Jemena Electricity Networks (Vic) Ltd

2026-31 Electricity Distribution Price Review Regulatory Proposal

Attachment 08-03

Managing Risk and Uncertainty

Table of contents

Abbreviations

AER	Australian Energy Regulator
ERMC	Executive Risk Management Committee
JEN	Jemena Electricity Networks (Vic) Ltd
NER	National Electricity Rules
RHSEC	Risk, Health, Safety and Environment Committee

Overview

Jemena Electricity Network's Risk Management Framework

When preparing our regulatory submission for the 2026-31 regulatory control period (**next regulatory period**), Jemena Electricity Networks (Vic) Ltd (**JEN**) forecasts the costs of delivering our customers' desired level of service and the associated revenue we require to deliver it. We forecast these costs to the best of our ability however, like all forecasts, the outcomes will vary. Many external factors, for example; natural disasters, shifts in Government policy and changes in the operation of the electricity market, are difficult to predict and could have a material impact on our customers and our business over the regulatory control period (**regulatory period**).

As part of the forecasting process JEN uses a Risk Management Framework to identify material risks which cannot be completely mitigated through internal controls and/or reasonably addressed through commercial or self-insurance. Our Risk Management Framework is described in section 1. We note that this framework has not materially changed from the framework governing our current regulatory period.[1]

The role of cost pass throughs

For certain unlikely but, highly impactful events which could arise within a regulatory period, it may be more efficient to "pass through" the associated cost impacts via the cost pass through mechanism included in the National Electricity Rules (**NER)**, rather than cost the risk of these events into our network planning. This mechanism allows network service providers to change their funding requirements in response to these events, subject to the Australian Energy Regulator's (**AER)** approval. By including this mechanism, the NER ensures network service providers are not encouraged to include large, speculative allowances in our expenditure forecasts to ensure against events that may not occur. This helps the prudency and efficiency of our forecasts which translates to better price outcomes for customers as:

- if the event leads to materially lower costs for JEN, this reduction will be passed on to customers; and
- costs arising from high impact, low probability events will only be passed on to customers if/when the event occurs.

Section 10 of the NER specifies a list of cost pass through events, namely:

- Regulatory change events
- Service standard change events
- Tax change events
- Retailer insolvency events[2]

[1] Jemena, Attachment 07 - 08 *Managing Risk and Uncertainty*, February 2020

[2] As the National Energy Customer Framework (**NECF**) has not been adopted in Victoria, the retailer insolvency event in clause 6.6.1(a1)(4) of the NER does not currently apply to the Victorian distribution network service providers (**DNSPs**).

Nominated cost pass through events

In addition to the four cost pass through events specified by the NER the framework also allows network service providers to nominate additional pass through events if they believe the events satisfy the required conditions.[3] Following a review of our risk management processes and systems, JEN proposes to retain the existing nominated pass through events as approved in the regulatory determination covering the current regulatory period, namely;

