	4.9
Network resilience initiatives	Likely new regulatory obligations, supported by our customers through engagement and to meet accepted good industry practice	1.1	1.1	0.9	0.9	0.9	4.9
Safety initiatives	Supported by our customers through engagement and to meet accepted good industry practice	0.5	0.5	0.5	0.5	0.5	2.6

[20] Our proposed step changes are further discussed in *JEN - Att 06-04 Operating expenditure step changes - 20250131 - Public*.

Step change	Driver	2026-27	2027-28	2028-29	2029-30	2030-31	Total
Total		**5.2**	**7.7**	**9.3**	**10.1**	**9.1**	**41.4**

9. Category specific forecasts

We have used specific forecasts for items where the base year operating expenditure does not provide a reasonable basis on which to forecast expenditure requirements for the regulatory proposal. We include these as category specific forecasts instead.

9.1 Our category specific forecasts for our SCS

Table 9–1 sets out our category specific forecasts for the 2026 proposal, which we discuss in detail below.

Table 9–1: Category specific forecasts 2025-30 ($2026, millions)

	2026-27	2027-28	2028-29	2029-30	2030-31	Total[21]
GSL payments	0.3	0.3	0.3	0.3	0.3	1.3
Innovation Fund	0.8	0.8	0.8	0.8	0.8	4.2
Debt raising costs	1.1	1.2	1.4	1.3	1.5	6.7
Total	**2.3**	**2.4**	**2.5**	**2.5**	**2.6**	**12.2**

9.2 GSL payments

GSL payments are guaranteed service level payments that we must pay to our customers if we fail to meet certain performance standards, such as the frequency and duration of interruptions, or the timeliness of connections and repairs. These payments are intended to compensate customers for the inconvenience and loss of value caused by poor network service, and to incentivise us to maintain and improve our service quality.

The service standards and payment amounts are set by the Essential Services Commission of Victoria (**ESC**) and are contained in the Electricity Distribution Code, which were updated in May 2023.[22]

We have forecast our GSL payments for the next regulatory period as the average GSL payments over the first four years of the 2021–26 period, adjusted for inflation. This reflects our view that future GSL payments will align with those paid historically.

9.3 Innovation allowance

We are proposing to establish an Innovation Fund over the next regulatory period.[23] Our customers strongly supported our proposal, recognising its significant potential for long-term benefits to customers.

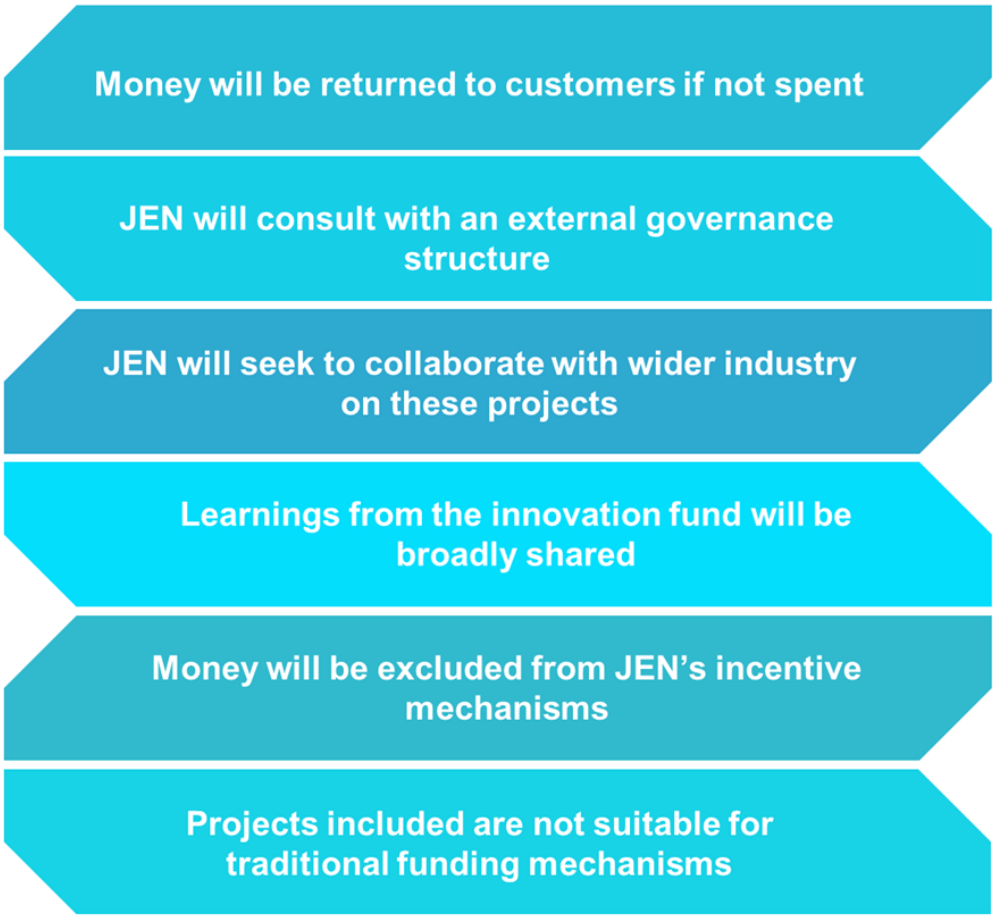
We propose an operating allowance of $800,000 (in Real 2024 dollars) per year as a ‘use it or lose it’ allowance, similar to how the demand management innovation allowance (**DMIA**) works. We will track our spending against that allowance. Any unused amounts will be returned to customers via a true-up to our revenue allowance for the subsequent regulatory period.

