Issues paper

Jemena Electricity Networks distribution determination 2026-31

March 2025

AUSTRALIAN ENERGY REGULATOR

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1	28 March 2025	62

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1 Introduction

The Australian Energy Regulator (AER) exists to ensure energy consumers are better off, now and in the future. Consumers are at the heart of our work, and we focus on ensuring a safe, secure, reliable, and affordable energy future for Australia as it transitions to net zero emissions.

A regulated network business must periodically apply to us to determine the maximum allowed revenue it can recover from consumers for using its network. On 31 January 2025, we received revenue proposals from Victorian electricity distributors Jemena Electricity Networks (Jemena), AusNet Services (AusNet), CitiPower, Powercor and United Energy for the period 1 July 2026 to 30 June 2031 (2026–31 period). In assessing these proposals, it is our role to ensure that consumers pay no more than is necessary for an energy system that delivers safe, reliable, secure energy that contributes to the reduction of greenhouse gas emissions.

This Issues paper focusses on Jemena's proposal, for the distribution network and services it provides to consumers in the northern and north-western suburbs of Melbourne.[1] It identifies preliminary issues we consider are likely to be relevant to our assessment of the proposal.

You can read more about proposals from other Victorian distributors in our Issues papers for CitiPower, Powercor and United Energy and for AusNet.

1.1 Our process

This Issues paper is the first stage in our consultation on Jemena's proposal. Submissions and views shared with us in this stage of consultation will help to inform our draft decision on that proposal later this year. Jemena will then have the opportunity to respond to any concerns raised in our draft decision in a revised proposal. We will seek further submissions on both draft decision and revised proposal before making our final decision in April 2026.

An indicative timeline for this process is provided below.

Table 1-1 Indicative timeline

Milestone	(Indicative) timeline
Regulatory proposal submitted to AER	31 January 2025
AER Issues paper	28 March 2025
AER Public forum	1 April 2025
Submissions on proposal and issues paper close	14 May 2025
AER draft decision	(September 2025)
Revised proposal submitted to AER	(December 2025)

[1] Victorian consumers can find out who their electricity distributor is by visiting: https://www.energy.vic.gov.au/households/find-your-energy-distributor

Milestone	(Indicative) timeline
Submissions on draft decision and revised proposal close	(January 2026)
Final decision	(April 2026)

1.2 Have your say

Interested stakeholders are invited to make a submission on Jemena's proposal by Wednesday, 14 May 2025.

Submissions should be sent to: vic2026@aer.gov.au and addressed to Kris Funston, Executive General Manager Network Regulation.

Alternatively, you can mail submissions to GPO Box 3131, Canberra ACT 2601.

Submissions should be in Microsoft Word or another text readable document format.

We prefer that all submissions be publicly available to facilitate an informed and transparent consultative process. We will treat submissions as public documents unless otherwise requested.

Parties wishing to submit confidential information should:

1. Clearly identify the information that is the subject of the confidentiality claim.
2. Provide a non-confidential version of the submission in a form suitable for publication.

All non-confidential submissions will be published on our website.

1.2.1 Public forum

Please join us at an online public forum on Tuesday, 1 April 2025 to learn more about our process, and the proposals Jemena and other Victorian electricity distributors (CitiPower, Powercor, United Energy and AusNet) have submitted for the 2026-31 regulatory control period.

Details of how to register for this forum are available on our website.

2 Initial observations

Jemena's proposal, and our assessment of it, come at a time of significant change. Emissions reduction targets and the transition to net zero, now reflected in the National Electricity Objective (NEO), are driving changes in household and commercial energy use. In Victoria we are starting to see the impacts of increasing electrification and uptake of Consumer Energy Resources on the way that energy networks operate and invest in order to continue delivering safe, reliable and secure supply of essential services.

In recent years we have also seen a number of severe weather events, with storms in 2021 and 2024 resulting in prolonged power outages for hundreds of thousands of Victorian customers. Victorian Government reviews into electricity distribution network resilience, outage planning and operational responses have made a number of recommendations, some already in train.

These changes are shaping proposed increases across operating and capital expenditure over the next five years, including in evolving approaches to meeting and managing demand and maintaining quality, reliability and security of supply. Jemena's proposal anticipates significant network growth, driven by large customer connections.

Jemena's proposal responds to these challenges with significant increases in operating and capital expenditure, which will require close examination. Investment in the distribution network over the next 5 years will have long term impacts on energy costs. We need to be satisfied that the proposal reflects prudent and efficient investment to maintain the network and prepare it to support the energy transition. We need to balance that assessment with ongoing cost-of-living pressures so that consumers pay no more than is necessary—in the 2026-31 period and beyond it—for an energy system that delivers safe, reliable, secure energy that contributes to the reduction of greenhouse gas emissions.

In the sections below we explore the key drivers of Jemena's proposed revenue for the 2026-31 period, and the preliminary issues we consider are likely to be relevant to our assessment of its proposal.

2.1 Key drivers of proposed revenue

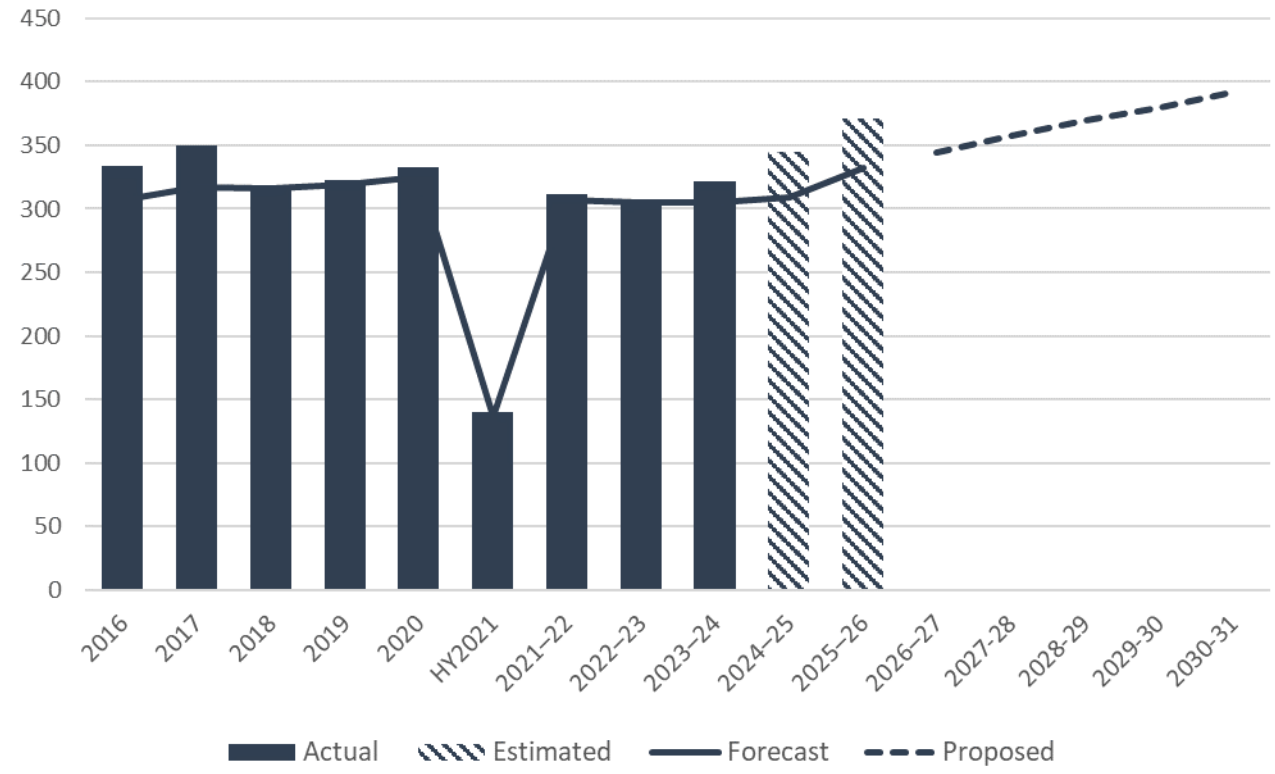
Jemena has proposed total revenue of $1,994.5 million ($nominal, unsmoothed) to be recovered from electricity customers over the 2026–31 period. This is 44.4% higher than what we approved for the 2021–26 period.

To compare revenue from one regulatory period to the next on a like-for-like basis, we make an adjustment for the impact of inflation. To do this, we use 'real' values based on a common year (in this case, 2025–26) that have been adjusted to remove the impact of inflation.

In real terms, Jemena's proposal would allow it to recover $1,845.7 million ($2025–26, unsmoothed) from consumers over the 2026–31 period. This is $286.6 million (18.4%) higher than our decision for the current (2021–26) period. We estimate that approximately 32% of the increase from the 2021–26 period is driven by market factors including higher inflation and interest rates. The other 68% of the increase is mainly driven by increases in capital and

operating expenditure. Changes in Jemena's regulated revenue over time are shown in Figure 2-1.

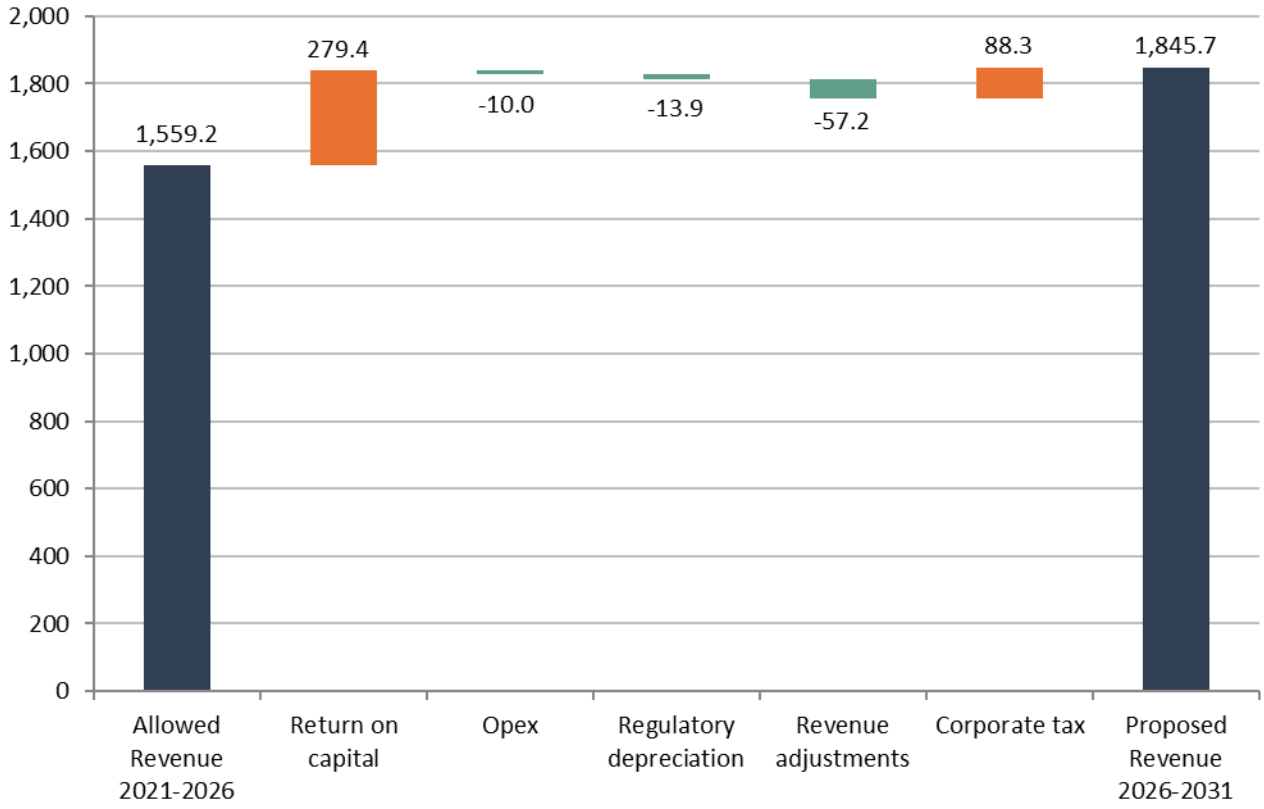
Figure 2-1 Changes in regulated revenue over time ($ million, 2025–26)



Source: AER analysis.
Note: 'HY2021' in the chart refers to the half-year extension period of 1 January 2021 to 30 June 2021 due to the transition from a calendar year regulatory period to a financial year basis that occurred in 2021.

Figure 2-2 highlights changes in Jemena's proposal at the "building block" level to illustrate what is driving its proposed increase in real revenue from the 2021–26 period to the 2026–31 period.