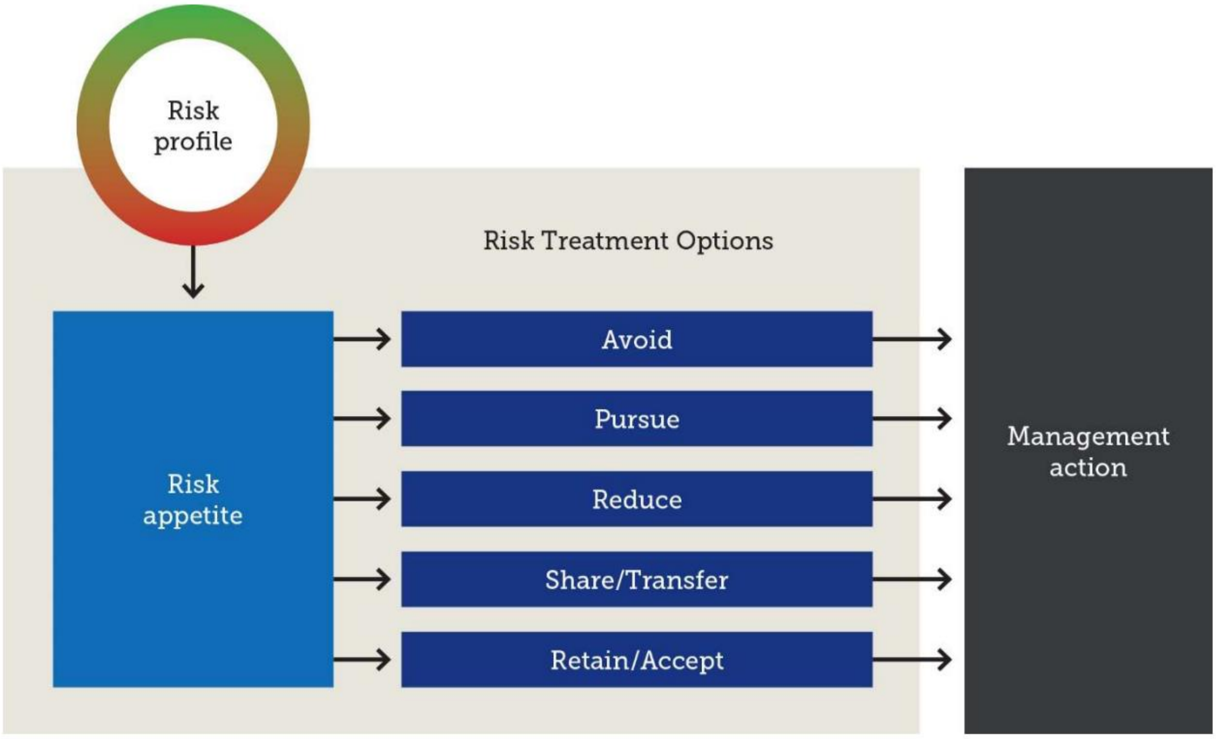
- Insurer credit risk event
- Insurer coverage risk event
- Natural disaster event
- Terrorism event
- Retailer insolvency event

3 NER, cl 6.5.10.

1. Risk management framework

Most businesses, including JEN, will seek to manage risk in one of five ways, as set out in Figure 1-1

Figure 1-1: Risk treatment options matrix



Generally, we will:

- **avoid** risks that are very likely to occur and would be particularly damaging to the business - for example we avoid any activities we consider to be health and safety risk to our employees, customers and the community;
- **pursue** risks where the nature and extent of the changes required to achieve desired performance do not exceed our management's tolerance for risk - for example we may introduce new technologies to enhance the reliability of the electricity distribution network;
- **reduce** risks where we consider there is a relatively high chance of an event occurring, but we can mitigate against its impact at a relatively low cost - for example we mitigate the impact of storm events through our vegetation management programs and emergency response management plans;
- **transfer** risks that are relatively unlikely to occur and would be particularly damaging to the business if they did eventuate - for example we may take out liability insurance to transfer a risk to customers or the community that we are unable to mitigate or avoid fully; and
- **accept** risks that have a reasonably low probability of occurring and would have a low impact to on customers, the community or a low cost to our organisation.

How we manage a particular risk depends upon the options available, and how efficient and effective those options are likely to be and our risk tolerance. Our decision making process is founded in our corporate risk management framework and associated policies. We look to the framework and policies to guide us in choosing the most efficient and effective way to manage risks.

Occasionally we have to share risk with customers, in what is known as a pass through event. Our customers expect us to minimise, to the extent possible, the likelihood of risks being transferred to them, so this is an approach that we look to avoid as much as possible.

1.1 Risk management framework

Our risk management framework consists of an integrated package of corporate and asset specific risk management policies, plans, and procedures. We are committed to ensuring that risk management is embedded in the business' operations and culture by incorporating risk management as part of every business process, on the basis that:

- it is everyone's responsibility to manage risk;
- our business as a whole owns risks;
- risk management is embedded in normal business processes;
- risk management provides early warnings, and that enables us to mitigate potential impacts; and
- we consider risk is best managed through a top-down and bottom-up approach.