21 Total may not add due to rounding.

22 ESC, *Electricity Distribution Code of Practice*, version 2, 1 May 2023, section 13.

23 As discussed in *JEN - Att 03-02 Innovation fund - 20250131 - Public*,

Figure 9-1: Core tenets of JEN's Innovation Fund



We provide further details on this initiative in *JEN - Att 03-02 Innovation fund - 20250131 - Public*.

9.4 Debt raising costs

We incur debt raising costs each time we raise to fund our capital investments or refinance debt. These may include arrangement fees, legal fees, company credit rating fees and other transaction costs. The AER's practice has been to allow DNSPs to recover efficient direct debt raising costs by adding an allowance for them to the operating expenditure forecast.

Consistent with standard regulatory practice, we propose estimating these costs for a benchmark efficient entity with the same characteristics as our network, including:

- calculating the benchmark bond size
- determining the number of bond issues needed to rollover the benchmark debt share (60%) of the regulatory asset base (**RAB**)
- amortising the upfront debt issuance costs incurred using our nominal vanilla rate of return over a ten-year period
- expressing the debt issuance costs in basis points per annum (**bppa**) as an input into the Post Tax Revenue Model (**PTRM**)
- multiplying the rate by our projected RAB to determine the debt raising cost allowance.

This method is consistent with the AER's PTRM handbook,[24] which requires benchmark debt raising costs.

We engaged an expert consultant, CEG, to estimate the debt raising costs for JEN's 2026–31 period based on the AER's approach in its recent decisions.[25] Based on CEG's recommendation, we have adopted a debt raising cost of 8.84 bppa in our proposal.

[24] AER, *Final decision, Electricity transmission and distribution network service providers Post-tax revenue models (version 5)*, April 2021.

[25] CEG, *JEN – CEG - Att 06-02 Debt raising transaction costs - 20250108*

Appendix A
Overview of operating expenditure categories for our standard control services

A1. Overview

Below we outline the categories of expenditure and list the types of costs we incur under each category.

Operating expenditure categories
Maintenance
Vegetation management
Emergency response
Non-network
Network overheads
Corporate overheads
Debt raising

A2. Network categories

A2.1 Maintenance

Operational repairs and maintenance of the distribution system including high-voltage and low-voltage assets, and including testing, investigation, validation and correction costs not involving capital expenditure. This also includes the location of underground cables and covering of low voltage mains for safety reasons.

Maintenance includes both:

- routine maintenance—recurrent/programmed activities undertaken to maintain assets, performed regardless of the condition of the asset. Activities are predominantly directed at discovering information on asset condition and are undertaken at intervals that can be predicted
- non-routine maintenance—activities predominantly directed at managing asset condition or rectifying defects (excluding emergency call-outs). The timing of these activities depends on asset condition and decisions on when to maintain or replace the asset.

A2.2 Vegetation management

Vegetation management expenditure covers activities that:

- are primarily directed at removing, altering, or managing vegetation to maintain safe or regulated clearances from distribution or transmission assets
- are not emergency or fault related activities
- are not initiated by request from a distribution or transmission customer, excluding customers that are network service providers
- are not activities for which expenditure could be attributed to the AER expenditure category 'Augmentation, replacement, or non-routine maintenance activities triggered by a changed regulatory obligation or requirement

- are not activities for which expenditure could be attributed to the AER expenditure category 'Augmentation, replacement, or non-routine maintenance activities triggered by a changed internal standard'
- include tree cutting, undergrowth control, root management, waste disposal, use of herbicide and growth retardants, and encouragement of low-growth vegetation to prevent the establishment of high-growth vegetation.