Figure 2-2 Changes in total revenue between 2021–26 and 2026–31 ($ million, 2025–26, unsmoothed)

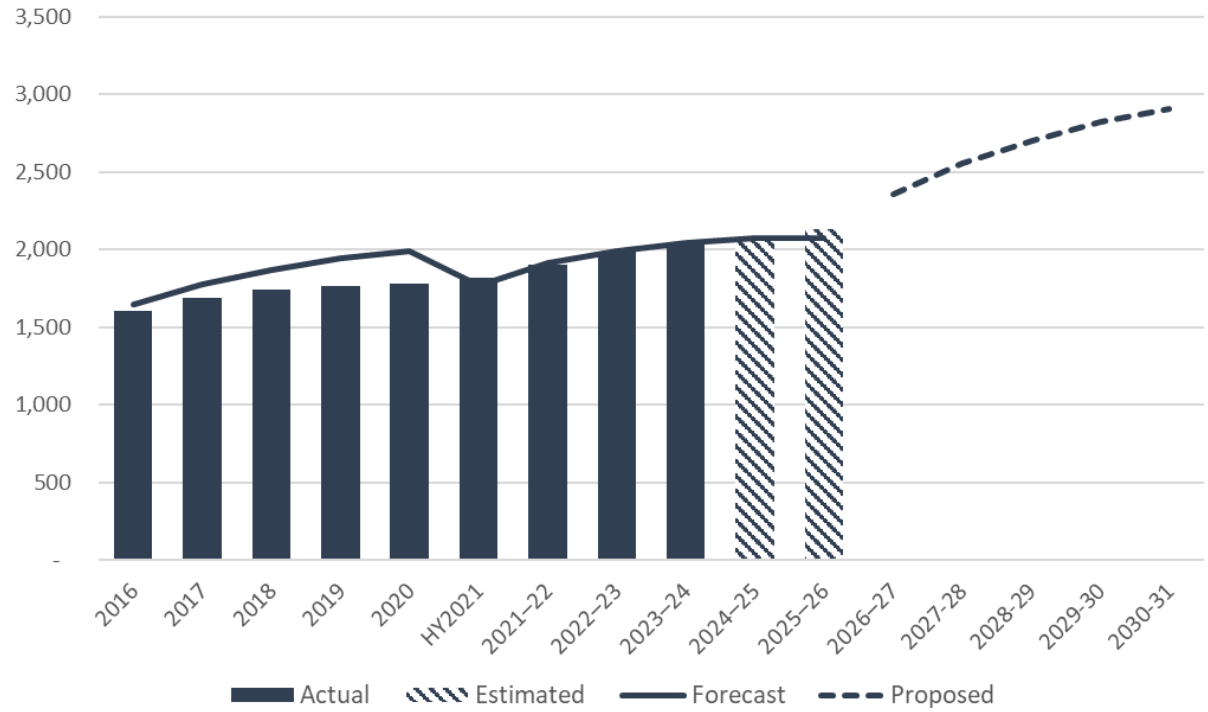


Source: AER analysis.
Note: This comparison is based on converting 2021–26 allowed revenue for inflation to 2025–26 dollar terms using lagged CPI.

The overall upward trend in revenue is primarily driven by a higher return on capital. This is driven by Jemena's higher projected regulatory asset base (RAB) and higher regulated rate of return in the 2026–31 period. Jemena's RAB has grown steadily over the current period, and by more than projected at the time of our last determination. This is due in part to actual inflation being higher than the expected inflation determined at that time. In 2026–31, forecast inflation and the regulated return are expected to be higher again.

Figure 2-3 shows the value of Jemena's RAB over time in real terms. The RAB substantially affects a network business's revenue requirement, and the price customers ultimately pay. We expect the RAB to change over time, as capital investment will depend on the network's age and technology, load characteristics, the levels of new connections and reliability and safety requirements. By the end of the 2021-26 period Jemena also expects its capital expenditure (capex) to exceed the forecast approved in our 2021–26 determination (see Figure 3-2). It has proposed a further, significant uplift in forecast capex for 2026-31 which is driving the 36% growth in the forecast RAB from the beginning to the end of the 2026–31 period.

Figure 2-3 Jemena's RAB value over time ($ million, 2025–26)



Source: AER analysis.

Jemena's proposal also includes a higher estimated cost of corporate income tax than in our determination for 2026–31, driven by an increase in capital contributions paid to Jemena by customers and a higher return on equity. Both lead to a higher taxable revenue than in the current period.

This forecast increase in revenue is partially offset by lower regulatory depreciation, driven by higher expected inflation, which increases the indexation of the RAB deducted from straight-line depreciation.[2]

Jemena's proposed forecast operating expenditure (opex) for 2026-31 is also lower than the forecast included in our last determination, albeit higher than the actual opex it expects to have spent by the end of the current period.

Revenue adjustments under AER incentive schemes are also making a smaller contribution to forecast revenue for 2026-31 than in the current period, primarily due to lower Efficiency Benefit Sharing Scheme (EBSS) and Capital Expenditure Sharing Scheme (CESS) carryovers than seen in our last determination.

[2] Regulatory depreciation is straight-line depreciation less inflation on the RAB, therefore higher expected inflation reduces the regulatory depreciation building block, all else being equal.

2.2 What would this proposal mean for electricity bills?

For illustrative purposes, Jemena's proposal estimates the proposed revenue would result in network tariffs that are 28.5% lower ($nominal) on average over the 2026–31 period compared to 2025–26 levels.

The cost of the distribution network components of the electricity supply chain makes up about 30% of the average electricity bill for household customers and 35% for small business customers in Jemena's network area and is ultimately recovered through electricity retail charges.[3]

For illustrative purposes again, Jemena's proposal estimates the impact of its proposed revenue on the average distribution network component of an annual electricity bills over the 2026–31 period would be:

- $144 (8.5%) lower ($nominal) than 2025–26 for residential customers
- $453 (10.0%) lower ($nominal) than 2025–26 for small business customers.

These network tariff and bill impact outcomes are not set by our determination. They are high-level estimates calculated by dividing Jemena's forecast revenue by its forecast of the energy that will be delivered through its network over the 2026–31 period. This means that for the same amount of revenue an increase in energy delivered would lead to lower tariffs over the period, and vice versa.

Under the revenue cap form of control that currently applies to Jemena, our determination sets the maximum regulated revenue Jemena can recover for each year of the regulatory control period. That revenue cap imposes a binding constraint: Jemena can only recover revenue equal to or less than the maximum regulated revenue. It complies with this constraint by forecasting volumes for each year and setting prices for that year such that its expected revenue is equal to or less than the maximum regulated revenue. At the end of each year, Jemena reports its actual revenue to us. Any differences between the actual revenue recovered and the maximum regulated revenue are then accounted for in future years.[4] This means the risk of over-forecasting demand is borne by customers, rather than by Jemena. Under other forms of control, such as price caps, that demand risk is borne by the distributor (see further discussion below).

In considering the estimated bill impacts above, this means that customers would be protected from volume risk if the actual energy delivered by Jemena in the 2026–31 period is higher than its forecast. That is, Jemena will not be entitled to earn more revenue as a result of higher demand. In this case average network tariffs would be lower than expected.

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3 Jemena, *RIN 9 - Workbook 5 - Bill Impacts*, January 2025.

4 This operation occurs through an "overs and unders" account, whereby any over-recovery (under-recovery) is deducted from (added to) the maximum regulated revenue in future years.

However, if actual energy delivered is lower than Jemena's forecast, customers could experience higher distribution network tariffs than expected because Jemena is still entitled to recover the revenue we determine, regardless of the actual energy delivered.

Jemena forecasts the amount of annual energy delivered through its network will have increased from 4567 GWh in 2025–26 to 8594 GWh in 2030-31: a significant increase of 4027 GWh, or 88%. This is the forecast that has informed the illustrative estimates of tariff and bill impacts in its proposal.

However, if the amount of energy delivered through Jemena's network were to increase at a slower rate, the impact of its proposed revenue on tariffs would be higher. Figure 2-4 illustrates the following examples:

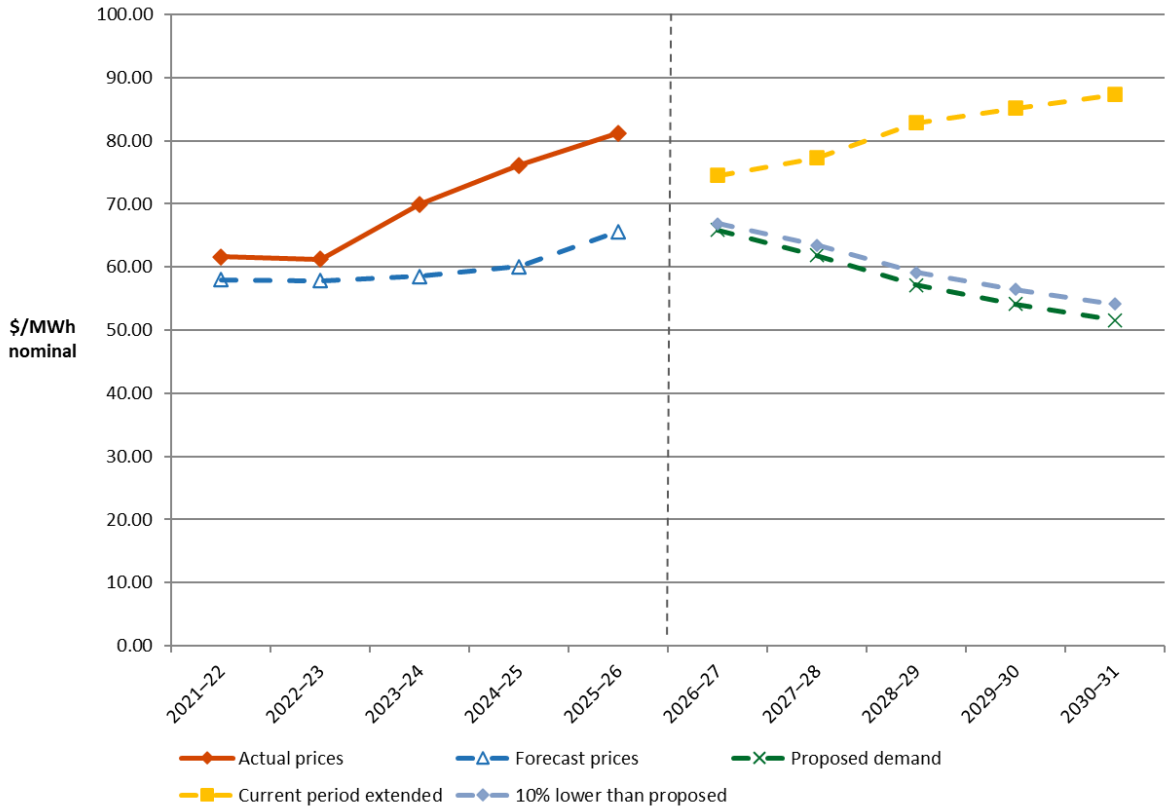
- Based on Jemena's forecast energy delivered increase (88%), customers could see 28.5% lower average annual distribution network tariffs ($nominal) compared to 2025–26 levels.[5]
- However, if energy delivered were to increase at the same rate as we have seen in the current, 2021–26 period (11%), customers could see roughly the same (0.2% higher) average annual distribution network tariffs ($nominal) as 2025–26 levels.[6]
- Even if energy delivered were to increase at a faster rate than what we have seen to date, but 10% lower than what Jemena has forecast, customers could see 26.1% lower average annual distribution network tariffs ($nominal) compared to 2025–26 levels.[7]

5 In real terms (ignoring the impact of expected inflation), average annual distribution tariffs could be expected to be 33.3% lower than 2025–26 levels.

6 In real terms (ignoring the impact of expected inflation), average annual distribution tariffs could be expected to be 7.1% lower than 2025–26 levels if energy delivered were to increase at the same rate as we have seen in the current, 2021–26 period.

7 In real terms (ignoring the impact of expected inflation), average annual distribution tariffs could be expected to be 31.2% lower than 2025–26 levels if energy delivered were to increase at 10% lower than the proposal forecast.

Figure 2-4 Sensitivity of energy delivered on distribution network tariffs 2026–31 ($/MWh, nominal)



Source: AER analysis

Estimated bill impacts under the lower energy delivered scenarios would also change:

- If energy delivered were to increase at the same rate as we have seen in the current, 2021–26 period, customers could see average annual bills that are $1 (0.1%) higher than 2025–26 for residential customers and $3 (0.1%) higher than 2025–26 for small business customers ($nominal). This is in contrast to Jemena's estimate of $144 (8.5%) and $453 (8.5%) lower average annual bills for residential and small business respectively.
- If energy delivered were to increase at a faster rate than what we have seen to date, but 10% lower than Jemena has forecast, customers could see average annual bills that are $132 (7.8%) lower than 2025–26 for residential customers and $416 (9.2%) lower than 2025–26 for small business customers ($nominal).

Price cap vs revenue cap regulation: how current forms of control differ for gas and electricity networks

Victoria's gas distribution networks are subject to a different form of control. In their gas distribution access arrangements, we set a weighted average price cap instead of a revenue cap.

Under a weighted average price cap, a target revenue is established which the distributor uses to set its prices based on forecast volumes. That cap on prices, rather than revenue, is the binding constraint. This means that:

- If actual volumes are lower than forecast volumes used to set tariffs, the distributor will sell less but must do so at the same price. It will therefore not recover the full amount of revenue we targeted with our access arrangement determination.
- If actual volumes are higher than forecast volumes used to set tariffs, the distributor will be able to sell more at the same price. It will therefore recover more than the revenue we targeted with our access arrangement determination.

Therefore, in contrast to a revenue cap, the distributor faces demand risk as opposed to customers.