The key risk management principles which underpin our process are detailed in Figure 1-2. These principles are set out in the Australian risk management standard ISO 31000:2018.

Figure 1-2: IS 31000:2018 Risk management principles

1.2 Risk management policy

Our risk management policy ensures that we take a strategic and systematic approach to balancing the need to meet business objectives with the need to assess and manage risk effectively.

The policy and the approaches adopted are also consistent with best-practice principles and ISO 31000:2018. The policy is designed to protect:

- our employees and customers and community;
- the environment in which we operate; and
- our position as a provider of quality products and services.

The policy explicitly recognises that the business must take some risks in undertaking its core functions and pursuing opportunities. The risk profile we have adopted is balanced against the potential rewards of taking risks.

The JEN risk management manual and risk management guide are dynamic documents that are designed to ensure the policy is implemented and risk management is embedded in our practices and processes. Together, they formalise and set out our risk management framework. The framework is also supported in our organisation by following policies and procedures, which cover a range of subject areas including asset management, customer, health & safety, finance, digital security and procurement.

Our risk management manual contains a risk/consequence matrix which, together with our risk appetite statement reflects our attitude for risk. The parameters for a consequence are based on a five-point scale that ranges from minor to catastrophic. The consequences vary, depending on the nature of each risk, and their rating is determined by our capacity and appetite for risk, as well as our organisational objectives.

1.3 Risk management governance forums

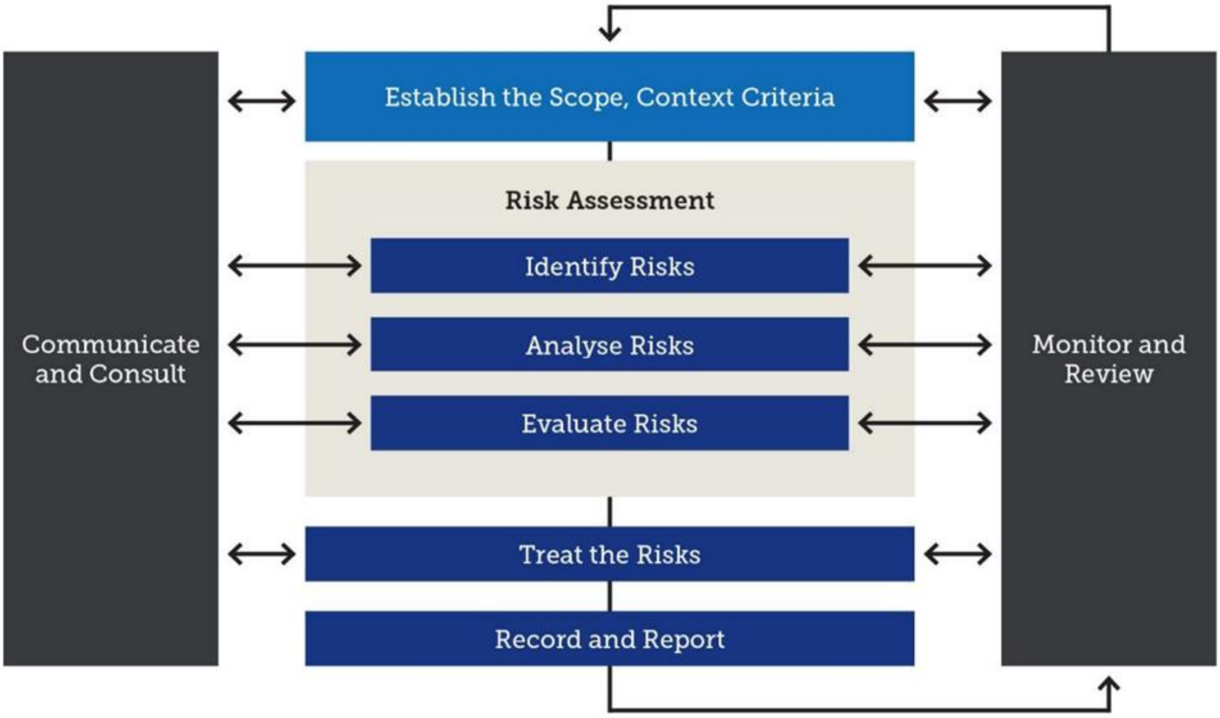
Our risk management governance forums, including the Risk Team, Leadership Team, Executive Risk Management Committee (**ERMC**), Risk, Health, Safety and Environment Committee (**RHSEC**) and ultimately JEN's Executive Board, play important roles in overseeing risk management and supporting decision making.

