Jemena Electricity Networks (Vic) Ltd

2026-31 Electricity Distribution Price Review Regulatory Proposal

Attachment 12-05

Statement of Interdependencies

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Abbreviations

Capex	Capital expenditure
CER	Customer Energy Resources
CESS	Capital Expenditure Sharing Scheme
EV	Electric Vehicle
Opex	Operational expenditure
RAB	Regulated asset base
WACC	Weighted average cost of capital

1. Statement of Interdependencies

This attachment provides JEN's assessment of key interrelationships between elements of our 2026 – 2031 regulatory proposal

	Category	Chapter	Interdependencies
Forecast capital expenditure (capex) and depreciation	All capex categories	5	**Forecast inflation** – will impact conversion of real/nominal capex amounts for all categories. Forecast real price escalation – will impact capex reported in each year of the regulatory period, for all categories. **Forecast unit rates** – will impact any capex forecasts which are estimated using unit rates. This can include capital such as connections and metering. **Classification of expenditure** – capitalisation policy accounting standards will determine whether expenditure is classified as capex or opex.(e.g. in the current period software as a service expenditure has been re-classified from capex to opex) Base year capitalised overheads / rate of change – used to forecast capitalised overheads for all capex categories. **Opex / capex trade-offs** – approach to trade-off will influence the balance between opex and capex. For example, reducing maintenance opex may lead to higher capex requirements. **Depreciation** – forecast (and historical) capex will influence the forecast depreciation building block. **Rate of return** – capacity to fund proposed capex projects depends on there being an acceptable/adequate rate of return (**WACC**). The WACC also affects the depreciation allowance, as it is used to gross up capex before it is added to the regulated asset base (**RAB**). **Service classification –** service classification will impact on forecast capex for standard control services.
	New connections capex	5	**Forecast new connections** – will drive the requirement to expand the network and therefore new connection capex.
	Augmentation capex	5	**Peak demand forecasts** – localised non co-incident peak demand forecasts influence decisions on augmentation projects **Reliability obligations and customer preferences** – safety, reliability and quality of supply objectives and obligations, as well as customer preferences for service reliability and export services, can influence capex plans
	Replacement capex	5	**Opex / maintenance expenditure** – forecast maintenance expenditure may influence the requirement to undertake asset replacement expenditure.
	Depreciation	8	**Asset lives** – adopted economic lives will impact actual and forecast depreciation. **Forecast inflation** – will impact conversion of real/nominal capex amounts.

	Category	Chapter	Interdependencies
Forecast operational expenditure (opex)	Required step changes from base year	6	**Base year choice** – step change proposals will be influenced by the sustainability of base year opex
	Total allowance	8	**Forecast inflation** – will impact conversion of real/nominal dollar amounts for all opex categories **Forecast real price escalation** – will impact forecast opex in each year of the regulatory period, for all categories. **Rate of change assumptions** – the forecast rate of change in opex requirements is based on forecasts of customer numbers and other network characteristics. **Opex / capex trade-offs** – approach to trade-off will influence the balance between opex and capex. **Replacement capex** – replacement/refurbishment capex strategy may influence the level of forecast maintenance requirements. If the allowance for replacement/refurbishment capex is lower, then maintenance requirements for existing assets that are not refurbished or replaced are likely to be higher. **Classification of expenditure** – capitalisation policy and accounting standards will determine whether expenditure is classified as capital expenditure or operating expenditure (for example, in the current period software as a service expenditure has been re-classified from capital expenditure to operating expenditure) **Rate of return** – capacity to fund the opex program depends on there being an appropriate rate of return. **Service classification** – service classification will impact on forecast opex for standard control services.
Demand forecast	Demand	5	**Price path** – the price path for electricity services will influence forecast demand. **Gas / electricity price relativities** – forecast retail electricity prices and gas prices and electricity/gas price relativities will influence demand. **Price relativities between tariff classes** – forecast price relativities between tariff classes may influence forecast tariff uptake. **Uptake of CER** – forecast CER uptake including rooftop solar and battery storage may reduce demand while forecasted EV uptake may increase demand
Allowed rate	Equity risk parameters (beta etc)	8	**Gearing** – used to re-lever the asset beta. A higher level of gearing implies a higher equity beta, for a given asset beta.

	Category	Chapter	Interdependencies
	Return on equity	8	**Return on debt** – return on equity should be greater than return on debt for the same firm. **Time horizon** – the time horizon used to estimate parameters within a cost of equity model should be internally consistent. For example, if the risk-free rate assumes a ten-year investment horizon, then estimates of the market return should be based on the same assumption. **Value of imputation credits (gamma)** – the value of imputation credits estimate is related to the allowed return on equity. Under the imputation tax system, the value of imputation credits forms part of the overall return to equity-holders (along with dividends and capital gains). Therefore the required return on equity therefore needs to be estimated inclusive of the assumed value of imputation credits. A higher assumed value for imputation credits implies a higher value for the return on equity.
	Benchmark credit rating	8	**Gearing** – relevant to establishing the benchmark credit rating. A higher level of gearing may give rise to perceptions of greater financial risk, and therefore a lower credit rating.
	Capital raising costs	8	Adjustment to any building block may impact equity and debt raising costs through the re-calculation of allowed revenues in the forecast revenue model.
Building block revenue	Corporate Income Tax	8	**Revenue requirement** – Changes to the elements in a building block proposal will impact the calculation of corporate income tax within the building block proposal and ultimately impact the revenue requirement.
Forecast price path	Capital Contributions	5	**X-Factors** – The price path determined by the AER will impact the amount of customer contributions for new connections.