2.3 Forecast demand and consumption

Demand for electricity plays a crucial role in forecasting network expenditure. This includes:

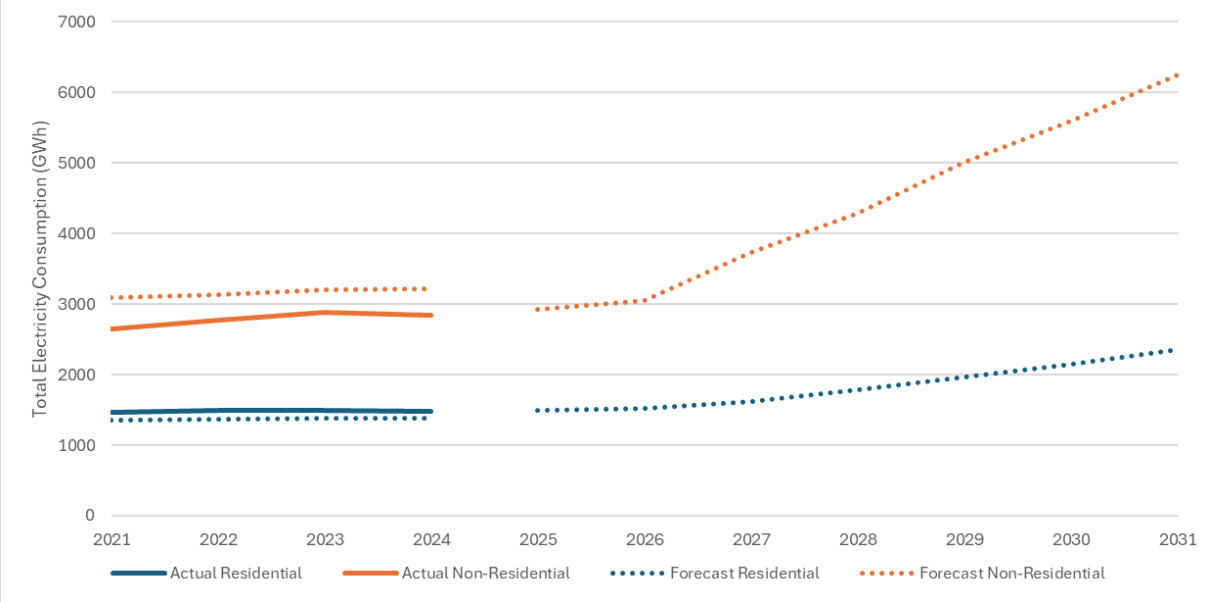
- augmentation expenditure – the construction of new assets to service added demand and higher peak demand.
- replacement expenditure – the renewal or replacement of assets which can be accelerated by increased demand.
- connections expenditure – typically driven by growth in residential customer numbers, however new drivers of larger and more expensive connections are emerging, including data centres, batteries and electric vehicle charging stations.

It is essential that demand forecasts are accurate to ensure that customers are not paying more than necessary. As noted in section 2.2, under the revenue cap control mechanism, prices are adjusted each year for errors in forecast demand that result in revenue recovery above or below the allowed revenue. This means that customers could experience higher distribution network tariffs than expected if actual demand is less than forecast demand.

The regulatory framework includes some mechanisms which can mitigate uncertainty associated with demand forecasts. These mechanisms include cost pass through events and contingent projects, which can be specified in the distribution determination. Cost pass throughs can increase or decrease allowed revenue, whereas contingent projects only increase allowed revenue. Both mechanisms are subject to a materiality threshold prescribed by the NER. Jemena has proposed 2 contingent projects for the 2026-31 period.

As shown in Figure 2-5, Jemena forecasts that total consumption will increase to 8,594 GWh in 2031, an increase of 99% compared to actual total consumption in 2024. This includes a forecast increase of 59% in residential consumption and 120% in non-residential consumption.

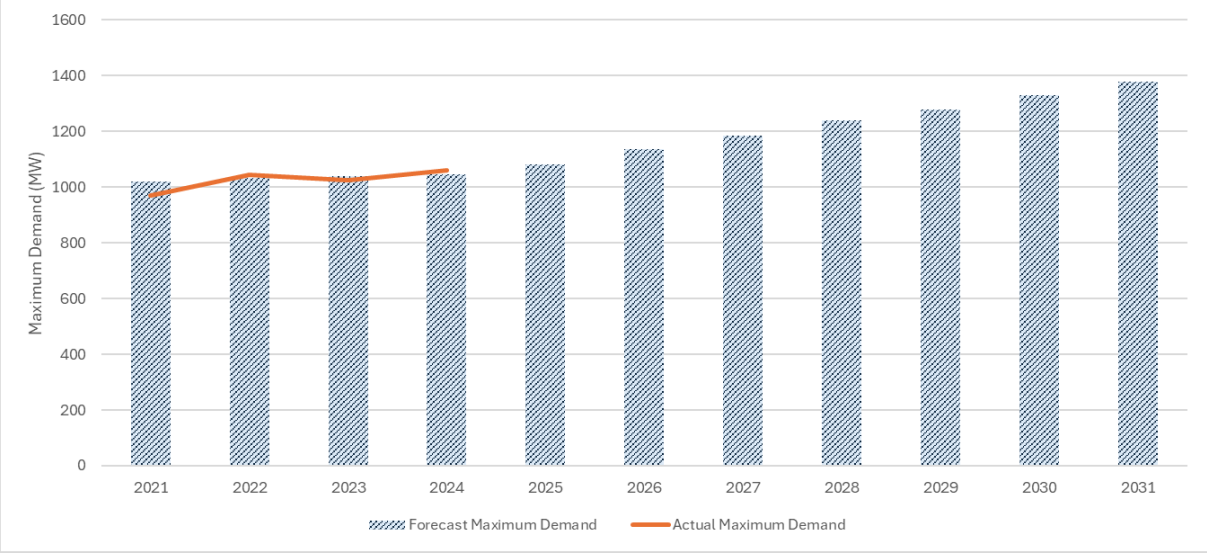
Figure 2-5 Forecast and actual consumption by customer type



Source: 2021 Reset RIN and Economic Benchmarking RIN (2021-24 data), 2026 Reset RIN (2025-31 data).

As shown in Figure 2-6, Jemena forecasts that maximum demand will increase to 1,378 MW in 2031, an increase of 30% compared to actual maximum demand in 2024.

Figure 2-6 Forecast and actual maximum demand



Source: 2021 Reset RIN and Economic Benchmarking RIN (2021-24 data), 2026 Reset RIN (2025-31 data).
Note: Maximum demand refers to non-coincident summated weather adjusted system annual maximum demand, 50% probability of exceedance.

Questions on demand forecasts

1) Do you have any feedback on the demand forecasts that have informed Jemena's proposal?

2.4 Network utilisation

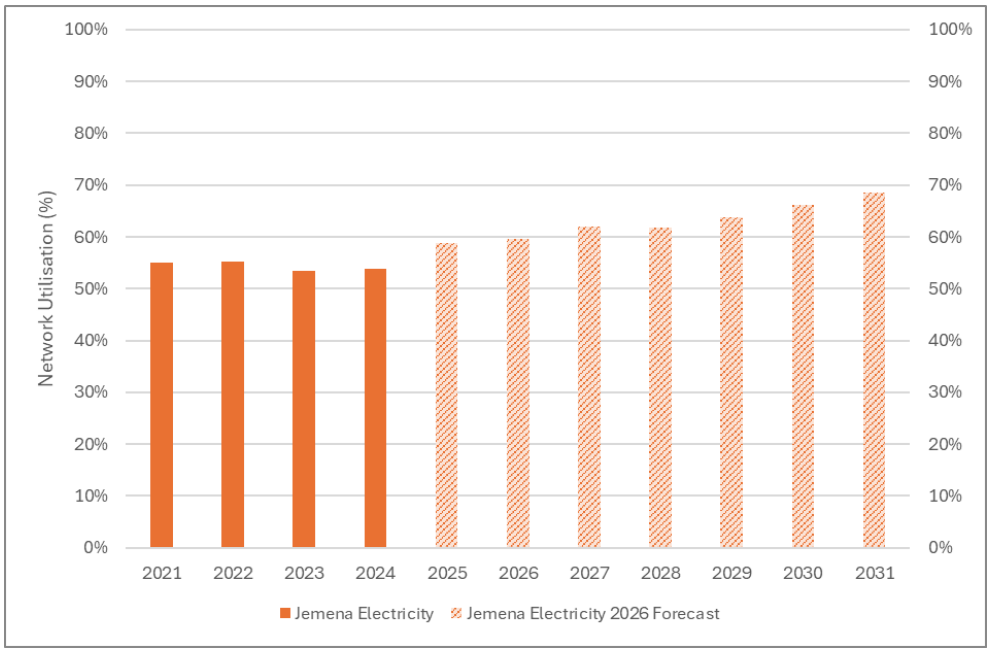
Network utilisation refers to the extent that network assets are used to meet customer demand. We calculate utilisation by dividing non-coincident maximum demand by the total capacity of the DNSP's zone substation transformers. Low utilisation means that a network can service large increases in peak demand but could indicate that customers are paying for network assets they rarely use. Conversely, high levels of utilisation could indicate that investment is necessary to meet increases in peak demand.

The Victorian DNSPs have high rates of network utilisation compared to DNSPs in other jurisdictions. This reflects several factors, including:

- The use of probabilistic planning practices instead of deterministic planning
- The use of smart meters enabling the Victorian DNSPs to plan more precisely, by having access to more granular and accurate customer load data
- Tariff innovation, such as the use of critical peak demand pricing for large customers.

As shown in Figure 2-7, Jemena forecasts that its network utilisation will increase to 69% in 2031.

Figure 2-7 Forecast network utilisation



Source: 2021 Reset RIN (2021-24 data), 2026 Reset RIN (2025-31 data).
Note: Network utilisation is calculated by dividing non-coincident summated weather adjusted system annual maximum demand, 10% POE (MVA) by the total zone substation transformer capacity (MVA).

Questions on network utilisation

2) How well do you think Jemena's proposal takes existing and forecast network utilisation levels into account?

2.5 Consumer engagement and the Better Resets Handbook

Jemena supplies an essential service to Victorian consumers. High quality consumer engagement is critical to Jemena's development of a proposal that supports delivery of services and outcomes that reflect consumers' needs and preferences. Our framework for considering consumer engagement in network revenue determinations is set out in the Better Resets Handbook (Handbook):

- We look to the nature of engagement, and how networks engage with their consumers. Our expectations are that network businesses will sincerely partner with consumers and equip them to effectively engage in the development of their proposals.
- We consider the breadth and depth, including the scope of issues on which consumers were engaged and at what level of detail. The breadth and depth of engagement also covers the variety of avenues used to engage with consumers
- We have regard to how a proposal represents and is shown to represent consumer views. We look for evidence of a clear link between consumer research and engagement, a network business's representation of the outcomes desired by consumers, and how the proposal gives effect to those outcomes.

Experience shows that proposals that genuinely reflect consumer preferences, and which also meet our expectations for capex, opex, depreciation and tariff structure statements, are more likely to be largely or wholly accepted at the draft decision stage, creating a more effective and efficient regulatory process for all stakeholders.

In the lead up to submission of its proposal, Jemena identified six key themes emerging from its engagement with customers:

- **Affordability, equitable and fair tariff reform**—customers want electricity prices to be affordable, and tariff structures that are fair for different types of customers, such as solar and non-solar.
- **Reliability, resilience, power quality**—customers want Jemena to prioritise investment in network reliability to maintain service standards, power quality and customer experience and accommodate new growth, and in network resilience to help Jemena and its customers withstand and recover from the effects of natural hazards or disasters.
- **Sustainability**—customers want Jemena to facilitate the transition to renewable energy sources and champion renewable energy in new housing and estates. They see Jemena playing a leading role in enabling energy storage and incentivising battery take up and want them to prepare for the increase in electric vehicle (EV) charging. Customers expect Jemena's operations to be sustainable and to maximise the use of green energy across the network as much as possible
- **Digitisation and automation**—customers want Jemena to digitise and automate the network to make it smarter, more responsive and more efficient.
- **Ongoing customer service excellence**—customers want Jemena to take a leading role in empowering and educating them through the energy transition and making communications to them efficient and accessible

- **Social and corporate responsibility**—customers want Jemena to provide support for customers experiencing vulnerability and to help protect the land. Customers want Jemena to lead by example in reducing emissions and achieving net-zero targets.

In addition to expectations for engagement, the Handbook also sets out our expectations (consistent with the NER framework) in topic areas such as capex, opex, regulatory depreciation and tariff structure statements, which tend to have the most significant impact on consumers. Jemena's proposals for significant uplifts in capex and opex, and the number and magnitude of proposed opex step changes, do not meet Handbook expectations for steady growth in spending that might have lent themselves to a relatively limited or targeted review. Where consumers have expressed support for the outcomes Jemena seeks to achieve, and their preferences for particular approaches, our role is to now carefully assess the prudency and efficiency of the expenditure Jemena submits is necessary to deliver them.

Customer support is an important part of this assessment. The NER require us to consider the extent to which Jemena's proposed forecasts of opex and capex include expenditure to address the concerns of its end users, as identified by Jemena in the course of its engagement with end users or groups representing them.[8] It is a factor to which we must have regard in determining whether the total forecasts of opex and capex Jemena has proposed reasonably reflect prudent and efficient costs and a realistic expectation of future demand and cost inputs.[9]

In considering other capex and opex factors we will look to supporting information including Jemena's governance and the robustness of its forecasting methods. We will also consider in-depth business cases. Before expenditure is approved, we need to satisfy ourselves that it not only addresses the concerns and preferences of Jemena's users but does so prudently and efficiently and that the ambitious programs for which Jemena is seeking to recover costs can actually be delivered in the timeframes proposed. Together, these considerations support a decision that will ensure Jemena's customers are paying no more than necessary for safe, reliable and secure delivery of their electricity distribution services and the outcomes they have told Jemena they value.

Similarly, the effectiveness and outcomes of Jemena's engagement on its tariff structure statement, including its export tariff transition strategy[10] will inform our assessment of proposed tariff structures. For example, we will have regard to information exchanged and feedback provided as part of consumer engagement when we are considering whether the structure of a tariff is reasonably capable of being understood by retail customers, and of being directly or indirectly incorporated by retailers or Small Resource Aggregators in contract terms offered to those customers.[11]

Throughout this paper we have asked questions about Jemena's engagement on, and consumer and stakeholder support for, particular aspects of its proposal. At an overall level, we would value consumer and stakeholder perspectives on the questions below.

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8 NER, cll. 6.5.6(e)(5A), 6.5.7(e)(5A).