- RHSEC – assists the Board in fulfilling its oversight responsibilities on risk management and the type and level of Group business risks, including sustainability risk.
- ERMC – chaired by the Executive General Manager, People, Safety and Governance, the ERMC supports our Managing Director and the RHSEC in executing their responsibilities.

1.4 Risk management process

Risk management is ultimately achieved through our risk management process, set out in Figure 1-3.

Figure 1-3: JEN's risk management process



Risk management at JEN is an iterative process in which internal risk facilitators support the relevant risk owners to ensure that the key risk management activities are implemented, reviewed and re-assessed at a reasonable and appropriate frequency. The risk management process involves:

- establishing the context;
- assessing the risk by defining it correctly and identifying its causes;
- analysing the likelihood and potential consequences of the risk, as well as the impact of not treating it. This approach also includes an assessment of the controls in place, identifying mitigation actions and other potential controls, assessing the overall effectiveness of control and assessing the residual risks;
- evaluating the risk including priority, escalation level and reporting requirements;
- treating the risk through a series of risk treatment options; and
- recording and documenting the risk and its responses through the risk management system and appropriate mechanisms.

2. Engagement

As part of our preparation for this regulatory determination process, as informed by the JEN risk management framework, we engaged the relevant areas of JEN's business to identify and assess the nature of risks relating to JEN in the next regulatory period. This enabled us to assess the risks that will carry over from the current regulatory period and also identify changed circumstances which give rise to new risks. Through this process we then determine the appropriate treatment of the risks.

In addition to this JEN also conducted an extensive customer engagement program.[4] Through this process, some key customer priorities emerged.

Key Customer Priorities

- **Affordability** - Affordability is a key priority for customers who face impacts from the rising cost of living and inflation. Customers want us to consider affordability over the short and long term when making decisions.
- **Resilience and reliability** - Customers want a reliable and resilient network that can withstand and recover from the impacts of more extreme weather events.
- **A sustainable future** - Customers want us to help drive sustainability within JEN and support renewable energy solutions where possible. Customers want us to have sustainable operations and lead the way in meeting emissions reduction targets.
- **Digitisation and automation** - Customers want JEN to digitise and automate the grid to make it a smarter and more efficient network.
- **Accessible communication** - Customers value efficient and accessible communication and want to easily access information on our service and the customer service team easily.
- **Fairness** - Customers want us to consider fairness in the context of the energy transition and its impacts on both existing and future generations, and on our more price-sensitive customers
- **Education** – Customers want us to improve and enhance our education to customers on what we do, energy saving tips, the energy transition and Consumer Energy Resources (**CER**).

These customer priorities, particularly around reliability, affordability and fairness, inform both JEN's systematic approach to risk management and our decision to seek to continue to apply the nominated cost-pass through events in the next period, rather than seek additional expenditure to mitigate against unlikely events.[5]

This prevents JEN from incurring higher costs and mitigates against the associated customer bill increases for an event that may not occur. At the same time, it does not place an intolerable level of financial risk on JEN if an event were to occur.

Based on customer engagement, this is an appropriate balance of JEN's customers' concerns around affordability and their tolerance for risk.