This includes:

- pre-cutting/trimming inspections
- inspections of vegetation to ensure that activities have been undertaken appropriately
- liaison with affected residents and landowners including the issue of trim/cut notices, and follow up calls on notices, and
- operational support, such as any temporary generation used during the activity.

This does not include:

- such items as "beautification" works, lawn mowing, e.g. from natures strips, or office gardens, interior plant and aesthetic vegetation works, and
- any work which is done in proximity to non-network assets.

A2.3 Emergency response

Operating costs incurred to restore a failed component to an operational state including all expenditure relating to the work incurred where supply has been interrupted or assets damaged or rendered unsafe by a breakdown, making immediate operations and repairs necessary.

Costs of activities primarily directed at maintaining network functionality and for which immediate rectification is necessary. These activities are mostly due to network failure caused by weather events, vandalism, traffic accidents or other physical interference by non-related entities.

A3. Non-network categories

A3.1 Non-network

Expenditure that is directly attributable to non-network buildings and property assets including the replacement, installation, operation and maintenance of buildings, fittings and fixtures. It includes expenditure related to real chattels (e.g. interests in land such as a lease) but excludes expenditure related personal chattels (e.g. furniture) that should be reported under non-network other expenditure.

All non-network expenditure directly attributable to ICT assets including replacement, installation, operation, maintenance, licensing, and leasing costs but excluding all expenses associated to SCADA and network control expenditure that exist beyond gateway devices (routers, bridges etc.) at corporate offices. ICT expenditure includes:

- costs associated with SCADA and network control that exist at the corporate office side of gateway devices (routers, bridges, etc.). For example, this would include cost associated with SCADA master systems/control room and directly related equipment
- ICT expenditure related to management, dispatching and coordination, etc. of network work crews (e.g. phones, radios etc.)

- any common costs shared between the SCADA and network control expenditure and ICT expenditure categories with no dominant driver related to either of these expenditure categories. For example, a dedicated communications link used for both corporate office communications and network data communications with no dominant driver for incurring the expenditure attributable to either expenditure category should be reported as IT & communications expenditure
- expenditure related to network metering recording and storage at non-network sites (i.e. corporate offices/sites).

All expenditure directly attributable to the replacement, installation, maintenance and operation of non-network assets, excluding motor vehicle assets, building and property assets and IT and communications assets and includes:

- non-road registered motor vehicles; non-road motor vehicles (e.g. forklifts, boats etc.)
- mobile plant and equipment; tools; trailers (road registered or not)
- elevating work platforms not permanently mounted on motor vehicles
- mobile generators.

All ICT expenditure that is treated as operating expenditure as required IFRS by the Interpretations Committee guidance in April 2021.[26]

A3.2 Network overheads

Network overhead costs refer to the provision of network, control and management services that cannot be directly identified with specific operational activity (such as routine maintenance, vegetation management, etc.).

For a DNSP, network overheads may include, but not limited to, the following:

- management, where not directly related to any of the functions listed below;
- network planning (i.e. system planning)
- network control and operational switching personnel
- quality and standards functions including standards & manuals, asset strategy (other than network planning), compliance, quality of supply, reliability, and network records (e.g. geographical information systems (**GIS**))
- project governance and related functions including supervision, procurement, works management, logistics and stores
- other including training, OH&S functions, network billing and customer service & call centre.

In addition to the above, network overhead may include:

- GSL payments
- other jurisdictional related expenses not otherwise recovered through the Jurisdictional Cost Recovery Scheme
- demand-side management expenditure or non-network alternatives, and
- levies.

[26] *JEN – RIN – Support – Technology Plan – 20250131 – Public*, section 2.2.

A3.3 Corporate overheads

Corporate overhead costs refer to the provision of corporate support and management services by the corporate office that cannot be directly linked to a specific operational activity. Corporate overhead costs typically include those relating to executive management, legal and secretariat, human resources, finance, and other corporate head office activities or departments.

A3.4 Debt raising costs

The transaction costs (expenditure) incurred by JEN in relation to raising debt instruments for investment into the electricity distribution network.

Jemena incurs costs when it raises debt funds to spend on JEN's capital program. These costs are maintained at a group level. Debt raising costs are incurred each time debt is rolled over and may include underwriting fees, legal fees, company credit rating fees and other transaction costs.