9 NER, cll. 6.5.6(c), 6.5.7(c)(1).

10 NER, cl. 6.8.2(c1)(2).

11 NER, cl. 6.18.5(i).

Questions on consumer engagement

3) How satisfied are you that Jemena sincerely partnered with consumers and equipped them to effectively engage in the development of its proposal?
4) How satisfied are you with the scope of issues on which consumers were engaged, and the level of detail at which Jemena engaged?
5) How satisfied are you with the variety of avenues Jemena used to engage with consumers?
6) How satisfied are you with the evidence Jemena's proposal provides of consumer preferences identified through its various engagement channels and that those preferences have been reflected in its proposal?
7) How well do you feel Jemena has responded to consumer and stakeholder feedback on its proposal, including but not limited to feedback on its draft proposal?
8) How would your views on Jemena's proposal change if its estimated network tariff and electricity bill impacts did not eventuate? For example:

- If tariff or bill impacts were potentially higher, are there areas in which you would be willing to accept a different outcome or prefer Jemena to spend less in order to avoid this?
- If tariff or bill impacts were potentially lower, are there areas in which you would prefer Jemena to deliver/spend more, or would you prefer the same outcomes at a lower cost or price?

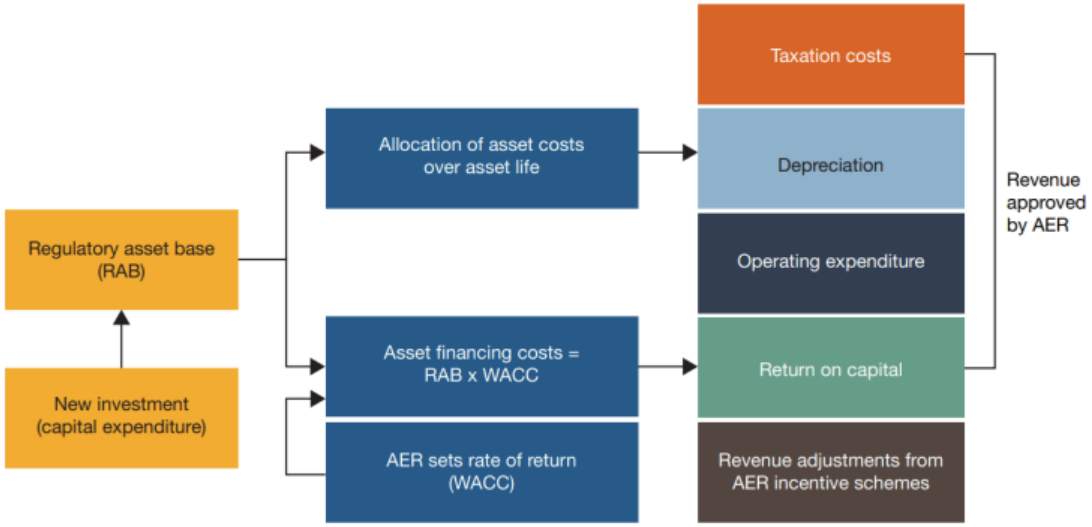
3 Key elements of the revenue proposal

The foundation of our regulatory approach is an incentive framework to setting maximum revenues: once regulated revenues are set for a five-year period, a network that keeps its actual costs below the regulatory forecast of costs retains part of the benefit. This provides an incentive for service providers to become more efficient over time. It delivers benefits to consumers as efficient costs are revealed and drive lower forecasts in subsequent regulatory periods. By only allowing prudent and efficient costs in our approved revenues, we promote delivery of the NEO and ensure consumers pay no more than necessary for a safe, secure, reliable, and affordable energy future for Australia as it transitions to net zero emissions.

The revenue Jemena has proposed reflects its forecast of the prudent and efficient cost of providing distribution network services in its network area over the 2026–31 period. Its revenue proposal, and our assessment under the National Electricity Law and Rules (NEL, NER), are based on a 'building block' approach which looks at five cost components (see Figure 3-1):

- return on the RAB – or return on capital, to compensate investors for the opportunity cost of funds invested in this business
- depreciation of the RAB – or return of capital, to return the initial investment to investors over time
- forecast opex – the operating, maintenance, and other non-capital expenses, incurred in the provision of network services
- revenue increments/decrements – resulting from the application of incentive schemes and allowances, such as the EBSS, CESS and Demand Management Innovation Allowance Mechanism (DMIAM)
- estimated cost of corporate income tax.

Figure 3-1 The building block approach to forecasting revenue



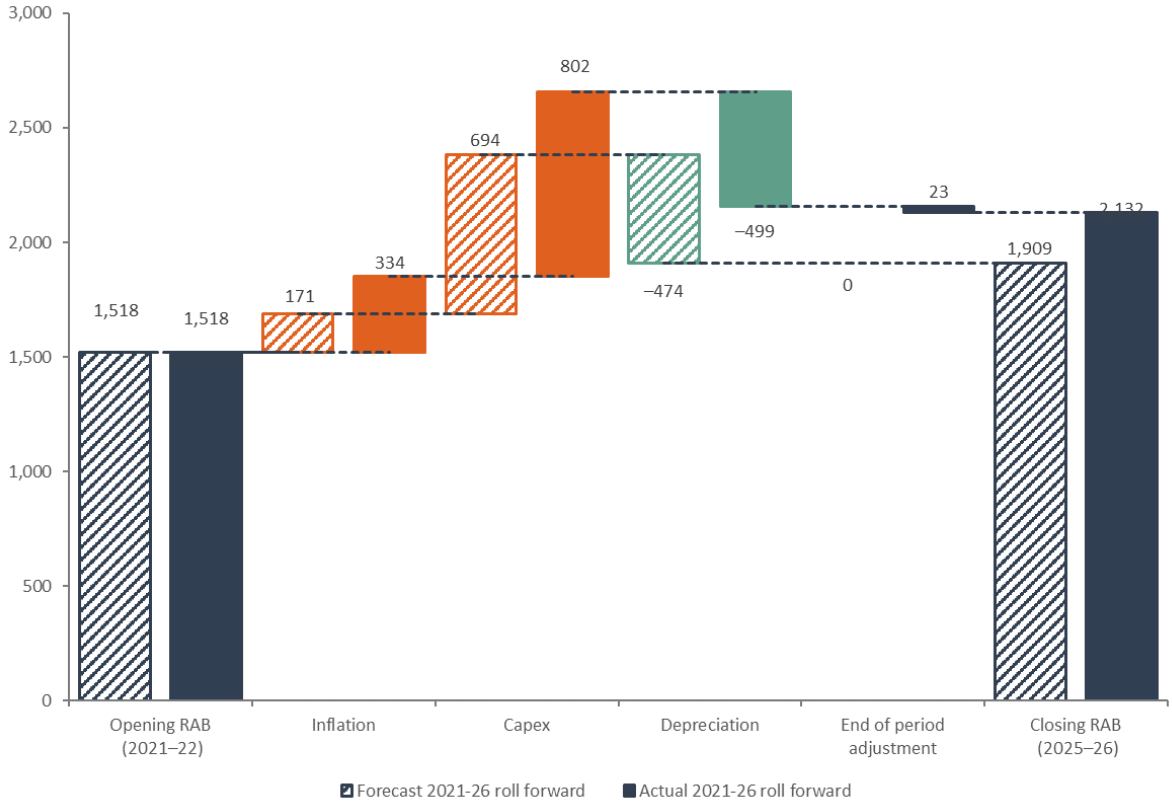
Source: AER.

3.1 Regulatory asset base

The RAB is the value of assets used by Jemena to provide distribution network services. To set revenue for a new regulatory period, we take the opening value of the RAB from the end of the last period and roll it forward year by year by indexing it for inflation, adding new capex and subtracting depreciation and other possible factors (such as disposals). This gives us a closing value for the RAB at the end of each year of the regulatory period. The value of the RAB is used to determine the return on capital and regulatory depreciation building blocks. Other things being equal, a higher RAB would increase both the return on capital and regulatory depreciation components of the revenue determination.

The opening RAB at the start of the 2026–31 period depends on the value of existing assets, and on actual capex, actual inflation outcomes and depreciation in the past. In nominal terms, Jemena has reported a $614.4 million (40.5%) increase in its RAB over the 2021–26 period.[12] Jemena's proposed opening RAB as at 1 July 2026 is $222.9 million (11.7%) higher than the forecast value at the time of our 2021–26 determination.[13] As shown in Figure 3-2, the key drivers for this difference are higher than forecast capex and higher actual inflation compared to the forecasts at the time of the 2021–26 determination.

Figure 3-2 Key drivers of changes in the RAB over the 2021–26 period – Proposal compared to AER's 2021–26 determination ($ million, nominal)



Source: AER analysis.

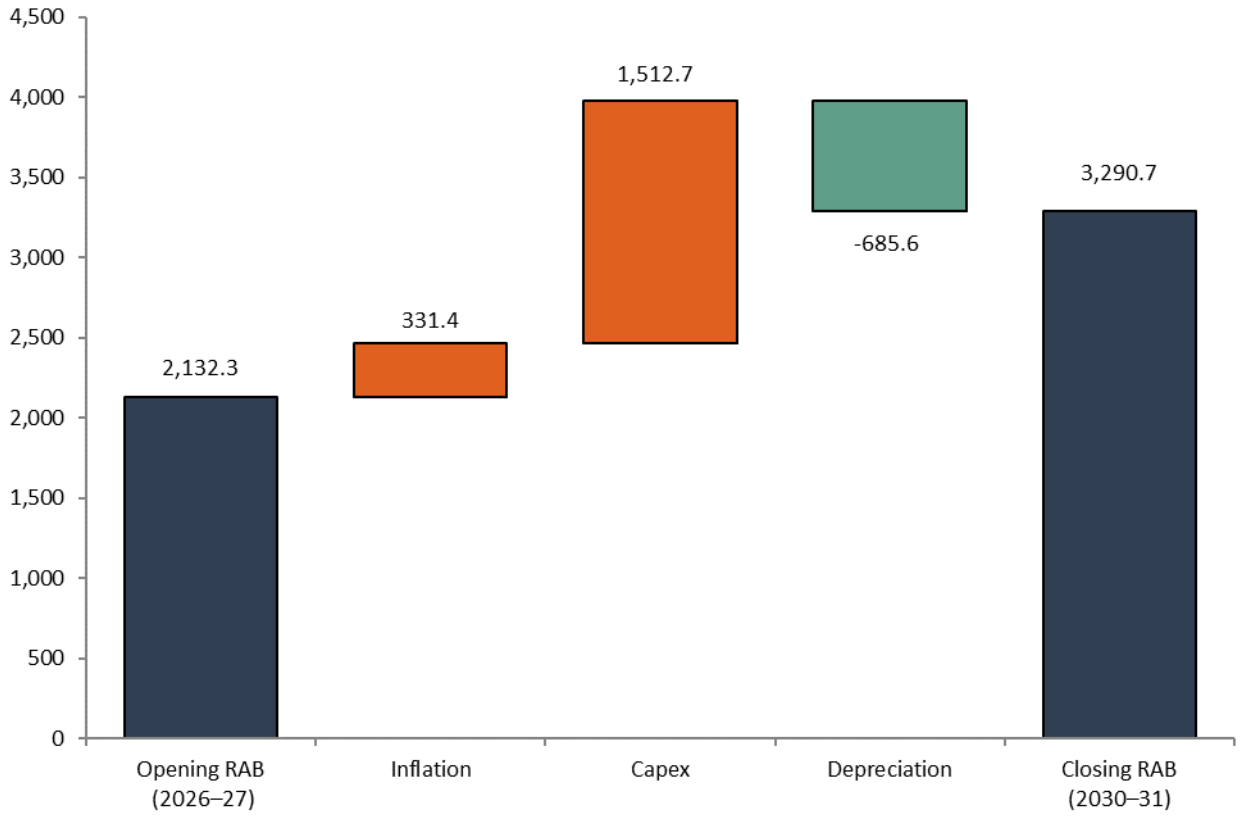
12 $2,132 million compared to $1,518 million.

13 $2,132 million compared to $1,909 million.

The RAB, when projected to the end of the period increases due to both forecast new capex and the inflation indexation adjustment. Depreciation, on the other hand, reduces the RAB. The depreciation amount depends on the size of the opening RAB, the forecast net capex and depreciation schedules applied to the assets. Inflation, regulatory depreciation and capex are discussed in sections 3.2, 3.3 and 3.4 respectively.

Over the 2026–31 period, Jemena's proposal projects a $1,158.4 million (54.3%) ($ nominal) increase in its RAB driven by its forecast capex and, to a lesser extent, inflation. This is illustrated in Figure 3-3.

Figure 3-3 Key drivers of changes in the RAB over the 2026–31 period ($ million, nominal)



Source: AER analysis.

3.2 Rate of return on capital and inflation

The AER's 2022 Rate of Return Instrument (2022 RORI) sets out the approach we will use to estimate the return on debt, the return on equity and the overall rate of return.[14]

The return each business is to receive on its RAB, known as the 'return on capital', is a key driver of proposed revenues. We calculate the regulated return on capital by applying a rate of return to the value of the RAB.

14 AER - Rate of Return Instrument (Version 1.2) – March 2024

We estimate the rate of return by combining the returns of two sources of funds for investment: equity and debt. The allowed rate of return provides the business with a return on capital to service the interest rate on its loans and give a return on equity to investors.

Jemena's proposal includes a higher estimate of the rate of return of 5.92% for the first year of the 2026–31 period, compared to 4.91% in our decision for the first year of the 2021–26 period.

Jemena's proposal also includes a higher expected inflation estimate for the 2026–31 period (2.50%) than the estimate applied in our 2021–26 final decision (2.00%).