[4] Further details on JEN's customer engagement can be found here: *JEN - Att 02-01 – Customer engagement - 20230601- Public*

[5] AER, Guidance note on insurance coverage pass through events, July 2021

3. Continuance of current nominated pass through events

In accordance with our risk assessment process discussed in section 1, JEN has assessed the major risks which were taken into account in the nominated pass through events approved in our current regulatory period,[6] relating to insurer credit risk, insurance coverage risk, natural disasters, terrorism acts and retailer insolvency. We consider that there has been no material change in circumstances which alters the rationale for including each of these as nominated pass through events into the next regulatory period.

The inclusion of these events is supported by the nominated pass through event considerations, as well as recent AER decisions.[7]

In light of the above, we nominate the pass through events as approved by the AER as part of the 2021-26 regulatory period apply to the 2026 - 2031 regulatory period. These events are set out in Table 3-1 below.

Table 3-1: Assessment of nominated pass through events against NER considerations

Criteria	Explanation
Whether the nominated insurance event is an event already covered in the NER.	The current nominated pass through events relating to insurer credit risk, insurer coverage risk, natural disasters, terrorism acts and retailer insolvency are not already covered by any categories of pass through events specified in the NER.
Whether the nature or type of event can be clearly identified at the time the determination is made.	Each of the events can be and are clearly identified.
Whether the event could be avoided or whether the cost impact could be substantially mitigated.	JEN cannot prevent a natural disaster, terrorist event, retailer insolvency, insurer coverage event or insurer credit risk event. The occurrence and magnitude of the events are beyond the control of JEN.
Whether the event can be insured, having regard to insurance and self-insurance.	JEN cannot obtain appropriate insurances on reasonable commercial terms to cover the full range of costs that could be potentially incurred as a result of the occurrence of these specific events.
Any other matter the AER considers relevant.	The AER has approved these events for JEN's current regulatory period, and continued to approve these events in more recent price reset decisions.

[6] AER, Final decision Jemena distribution determination, Attachment 15 - Pass through events, April 2021

[7] For example, see AER, SA Power Networks 2025-30 Draft decision, Attachment 15 – Pass through events, September 2024. AER, Ausgrid 2024-29 Final Decision, Attachment 15 – Pass through events, April 2024.

3.1 Nominated pass through events

Table 3-2 below sets out the nominated pass through events which we propose to continue to apply into the next regulatory period.

Table 3-2: Proposed nominated pass through events

Event	Proposed Definition
Insurance coverage event	An insurance coverage event occurs if: 1. Jemena: a) makes a claim or claims and receives the benefit of a payment or payments under a relevant insurance policy or set of insurance policies; or b) would have been able to make a claim or claims under a relevant insurance policy or set of insurance policies but for changed circumstances; and 2. Jemena incurs costs: a) beyond a relevant policy limit for that policy or set of insurance policies; or b) that are unrecoverable under that policy or set of insurance policies due to changed circumstances; and 3. The costs referred to in paragraph 2 above materially increase the costs to Jemena in providing direct control services. For the purposes of this insurance coverage event: 'changed circumstances' means movements in the relevant insurance liability market that are beyond the control of Jemena, where those movements mean that it is no longer possible for Jemena to take out an insurance policy or set of insurance policies at all or on reasonable commercial terms that include some or all of the costs referred to in paragraph 2 above within the scope of that insurance policy or set of insurance policies. 'costs' means the costs that would have been recovered under the insurance policy or set of insurance policies had: i. the limit not been exhausted; or ii. those costs not been unrecoverable due to changed circumstances. A relevant insurance policy or set of insurance policies is: i. an insurance policy or set of insurance policies held during the regulatory control period or a previous regulatory control period in which Jemena was regulated; and ii. Jemena will be deemed to have made a claim on a relevant insurance policy or set of insurance policies if the claim is made by a related party of Jemena in relation to any aspect of Jemena's network or business; and iii. Jemena will be deemed to have been able to make a claim on a relevant insurance policy or set of insurance policies if, but for changed circumstances, the claim could