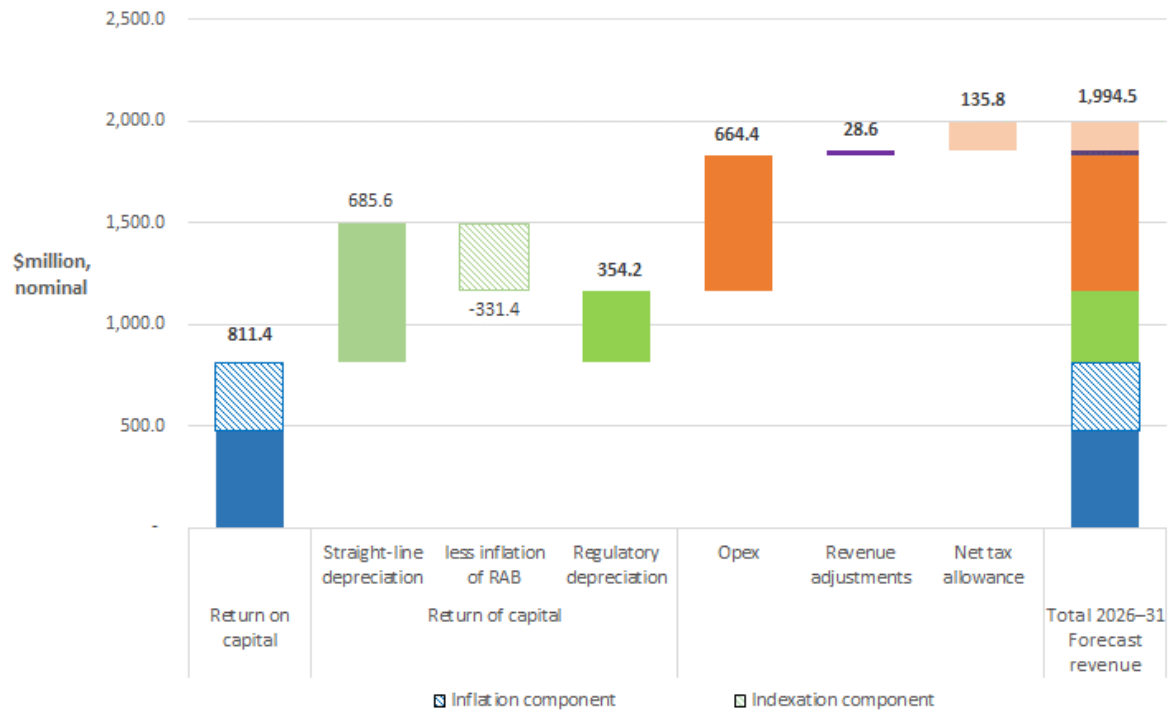
The estimate of the rate of return and expected inflation are significant contributors to the increases in revenue Jemena has proposed relative to the current period.

At this stage, these values are placeholders only. It is important that they are updated throughout the determination process—in our draft decision, in the business's revised proposal and again in our final decision—for the latest market data. By setting a rate of return that reflects current financial market conditions, our determination will enable Jemena to attract the capital it needs to provide the services its consumers want.

Moreover, the return investors receive on their assets should reflect the risks of their investment, including the prospect of inflation eroding their purchasing power. In Figure 3-4 we show how the estimate of expected inflation impacts forecast building block revenue:

- The return on capital building block applies a nominal rate of return to the RAB. That nominal rate of return includes expected inflation. Higher expected inflation increases the return on capital and adds to the impact higher forecast capex is having on this building block.
- The return of capital building block removes expected inflation indexation of the RAB from forecast depreciation. This avoids compensation arising from the effects of inflation being double-counted by including it in the return on capital building block and also as a capital gain (through the indexation of the RAB). Higher expected inflation reduces the regulatory depreciation allowance.
- Other building blocks, such as opex and revenue adjustments, include an inflation component, as these costs are forecast in real dollar terms and then escalated to nominal dollars using expected inflation to determine the required nominal revenue. Higher expected inflation increases opex and revenue adjustments.

Figure 3-4 Inflation in Jemena's revenue building blocks ($ million, nominal)



Source: AER analysis.

3.3 Regulatory depreciation (return of capital)

Depreciation is the method used in our determinations to allocate the cost recovery of different types of network assets over their useful lives. It is the amount provided so capital investors recover their investment over the economic life of the asset (otherwise referred to as 'return of capital'). When determining total revenue, we include an amount for the depreciation of the projected RAB. The regulatory depreciation amount is the net total of the straight-line depreciation less the indexation of the RAB.

Jemena has proposed regulatory depreciation of $327.7 million ($2025–26) for the 2026–31 period, which $13.9 million (4.1%) lower than the 2021–26 period. The lower regulatory depreciation is primarily driven by higher expected inflation applied on a higher forecast RAB, which increases the indexation of the RAB deducted from straight-line depreciation.

Jemena used our standard regulatory models[15] and proposed to continue applying the year-by-year tracking approach in determining its forecast straight-line depreciation of existing assets. It has applied the same asset classes and standard asset lives from the 2021–26 regulatory determination.

We will assess Jemena's forecast expenditure to ensure that the various proposed asset lives remain appropriate for the nature of the capex.

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15 We amended our standard RAB roll forward model (RFM) to reflect the half-year extension period of 1 January 2021 to 30 June 2021.

Questions on regulatory depreciation

9) Do you have any feedback on Jemena's proposed regulatory depreciation approach?

3.4 Capital expenditure

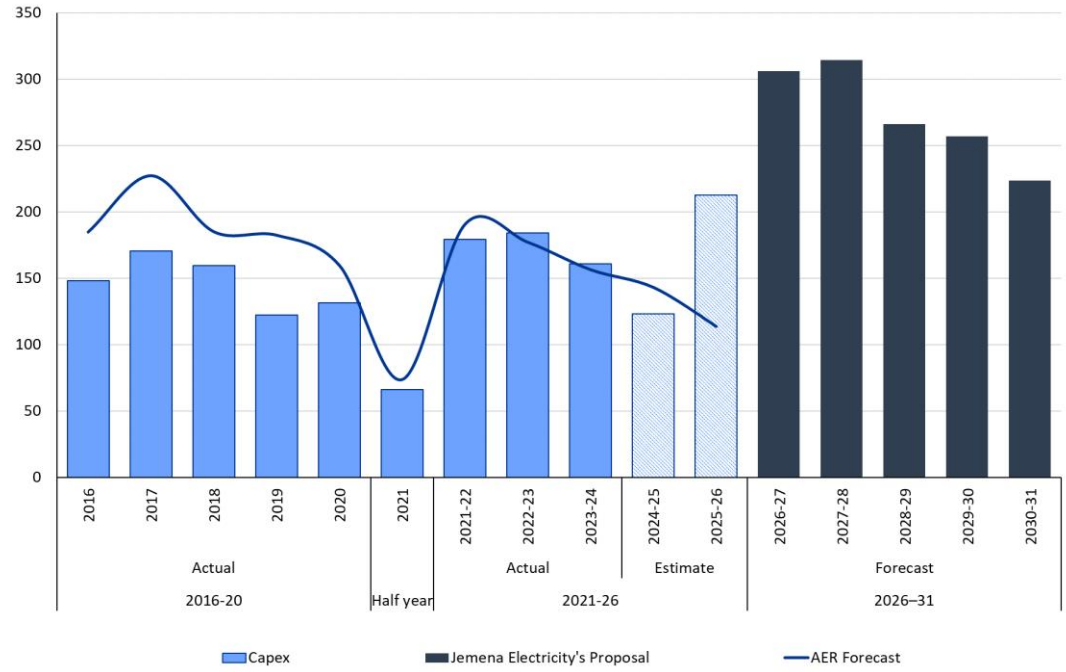
Capital expenditure refers to the capital costs and expenditure incurred to provide network services. Capex mostly relates to assets with long lives, the costs of which are recovered over several regulatory control periods. Capex is added to the RAB, which is used to determine the return on capital and return of capital (regulatory depreciation) building block allowances.

Jemena has proposed total forecast capex (net of capital contributions) of $1,366 million ($2025-26) for the 2026-31 period. As shown in Figure 3-5:

- This is $513.6 million (60%) higher than the total forecast capex we approved (and used to set revenues) in our decision for the current, 2021-26 period.
- It is $527.6 million (63%) higher than Jemena's actual capex in the 2021-26 period.

We have assessed that an ex-post review (a review of past expenditure) is not required for Jemena as part of this determination, because it did not overspend in the ex-post review period.[16] We will assess whether an ex-post review is required in the next determination noting the elevated levels of expenditure proposed.

Figure 3-5 Trend in Jemena's forecast and actual capex over time ($m, 2025-26)



Source: AER analysis.

16 The ex post review period includes years for which actual, and not just estimated, capex is available for review. It covers only the first three years of the 2021-26 period, and the final two years of the previous period.

Note: Net; estimates only for 2024-25 and 2025-26.

Jemena is required to propose the total forecast capex it considers is required to meet or manage expected demand, comply with all applicable regulatory obligations, and to maintain the safety, reliability, quality, and security of its network, and to contribute to achieving the targets for reducing Australia's greenhouse gas emissions (the capex objectives).[17] We must decide whether or not we are satisfied that these forecasts reasonably reflect prudent and efficient costs and a realistic expectation of future demand and cost inputs (the capex criteria).[18] Where a business's capex forecast is a significant step up, we will also have regard to the deliverability of the business's total capex program in assessing the reasonableness of the capex forecast. We typically expect businesses to provide evidence of how they would address resourcing constraints, immediate skill gaps, supply chain limitations and other deliverability risks.

When considering whether the forecast reasonably reflects the expenditure criteria, we must have regard to the capex factors.[19] We must make our decision in a manner that will, or is likely to, deliver efficient outcomes in terms of the price, quality, safety, reliability and security of supply for the benefit of consumers in the long term (as required under the NEO).[20] Our *Capital expenditure assessment outline for electricity distribution determinations*[21] explains our and distributors' obligations under the NEL and NER in more detail. It also describes the techniques we use to assess distributors' capex proposals against the capex criteria and objectives. Where relevant, we also assess capex associated with emissions reduction proposals, taking into account our Guidance on the amended NEO.[22]

The Handbook[23] sets our expectations for capex forecasts. In summary:

- the business should demonstrate that the proposed expenditure is not significantly above current period spending. All components of the total capex forecast should be well-justified, consistent with past spending for recurrent components, and, for repex, not materially above our repex model
- the business should show evidence of prudent and efficient decision-making on key projects/programs
- the business should provide evidence that the proposal aligns with industry risk management standards
- the business should provide evidence of genuine consumer engagement.

Jemena has proposed total forecast capex for the 2026-31 period that is materially above its current period spend, with step ups in most capex categories. In prioritising our assessment

17 NER, cl. 6.5.7(a).

18 NER, cl. 6.5.7(c).

19 NER, cl. 6.5.7(e).

20 NEL, ss. 7, 16(1)(a).

21 AER - *AER capital expenditure assessment outline for electricity distribution determinations* - February 2020.

22 Guidance on amended National Energy Objectives | Australian Energy Regulator (AER)

23 Better resets handbook | Australian Energy Regulator (AER)

and satisfying ourselves that that its forecast is guided by prudent and efficient decision making and risk management standards, we will have regard to:

- the materiality of the size and proportion of the expenditure category compared to the total expenditure proposal
- the materiality of proposed expenditure increase, or decrease, compared to historic levels
- whether the expenditure has any strategic or precedent value, e.g. whether a non-standard AER methodology approach was adopted for forecasting, or is a new and emerging expenditure area
- customer or stakeholder interest in a particular area of expenditure such as worst served customer proposals or consumer energy resources (CER).

Key areas of interest at this stage are connections, replacement expenditure, augmentation expenditure, and CER-integration.

We will also closely review Jemena's proposed contingent projects.

3.4.1 Key drivers of Jemena's capex proposal

Table 3-1 sets out the composition of Jemena's capex proposal for 2026-31 and compares it to its forecast and actual expenditure in the current, 2021-26 period.

Jemena's capex program is forecast to materially increase in the 2026-21 period compared with the current regulatory period, notably in connections, repex, and augex. Jemena's net connections capex program composes around 20% of its net capex[24], and it contributes to 30% of the uplift to Jemena's overall net capex program.[25] The other major contributors are replacement expenditure followed by CER-integration projects. We discuss Jemena's proposals for the key capex categories in the sections below, including its forecasting approach, key drivers and likely areas of focus for our assessment.

Table 3-1 Jemena's 2026-31 capex proposal compared to 2021-26 ($million 2025-26)

Driver	2021-26 actual/ estimate[b]	2026-31 proposal	2026-31 proposal vs 2021-26 actual/estimate (%)	Contribution to % increase
Replacement	271.9	408.9	50.4%	16.6%
Resilience		19.8		2.4%
Augmentation	193.6	223.9	15.7%	3.7%
Connections	623.3	1102.6	76.9%	58.0%

[24] Net capex is Jemena's total (or gross) capex, less capital contributions and asset disposals, and represents the amount of capex that is funded by Jemena's customers through the purchase of regulated services.

[25] The connections capex and augex figures in **Error! Reference source not found.** are inclusive of capital contributions.

Driver	2021-26 actual/ estimate[b]	2026-31 proposal	2026-31 proposal vs 2021-26 actual/estimate (%)	Contribution to % increase
Fleet	7.1	33.6	373.2%	3.2%
Property	10.3	17.4	68.9%	0.9%
Cyber security	0.0	0.0	0.0	0.0%
ICT	116.0	114.7	-1.1%	-0.2%
CER	9.4	84.5	798.9%	9.1%
Other non-network	1.4	1.4	0.0%	0.0%
Capitalised overheads	169.7	222.2	30.9%	6.4%
Total capex	**1402.7**	**2,228.8**	**58.9%**	**100.0%**
Less capital contributions	-562.0	-859.7	53.0%	36.0%
Less asset disposals	-2.0	-2.8	40.0%	0.1%
Net capex	**838.7**	**1,366.3**	**62.9%**	**63.9%**

Source: AER analysis. Jemena, *SEP preliminary information request*, July 2024; Jemena - *Attachment 05-10M SCS Capex model* – January 2025; Jemena, *Attachment 05-01 Capital expenditure,* January 2025.

Notes:

[a] 2021-26 forecast figures do not match those in Jemena's proposal. Jemena's proposal assumes its reopener application will be successful. We use Jemena's most recent approved allowance figures.

[b] 2021-26 actual/estimate figures for certain categories were received during the Structured Engagement Pathway, so total capex may not reconcile with proposal RINs. Totals may not sum due to rounding.

3.4.1.1 Connections capex

Jemena forecasts connections capex of $1,102.6 million for the 2026–31 period, or $275.3 million when capital contributions from customers are subtracted from the total (net connections capex). The forecast of gross connections capex is 77% higher than actual/estimated capex for the 2021–26 period, while net connections capex has risen by 134%.

Jemena expects to overspend its connections capex forecast for the 2021–26 period by 22%. A key contributor to this is a large increase in the number of data centres that have requested connection to Jemena's network in the current period.[26]

The increase in large customers such as data centres is forecast to continue in the 2026-31 period, leading to the large increases in the connections capex forecast. The data centre

[26] Jemena has proposed to exclude connections related capex from future capital efficiency sharing scheme (CESS), which we discuss in more detail in section 4.1.

connections projects comprise $704 million of Jemena's gross capex forecast. However, these connections are primarily funded by capital contributions from the connecting customer (81 to 83%). Once capital contributions are taken into account, the net capex (i.e. the capex that is funded by Jemena's customers through the purchase of its regulated services), is $127.1 million.[27]

In assessing the forecast connections capex, we will consider the efficient cost of the connections (including the capital contribution made by the customer), along with the likelihood that the projects will proceed.

3.4.1.2 Replacement expenditure (repex)

Jemena has proposed gross repex of $408.9 million[28], which is 50.4% higher than actual/estimated capex in the 2021-26 period. We note Jemena expects to overspend its repex forecast for the 2021–26 period by 7%.[29]

Jemena explains the higher level of repex is due to: [30]

- Aging poles where the option of staking to extend their life is exhausted.
- Rebuilding of 3 aged zone substations to a more modern equivalent.
- A replacement program for at-risk sub-transmission assets.

Jemena submits that while its forecast is higher than its actual/estimated repex for 2021-26, its forecast repex is 27% lower than the threshold modelled repex predicted by the AER's repex model.[31]

Consistent with our typical top-down assessment, we will review the outcomes of the AER's repex model to assess how Jemena's forecast modelled repex performs against all other distributors in terms of replacement life and unit rates.

3.4.1.3 Augmentation capex (augex)

Jemena forecasts augex of $223.9 million for the 2026–31 period, excluding CER-integration projects.[32] This is 15.7% higher than actual/estimated capex in the current period. We note Jemena expects to underspend its augex forecast for the 2021–26 period by 10.7%.[33]

The majority of Jemena's augex is driven by increases in demand ($164.7 million). Jemena states that the key drivers of demand-driven augmentation for the next period are ongoing growth in maximum demand, the energy transition, and accommodating data centres.[34] Major components of Jemena's demand-driven augex are its network development strategies, which detail projects to alleviate demand related constraints ($130.8 million).

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27 AER analysis. Jemena, *Attachment 05-10M SCS Capex model*, January 2025.

28 Jemena's proposed net replacement capex of $395 million (once capital contributions are removed).

29 Jemena, *Attachment 05-10M SCS Capex model*, January 2025.

30 Jemena, *Attachment 05-01 Capital expenditure,* January 2025, p. 62.

31 Jemena, *Attachment 05-01 Capital expenditure,* January 2025, p. 62.

32 This does not include Jemena's CER-integration augex. We consider CER-integration projects as their own category.

33 AER analysis. Jemena, *Attachment 05-10M SCS Capex model*, January 2025.

34 Jemena, *Attachment 05-01 Capital expenditure*, January 2025, p. 31.

Jemena's network development strategies also include capex to accommodate major new customers like data centres ($19.2 million). Jemena submits it has identified 24 known data centre projects with a combined load of 4,000 MVA.[35]

Jemena states its non-demand augmentation is $59.2 million. The main driver is finalising the conversion of Preston and East Preston distribution networks from a voltage level of 6.6 kV to 22 kV for reasons of safety ($46.0 million).[36] Jemena has also proposed projects to enable innovation and to alleviate capacity constraints on its operational technology communications network.[37]

3.4.1.4 CER-integration

Jemena has proposed $84.5 million capex to integrate CER.[38] Of this amount, approximately $45.7 million is augmentation projects and $38.8 million is ICT projects.

Jemena's CER integration strategy includes improving its existing analytics platform and operational management of the network, respond to challenges towards network voltage and power quality, and respond to the challenges regarding power system security and network operating limits.[39]

We will review Jemena's proposals having regard to our *DER Integration Expenditure Guidance note* and customer export curtailment value methodology.[40]

We note that CER integration and ICT capex are interrelated with opex also proposed in these areas.

3.4.1.5 Contingent projects

Jemena has proposed 2 contingent projects totalling $75.1 million to accommodate potential large new loads in Tullamarine ($35.6 million) and Heidelberg ($39.5 million). Jemena submits that as most of this expenditure will not be required until 2028, it has decided that rather than including this expenditure in its regulatory proposal it will instead propose these 2 contingent projects. This approach is meant to align regulatory approval with its internal decision-making and ensure that customers do not fund such a large expenditure until it is required.

We will analyse whether the proposed triggers for these projects are objectively verifiable and whether these projects should rightfully be considered contingent projects.

Questions on capex

10) Are there any particular areas of Jemena's capex proposal that you would expect further engagement on?

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35 Jemena, *Attachment 05-01 Capital expenditure*, January 2025, p. 40-42.

36 Jemena, *Attachment 05-01 Capital expenditure*, January 2025, pp. 52-3.

37 Jemena, *Attachment 05-01 Capital expenditure*, January 2025, pp. 52-3.

38 AER analysis. Jemena, *Attachment 05-10M SCS Capex model*, January 2025.

39 Jemena, *2026-31 Proposal*, January 2025, p. 73.

40 AER, *DER integration expenditure guidance note*, June 2022; AER, *Customer export curtailment value methodology*, June 2022.

11) Do you consider that this proposal reflects consumers' preferences?

12) Do you consider that the areas we have identified for greater assessment focus are appropriate, and, if not, what other areas should be considered and why?

13) Do you have any views on the prudency (need) and efficiency (cost) of any aspects of the proposed capex?

3.5 Operating expenditure

Opex refers to the operating, maintenance and other non-capital expenses incurred in the provision of network services. It includes labour costs and other non-capital costs that a prudent service provider is likely to require for the efficient operation of its network. Unlike capex, the total forecast opex approved for Jemena's 2026–31 period will be recovered within that period. This means opex has a more immediate impact on revenue than capex.

Jemena's proposed total forecast opex of $615 million ($2025–26),[41] including debt raising costs, for the 2026–31 period is:

- $28.2 million (4.4%) lower than the total forecast opex we approved (and used to set revenues) in our decision for the current 2021–26 period.
- $137.0 million (28.7%) higher than Jemena's actual opex in the current 2021–26 period.
- Jemena's forecast actual and estimated expenditure for the 2021–26 period is also $165.2 million (25.7%) lower than the opex forecast we approved for this period.

Figure 3-6 shows the trend in opex over time and our approved opex forecast.

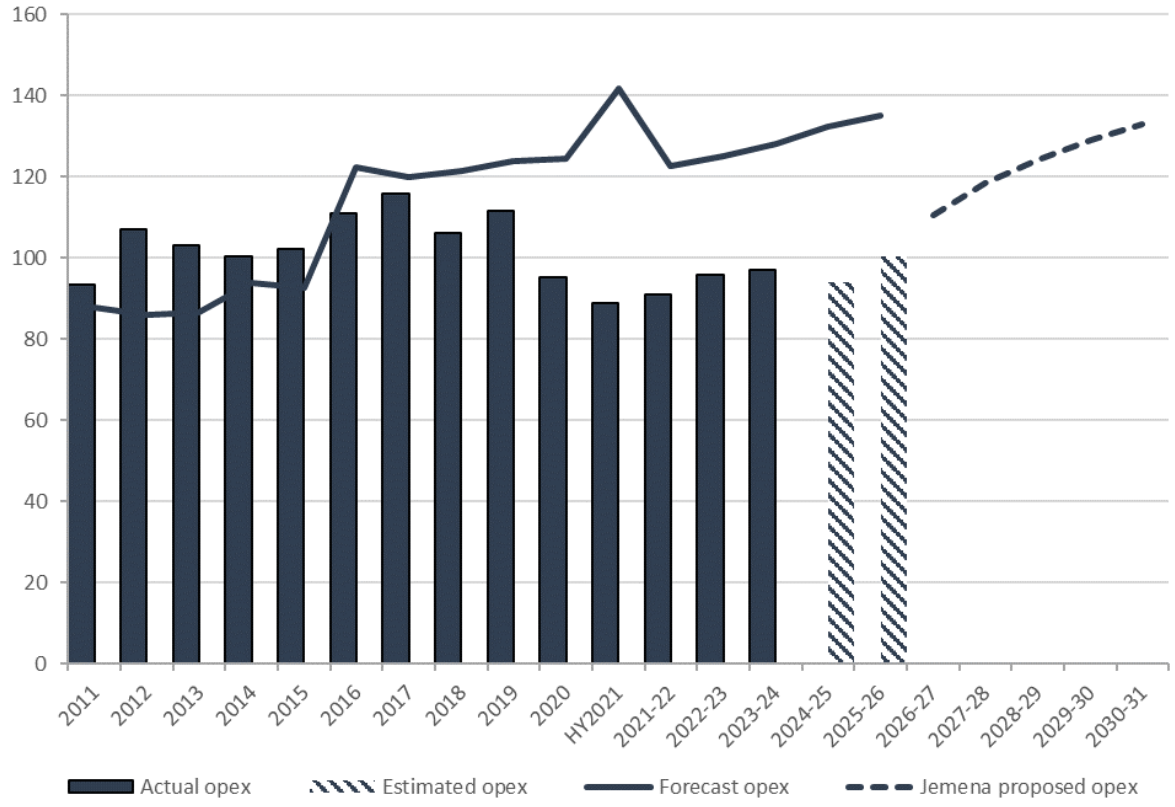
Since 2015–16, Jemena's actual opex has consistently been lower than the AER's approved opex forecast. This includes a significant and sustained opex decrease from 2018–19, which Jemena attributes to both the implementation of an efficiency program,[42] and the impact of the COVID-19 pandemic.[43] Over the current 2021–26 period, Jemena has maintained a relatively stable level of opex, with average actual and estimated opex of $95.6 million per year, being $33.0 million (25.7%) on average below our average opex forecast over the period.

41 All dollars in Section 3 are in $2025–26 terms unless otherwise stated.

42 Jemena, *Attachment 06-01 Operating expenditure*, January 2025, p. 6.

43 Jemena, *Attachment 06-01 Operating expenditure*, January 2025, p. 6.

Figure 3-6 Trend in Jemena's forecast and actual opex over time ($million, 2025–26)



Source: Jemena, *Economic benchmarking – Regulatory Information Notice response 2010–24*; AER, *Final decision PTRM 2010–2015*; AER, *Final decision PTRM 2015–20*; AER, *Final decision 2021–26 PTRM and Opex model*; Jemena, *Attachment 06–03M SCS Opex model*, January 2025; AER analysis.
Note: Including debt raising costs; estimates only for 2024–25 and 2025–26.

The Better Resets Handbook sets out our expectations for opex forecasts, including that:

- the business will use our base-step-trend approach, including our standard assumptions
- the business will use a base year for which audited actual opex is available and that a network business can demonstrate that it is not materially inefficient
- step changes will be small in number and well-justified
- category specific costs will be small in number and well-justified
- there should be evidence of genuine consumer engagement.

Based on our initial assessment, Jemena's opex proposal adopts our base-step-trend approach. Jemena has used an estimate of 2024–25 opex as the base year. It has incorporated trends in output and price growth that appear to be based on our standard approaches. However, Jemena's resulting forecast rate of output growth is significantly above historic trends, and we will have particular focus on the drivers of this as part of our opex assessment. Jemena has also applied our standard 0.5% productivity growth forecast.[44]

[44] Jemena, *Attachment 06–01 Operating expenditure*, January 2025, pp. 17–20.

Jemena stated that its estimated base opex is not materially inefficient, with reference to the latest available AER annual benchmarking report (2024).[45]

Jemena has consulted broadly with its customer groups on its regulatory proposal, including on key themes and expenditure categories. Jemena provided an overview to demonstrate how some expenditure categories, such step changes or category specific forecasts, were considered by the respective customer groups. Jemena has also identified affordability to be an important consideration and indicated the impact and feedback on various customers.[46]

However, Jemena has proposed 9 step changes, totalling $41.4 million, or 7.2% of its total forecast opex.[47] We recognise that Jemena has sought to justify the proposed step changes in accordance with the framework set out in the Better Resets Handbook, but consider this is not consistent with our expectation of few or no proposed step changes. Given the materiality of the step change increases, individually and collectively, we propose to prioritise assessment of the nine positive step changes, with particular focus on ICT and CER, which relate to increasing Jemena's data, analytics, systems, and cyber security capabilities to support network operations and the integration of renewable energy. Our assessment will focus on the prudency and efficiency of the proposed costs increases. We will holistically consider potential interactions of these step changes with each other, and with any related proposed capex. We will also test that the proposed additional expenditures are not already account for in the base year or captured in the trend forecast used to escalate base opex.

Jemena has also proposed 3 category specific forecasts totalling $12.2 million, or 2.0% of total forecast opex. Jemena has proposed a network innovation category specific forecast of $4.2 million. For GSL payments ($1.3 million) and debt raising costs ($6.7 million), Jemena has adopted our standard approach for forecasting these costs.[48] Our Draft Decision assessment will prioritise review of Jemena's innovation fund category specific forecast.