	have been made by a related party of Jemena in relation to any aspect of Jemena's network or business. Note for the avoidance of doubt, in assessing an insurance coverage event through application under rule 6.6.1(j), the AER will have regard to: i. the relevant insurance policy or set of insurance policies for the event; ii. the level of insurance that an efficient and prudent DNSP would obtain, or would have sought to obtain, in respect of the event; iii. any information provided by Jemena to the AER about Jemena's actions and processes; and iv. any guidance published by the AER on matters the AER will likely have regard to in assessing any insurance coverage event that occurs.
Insurer credit risk event	An insurer credit risk event occurs if an insurer of Jemena becomes insolvent, and as a result, in respect of an existing or potential claim for a risk that was insured by the insolvent insurer, Jemena: a) is subject to a higher or lower claim limit or a higher or lower deductible than would have otherwise applied under the insolvent insurer's policy; or b) incurs additional costs associated with funding an insurance claim, which would otherwise have been covered by the insolvent insurer. Note: in assessing an insurer credit risk event pass through application, the AER will have regard to, amongst other things: i. Jemena's attempts to mitigate and prevent the event from occurring by reviewing and considering the insurer's track record, size, credit rating and reputation; and ii. in the event that a claim would have been covered by the insolvent insurer's policy, whether Jemena had reasonable opportunity to insure the risk with a different provider.
Natural disaster event	Natural disaster event means any natural disaster including but not limited to cyclone, fire, flood or earthquake that occurs during the 2021–26 regulatory control period that changes the costs to Jemena in providing direct control services, provided the cyclone, fire, flood, earthquake or other event was: a) a consequence of an act or omission that was necessary for the service provider to comply with a regulatory obligation or requirement or with an applicable regulatory instrument; or b) not a consequence of any other act or omission of the service provider. Note: In assessing a natural disaster event pass through application, the AER will have regard to, amongst other things: 1. whether Jemena has insurance against the event; and

	2. the level of insurance that an efficient and prudent NSP would obtain in respect of the event.
Terrorism event	Terrorism event means an act (including, but not limited to, the use of force or violence or the threat of force or violence) of any person or group of persons (whether acting alone or on behalf of or in connection with any organisation or government), which: a) from its nature or context is done for, or in connection with, political, religious, ideological, ethnic or similar purposes or reasons (including the intention to influence or intimidate any government and/or put the public, or any section of the public, in fear); and b) changes the costs to Jemena in providing direct control services. Note: In assessing a terrorism event pass through application, the AER will have regard to, amongst other things: i. whether Jemena has insurance against the event; ii. the level of insurance that an efficient and prudent NSP would obtain in respect of the event; and ii. whether a declaration has been made by a relevant government authority that a terrorism event has occurred.
Retailer insolvency event	Until such time as the National Energy Retail Law set out in the Schedule to the National Energy Retail Law (South Australia) Act 2011 of South Australia is applied as a law of Victoria, retailer insolvency event has the meaning set out in the NER as in force from time to time, except that: a) where used in the definition of 'retailer insolvency event' in the NER, the term 'retailer' means the holder of a licence to sell electricity under the Electricity Industry Act 2000 (Vic); and b) other terms used in the definition of retailer insolvency event in the Rules as a consequence of amendments made to that definition from time to time, which would otherwise take their meaning by reference to provisions of the NER or National Energy Retail Law not in force in Victoria, take their ordinary meaning and natural meaning, or their technical meaning (as the case may be). For the purposes of this definition, the terms 'eligible pass through amount' and 'positive change event' where they appear in the NER (as well as any subordinate terms including, without limitation, 'retailer insolvency costs', 'failed retailer' and 'billed but unpaid charges') are modified in respect of this retailer insolvency event in the same manner as those terms are modified in respect of the retailer insolvency event prescribed in the NER from time to time. Note: This retailer insolvency event will cease to apply as a nominated pass through event on commencement of the National Energy Customer Framework in Victoria.