We provide further detail on the drivers of total forecast opex for Jemena below.

3.5.1 Key drivers of Jemena's opex proposal

Jemena used a base-step-trend approach to forecast opex for the 2026–31 period. Jemena used an estimate of opex in 2024–25 as the base year to forecast opex ($95.8 million, or $478.9 million over 5 years). Jemena selected 2024–25 as its base year because this will be the latest financial year of actual operating expenditure at the time we make our final decision, and thus represents the efficient costs of maintaining and operating the network.[49]

Jemena then added $12.9 million to reflect adjustments to base opex, for SaaS implementation costs due to a change in the accounting treatment ($8.9 million) and for expected non-recurrent ICT project opex over the 2026–31 period ($4.0 million).[50]

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45 Jemena, *Attachment 06–01 Operating expenditure*, January 2025, pp. 10–14.

46 Jemena, *Attachment 06–01 Operating expenditure*, January 2025, pp. 3–4.

47 Jemena, *Attachment 06–01 Operating expenditure*, January 2025, pp. 23–25.

48 Jemena, *Attachment 06–01 Operating expenditure*, January 2025, pp. 23–25.

49 Jemena, *Attachment 06–01 Operating expenditure*, January 2025, pp. 8, 10–11.

50 Jemena, *Attachment 06-03M SCS Opex model*, January 2025.

Jemena then applied a rate of change to its adjusted base year comprised of:

- forecast output growth – averaging 3.8% per year ($58.8 million)
- forecast price growth – averaging 0.6% per year ($8.8 million)
- forecast productivity growth – averaging 0.5% per year (–$7.6 million.

Jemena's forecast output growth is the largest single contributor to its proposed opex uplift.

As noted above, a key area of focus in our assessment will be Jemena's proposal to add 9 positive step changes totalling $41.4 million, or 7.2% of total forecast opex:

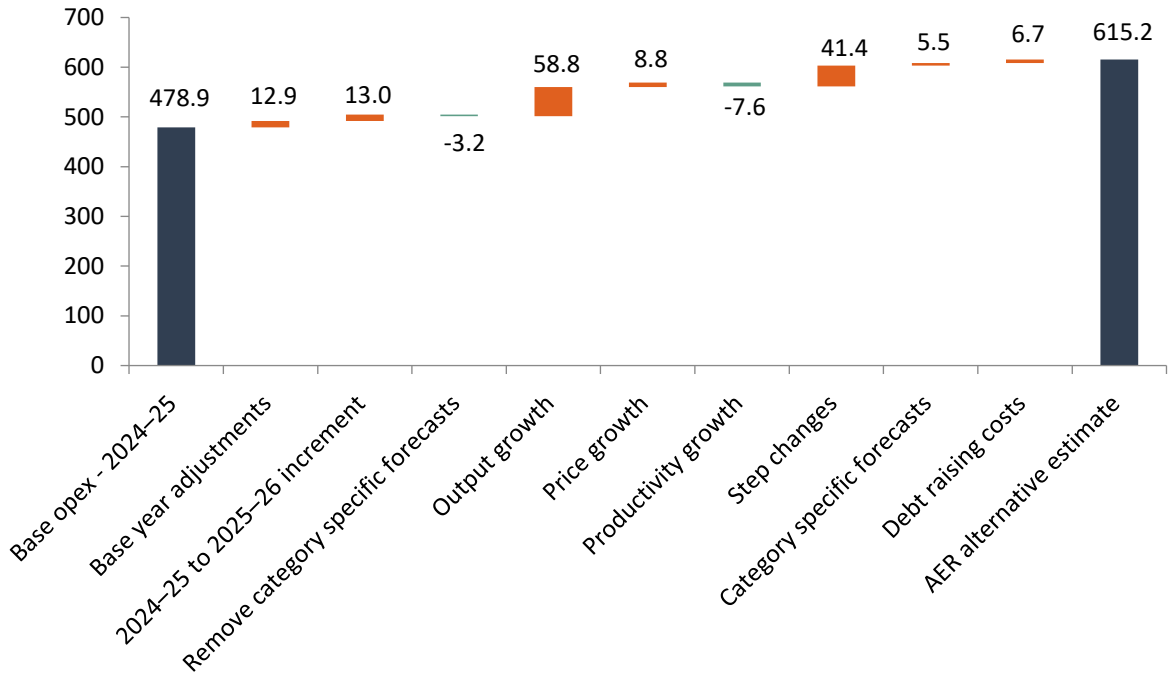
- $21.6 million for ICT services
- $4.9 million for rapid earth fault current limiters
- $4.5 million for resilience – outage preparation and response
- $4.3 million Customer systems and education
- $2.6 million for Safety – LBRA Hazard trees management program
- $1.5 million for CER integration – data visibility and analytics
- $1.1 million for CER integration – voltage and PQ management
- $0.5 million for CER integration – grid stability and flexible services
- $0.4 million for resilience – deploying mobile response vehicle

Of its three category specific forecasts, totalling $12.2 million, or 2.0% of total forecast opex, we will look most closely at its new Innovation fund:

- $4.2 million for Innovation fund
- $1.3 million for Guaranteed Service Level payments
- $6.7 million for debt raising costs

Figure 3-7 shows the components that contribute to Jemena's proposed forecast opex.

Figure 3-7 Breakdown of Jemena's opex forecast ($million, 2025–26)



Source: Jemena, *Attachment 06-03M SCS Opex model*, January 2025; and AER analysis.

Questions on opex

14) Are there any particular areas of Jemena's opex proposal that you would expect further engagement on?

15) Do you consider that the proposal reflects consumers' preferences?

16) Do you consider that the areas we have identified for greater assessment focus are appropriate, and, if not, what other areas should be considered and why?

17) Do you have any views on the prudency (need) and efficiency (cost) of any aspects of the proposed opex?

3.6 Revenue adjustments under AER incentive schemes

Our calculation of total revenue for 2026–31 will include adjustments for the expenditure incentive schemes that were applied to Jemena as part of our determination for the current, 2021–26 period.

As set out in Jemena's proposal, these would include:

- $21.0 million ($2025–26) revenue increase (positive carryover) under the EBSS, to provide a fair sharing of efficiency gains derived from spending less that our approved forecast for the 2021–26 period. [51]

[51] Jemena, *Attachment 06–01 Operating expenditure*, January 2025, p. 8, 93.

- A $3.1 million ($2025-26) revenue increase (positive carryover) under the CESS, to provide a fair sharing of capex spent in excess of our approved forecast for 2021-26 between Jemena and its customers.

On 15 October 2024 Jemena applied to the AER to revoke and substitute its distribution determination for the 2021-26 regulatory control period, to adjust the total forecast capital expenditure (capex) approved in our April 2021 final decision.[52] That application is still under assessment. In calculating its proposed CESS revenue increments, Jemena assumes that its reopener application proposal will be accepted. If we do not accept the application, we estimate an alternative CESS penalty of $25.5 million would apply. [53] However, we note that depending on our decision on the application, the CESS revenue increment could take a range of values.

Jemena's proposals include deferrals of 7 capex projects amounting to $30.8 million in its CESS calculations. The CESS mechanism is meant to reward efficiency gains. The CESS accounts for material deferrals of project so that distributors are not rewarded merely for delaying projects into the next period. The deferred capex will be subtracted from the calculation of Jemena's underspend, resulting in a lower revenue increment. The CESS only accounts for deferrals if there is an underspend.

Jemena's proposed application of the CESS and EBSS to its expenditure in the new, 2026–31 period is discussed in section 4.

Jemena's proposed revenue for 2026-31 also includes an allowance of $2.67 million ($2025-26) under the Demand Management Innovation Allowance Mechanism (DMIAM), to fund research and development in innovative demand management projects that have the potential to reduce long-term network costs.[54] Consistent with the design of the DMIAM, this allowance is included in Jemena's revenue proposal as a positive revenue adjustment. We discuss this further in section 4.3.

3.7 Corporate income tax

Our determination of the total revenue requirement includes the estimated cost of corporate income tax for the 2026–31 period. Under the post-tax framework, this amount is calculated as part of the building blocks assessment using our post-tax revenue model (PTRM).

Jemena's proposal includes an estimated cost of corporate income tax amount of $126.3 million ($2025–26) over the 2026–31 period:

- It has not proposed any immediately expensed capex. Jemena noted that while it had reported immediately expensed capex over the years 2021–23, this was due to the Australian Taxation Office's temporary full expensing scheme. Jemena anticipates to

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52 AER, *Jemena - Determination 2021-26 Update – application to reopen for capex*, 15 October 2024.

53 AER analysis. AER, *AER - Jemena electricity PTRM - 2024-25 Return on debt update (inc. VEBM CPT) - September 2024*, September 2024.

54 We developed and implemented the DMIAM under cl. 6.6.3A of the NER: AER - Demand management innovation allowance mechanism - 14 December 2017.

expense zero capex over the years 2023–26 in the current period and over the 2026–31 period.[55]

- It has adopted the diminishing value method for tax depreciation to all forecast capex, except for a limited number of assets which must be depreciated using the straight-line depreciation method under the tax law.
- It has applied the same tax asset lives from the 2021–26 regulatory determination.

We will assess the appropriateness of the proposed capex allocated for straight-line depreciation, based on the approach we have taken in recent determinations.

3.8 Uncertainty mechanisms

Our decision on Jemena's proposal will set the revenue allowance that forms the major component of its network charges for the next 5 years. It provides a baseline or starting point for that period. Over the 2026-31 period there are several additional mechanisms under the NER that may operate to increase or decrease those charges. These include cost pass through events or contingent projects such as those proposed by Jemena. The triggers set out for these events (either in the NER or in our determination) will, if met, allow Jemena to apply for additional revenue throughout the period, at which point proposed costs will be subject to further consultation and assessment. In limited circumstances Jemena may also apply to reopen our determination for further capex[56], as it has done during the current period.[57]

Some cost pass through events are defined in the NER. These prescribed events (regulatory change event, service standard event and tax change event) apply to all distributors.[58]

Jemena has proposed, in addition to the NER prescribed pass through events, to retain the same nominated pass through events we approved for the current, 2021-26 period (an insurance coverage event; insurer credit risk event; terrorism event; natural disaster event; and retailer insolvency event).[59]

Jemena has not proposed any new nominated pass through events.

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55 Jemena, *Attachment 08-01 Annual revenue requirement*, January 2025, p. 11.

56 NER, cl. 6.6.5.

57 https://www.aer.gov.au/industry/registers/determinations/jemena-determination-2021-26/update-application-reopen-capex

58 NER, cl. 6.6.1.

59 Jemena, *Attachment 8-03 Managing Risk and Uncertainty*, January 2025, pp. 7-9.

4 Incentive schemes to apply in 2026-31

Incentive schemes are a component of the benchmark incentive framework to setting maximum revenues and complement our approach to assessing efficient costs. They provide important balancing incentives under network determinations, encouraging businesses to pursue expenditure efficiencies while maintaining the reliability and overall performance of the network.

Our decision as to which schemes will apply to Jemena in 2026-31, and how each scheme will apply, is made as part of our determination and takes effect from the commencement of the new regulatory control period. This establishes the parameters for rewards and penalties upfront to provide certainty and clear incentives to businesses.

4.1 Capital expenditure sharing scheme (CESS)

The CESS incentivises efficient capex throughout the period by rewarding efficiency gains and penalising efficiency losses, each measured by reference to the difference between forecast and actual capex. Consumers benefit from improved efficiencies through a lower RAB, which is reflected in regulated revenues for future periods.

Jemena has proposed to continue applying the CESS to standard control services in accordance with our current Capital Expenditure Incentive Guideline over the 2026–31 regulatory period.[60]

However, Jemena has proposed to exclude the net connections capex category from the CESS calculations.[61] Jemena has sought this exclusion as it considers this expenditure as uncontrollable.[62]

Our current CESS guideline does not allow specific capex categories to be excluded from the application of the CESS.

We are currently undertaking a review of the Capital Expenditure Incentive Guideline to accommodate the Australian Energy Market Commission's rule change on managing Integrated System Plan (ISP) project uncertainty through targeted ex post reviews.[63] As part of this review we are also considering whether to modify the CESS to allow specific capex categories to be excluded from the CESS.[64] We are required to complete this review by 4 September 2025.[65] Any changes to the CESS will be applied in our draft determination for 2026-31 regulatory control period.

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60 AER, *Final decision – Capital expenditure incentive guideline*, April 2023

61 CitiPower, *Regulatory Proposal 2026-31 – Part B Explanatory Statement*, January 2025, p. 84; Powercor, *Regulatory Proposal 2026-31 – Part B Explanatory Statement*, January 2025, p. 100; United Energy, *Regulatory Proposal 2026-31 – Part B Explanatory Statement*, January 2025, p. 85.

62 Jemena, *Attachment 07-01 Incentive mechanisms – 20250131*, January 2025, p. 6.

63 AEMC, *Managing ISP project uncertainty through targeted ex post reviews*, August 2024

64 AER, *Capital Expenditure Incentive Guideline Review 2025*.

65 NER, cl. 11.172.2(a).

We are seeking stakeholder views on Jemena's proposed CESS.

Questions on CESS

18) Do you have any concerns with the application of the CESS for Jemena in the 2026-31 regulatory period?

19) Do you consider there is need to modify the application of the CESS to allow CESS exclusions on certain capex categories? Please explain why.

20) If we were to modify the application of CESS, what factors should we consider in determining whether specific capex should be excluded from the CESS.

4.2 Opex Efficiency benefit sharing scheme (EBSS)

The Efficiency benefit sharing scheme (EBSS) provides a continuous incentive to pursue efficiency improvements in opex and provide for a fair sharing of these between the business and network users. Our base-step-trend forecasting methodology for opex is closely linked to the EBSS. The constant incentive to reduce opex year on year gives us confidence that we can rely on a single base year of actual data for the purposes of forecasting future years. Consumers benefit from improved efficiencies through lower opex in regulated revenues for future periods.

We also exclude categories of costs, from the EBSS, that we do not forecast using a single year revealed cost forecasting approach in the following control period. We do this to fairly share efficiency gains and losses. If we do not use a single year revealed cost forecasting approach, we may not pass the benefits of these revealed efficiency gains to consumers. It follows that consumers should not pay for EBSS rewards where they do not receive the benefits of a lower opex forecast.

In the current period, we excluded the following categories of opex not forecast using a single year revealed cost approach:

- GSL payments
- movements in provision related to opex
- debt raising costs
- cost pass-throughs and contingent projects
- Demand Management Innovation Allowance.

Jemena has proposed to continue to apply the EBSS in the 2026–31 period, with an additional exclusion for its new innovation fund allowance.[66] We have excluded innovation allowance opex from the EBSS in determinations for other Victorian distributors who have proposed such allowances in the past.

[66] Jemena, *Attachment 06–01 Operating expenditure*, January 2025, pp. 90–91.

Questions on EBSS

21) Do you consider Jemena's proposal to exclude its new innovation fund allowance from the EBSS in 2026-31 is reasonable? Please explain why.

4.3 Demand management incentive scheme (DMIS) and Demand management innovation allowance mechanism (DMIAM)

The DMIS provides network businesses with financial incentives for undertaking efficient demand management activities as an alternative to more expensive capital investment in their networks, the costs of which have longer term impacts on consumers.

The DMIAM works alongside the DMIS to fund research and development into further, innovative demand management projects that have the potential to reduce long term network costs. The innovation expenditure Jemena has proposed as part of its opex and capex forecasts for 2026-31 must meet applicable expenditure assessment criteria under the NER

Jemena has proposed to continue applying the DMIS and DMIAM in the 2026-31 regulatory control period.[67]

Jemena has not identified any projects suitable for inclusion under the DMIS in the current regulatory period. However, Jemena has proposed to have access to the DMIS in the next regulatory period as opportunities may arise.

In the current 2021-26 regulatory period, Jemena used the DMIAM to participate in collaborative trials, including dynamic electric vehicle charging trial and a community battery trial.

While the mechanism calculates the maximum allowable allowance under the DMIAM of $200,000 (accounting for CPI) and 0.075% of the distributor's allowable revenue for the regulatory year, Jemena's proposal has not specified a maximum allowance for the DMIAM for the 2026-31 regulatory period or how it plans to utilise the allowance.

4.4 Service target performance incentive scheme (STPIS)

The STPIS provides financial incentives for network businesses to maintain and improve network reliability and customer service performance, to the extent that consumers are willing to pay for such improvements. The STPIS acts as a balance to our expenditure incentive schemes, ensuring businesses focus on genuine efficiency gains and do not compromise service levels when reducing expenditure. Penalties and rewards under the STPIS are set based on consumers' willingness to pay for improved service.

The STPIS that applies to Victorian distributors, including Jemena, consists of a service standards factor (s-factor) adjustment to the annual revenue allowance for standard control

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67 AER - *Final Framework and Approach - Victorian electricity distribution determinations 2026-31* - July 2024

services.[68] This scheme rewards distributors for improved service compared to predetermined targets, or penalises them for diminished service. Targets relate to service parameters concerning reliability and quality of supply, and customer service.

In accordance with the STPIS, Jemena is proposing adjustments to its reliability targets for 2026-31 to account for several instances in the current 2021-26 regulatory period that resulted in reliability events being excluded from the calculation of Jemena's performance, impacting its measured performance.[69]

Jemena has also proposed to replace the customer service (telephone answering) component of the STPIS which has applied in the current period with a Customer Service Incentive Scheme (CSIS). We discuss the proposed CSIS further below

If the CSIS is applied, Jemena is seeking to split its revenue at risk as follows:

- ±4.5% for STPIS (reliability component only); and
- ±0.5% for the proposed CSIS.[70]

This is the same allocation that has applied to other Victorian distributors in the current, 2021-26 period.

Questions on STPIS

22) Do you have any views on Jemena's proposed adjustments to its STPIS reliability targets for 2026-31?

23) Do you have any views on Jemena's proposed allocation of revenue at risk between the STPIS and its proposed CSIS?

4.5 Customer service incentive scheme (CSIS)

The CSIS is designed to encourage electricity distributors to engage with their customers to:

- identify the customer services their customers want improved, and
- set targets to improve those services based on their customers' preferences and support.

The CSIS is a flexible 'principles based' scheme that can be tailored to the specific preferences and priorities of a distributor's customers. It allows for the evolution of customer engagement and adapts to new technologies. Safeguards ensure that any rewards or penalties are commensurate with improvements or detriments to customer service. For the CSIS to be applied, incentive designs must meet the scheme's principles and be developed through genuine customer engagement.

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68 While our STPIS also allows for a guaranteed service level (GSL) component—under which direct payments are made by distributors to customers experiencing service below a predetermined level—we only apply this component if there is not another GSL scheme already in place. The GSL component of our STPIS will **not** apply to Jemena, because Victorian businesses remain subject to a jurisdictional GSL scheme established and administered by the Essential Services Commission of Victoria, which serves the same purpose.

69 Jemena, Attachment 07-01 Incentive mechanisms, January 2025, p.13

70 Jemena, Attachment 07-01 Incentive mechanisms, January 2025, p.10

We support the application of a CSIS where a distributor's CSIS proposal contains an incentive design that meets the scheme's principles, includes a sound measurement methodology, and comes with evidence of supporting customer engagement on, and co-design of, the CSIS.[71]

In the current period Jemena's customer service has been measured and incentivised solely through the STPIS Customer Service (fault-line telephone answering) component. For 2026-31, it has proposed to introduce a CSIS for the first time. [72]

Jemena has designed its proposed CSIS measures in consultation with customers and engaged with its Energy Reference Group (ERG) on the detailed design of its proposed performance measures. These measures are:

- SMS unplanned outage notification – number of minutes between the start of an unplanned outage and the customer receiving an SMS message advising them of the outage.
- Planned outages – customer satisfaction with their planned outage experience, applying metrics including the timeliness and quality of information provided across all notification channels, the duration of the outage, interactions with Jemena's field crew, the impact of the outage on the customer's home/business, and Jemena's ability to meet the forecasted restoration time. This metric will be captured via an online survey.
- New connections – customer satisfaction with the connections process, utilising metrics including the ease of application, the quality and timeliness of communications, the quality of the work completed, and the total time taken to complete the connection. This metric will be captured via an online survey.
- Fault-line telephone answering – rewards or penalties for Jemena based on the number of calls answered within 30 seconds. As discussed above, this metric is currently captured under the STPIS. Jemena has proposed to move this metric into the CSIS, so that +/-0.5% of its annual revenue will be placed at risk under the CSIS and so that revenue at risk under the STPIS will be reduced to ±4.5% for STPIS (reliability component only).

Jemena has proposed that all four metrics are given equal weight in measuring its performance can calculating performance rewards or penalties. It has proposed to use customer satisfaction surveys to measure performance against its new connection and planned outage metrics.

Questions on CSIS

24) Do you have any feedback on the design of Jemena's proposed CSIS?

25) Do you have views on the proposed application of any of the CSIS?

26) Do you have views on the proposed equal weighting of the proposed CSIS measures?

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71 AER, *Framework and approach: AusNet Services, CitiPower, Jemena, Powercor and United Energy 2026–31* – July 2024, p.19

72 Jemena, Attachment 07-03 CSIS, January 2025

27) Do you have feedback on the content of customer satisfaction surveys used to capture customer satisfaction with planned outages and new connections?

28) Do you have any views on Jemena's engagement process?

4.6 Victorian f-factor scheme

The f-factor scheme is a regulatory instrument under the *National Electricity (Victoria) Act 2005*, which provides Victorian businesses with an incentive to lower the number of fire-starts on their networks. Application of the f-factor scheme to Victorian distributors is a requirement under the *National Electricity (Victoria) Act 2005* F-factor Scheme Order 2016.[73]

The AER's role in the f-factor scheme is limited and is focused on giving effect to incentive payments and penalties by adjusting the distributors' allowable revenue each year in accordance with the F-factor Order, as based on fire start reporting validated by Energy Safe Victoria. All other aspects of the scheme are set out by the Victorian government including the targets and incentive rates. As part of our determination for Jemena, we will forecast incentive payments for the 2026-31 period which will take the form of adjustments to Jemena's regulated revenues for each regulatory year.

[73] *National Electricity (Victoria) Act 2005 F-FACTOR SCHEME ORDER 2016 Order in Council*, 22 December 2016, section 8, p. 3239 - http://www.gazette.vic.gov.au/gazette/Gazettes2016/GG2016G051.pdf.

5 Network pricing

Our determination for Jemena divides the regulated direct control services it provides into different classifications, which determines how it will recover the cost of providing those services through network prices:

- Standard control services are those that can only be provided by the relevant distributor, and are common to most, if not all, of a distributor's customers. The costs of providing these services are captured in the building block revenue determination we've discussed in the previous sections of this paper and shared between all customers.
- Alternative control services are those that can only be provided by the relevant distributor but will only be required by some of its customers, some of the time; or services that can be purchased from the relevant distributor, but which can also—or have the potential to be—purchased from a competing provider. The cost of providing alternative control services is recovered from users of those services only.

We set out our proposed approach to the classification of distribution services to be provided by Jemena in 2026–31 in our Framework and Approach paper in July 2024.[74] Our proposed approach to service classification is set out prior to the submission of revenue proposals, in order to provide certainty as to how costs for various services should be allocated for the purposes of recovery. Our determinations must apply the classifications set out in the Framework and Approach paper unless we consider a material change in circumstances justifies departure from them.[75] Jemena itself has not proposed any such departures.

Questions on service classification

29) Do you have feedback on the classification of services set out in the Framework and Approach Paper, and whether there has been a material change in circumstances since July 2024 that may require changes?

5.1 Control mechanisms for standard and alternative control services

A distribution determination must impose controls over the prices and/or revenues of direct control services.[76] The forms of control that are to apply, and the control formulae that give effect to them, are set out in our Framework and Approach paper prior to the submission of revenue proposals, in order to provide certainty to Jemena and other stakeholders.[77] There

74 AER – *Final Framework and Approach – Victorian electricity distribution determinations 2026-31* – July 2024, Appendix A.

75 NER, cl. 6.12.3(b).

76 NER, cl. 6.2.5(a).

77 AER – Final Framework and Approach – Victorian electricity distribution determinations 2026-31 – July 2024, Chapter 3.

are only limited circumstances in which our distribution determination can depart from the decision we made in the Framework and Approach paper regarding control mechanisms.[78]

We can only depart from the form of control set out in our Framework and Approach paper if:[79]

a) We have departed from the classification of a distribution service as set out in that paper; *and*

b) We consider that no form of control mechanism set out in that paper should apply to that distribution service.

We can only depart from the formulae that give effect to the control mechanisms set out in our Framework and Approach paper if we consider that a material change in circumstances justifies departing from those formulae.[80]

In our Framework and Approach paper for the 2026–31 period, our decision was to continue to apply the same control mechanisms as we applied in the current, 2021–26 period:[81]

- A revenue cap for standard control services
- A revenue cap for metering services (as alternative control services)
- A price cap for ancillary network services and public lighting (as alternative control services).

We discuss some of the differences between these forms of control in section 2.2.

In our consultation on the Framework and Approach paper we did not receive any submissions suggesting we depart from them. As part of this consultation, we are interested to hear to whether, in light of Jemena's proposal, stakeholders consider there is a basis to change the control mechanisms set out in the paper.

We made only minor changes to the formulae for those forms of control, to align with our final decisions for control mechanisms for other distributors and to remove obsolete true ups associated with the 2009–2015 Victorian smart meter rollout.[82]

Jemena adopted this approach in its proposal.

Questions on control mechanisms

30) Do you have any feedback on the form of control set out in the Framework and Approach paper and Jemena's proposal and whether, if you've suggested a change to service

78 NER, cll. 6.12.3(c)(1) and (2); 6.12.3(c1).

79 NER, cl. 6.12.3(c).

80 NER, cl. 6.12.3(c1).

81 AER, Final decision – AusNet Services, CitiPower, Jemena, Powercor, and United Energy distribution determination 2021-26 – Attachment 14 – Control mechanisms, April 2021.

82 AER – Final Framework and Approach – Victorian electricity distribution determinations 2026-31 – July 2024, Chapter 3.

classifications in response to the question above, the control mechanisms set out in that paper remain appropriate?

31) Do you have any feedback on the control formulae set out in the Framework and Approach paper and Jemena's proposal, and whether there has been a material change in circumstances which might justify a departure from these formulae?

5.2 Tariff structure statement

As part of their regulatory proposals, distributors are required to submit a tariff structure statement (TSS) to the AER, accompanied by an indicative pricing schedule.[83] The TSS will apply for the 5-year regulatory control period. A TSS must set out a distributor's:

- proposed network tariffs (including tariff structures and charging parameters)
- export tariff transition strategy
- policies and procedures the distributor will use to assign customers to network tariffs or reassign customers from one network tariff to another.

Network tariffs provide the charging framework through which distributors recover their costs for providing network services (transporting electricity to customers). After AER approval, a TSS becomes a compliance document against which the AER assesses the distributor's annual pricing proposals.

TSSs also set out how distributors propose to progressively reform their network tariffs to better signal to customers the cost of providing network services. As customers ultimately pay for upgrades to network services, tariff reform that encourages more efficient use of the network will lead to lower network costs for all customers.

Network tariffs are targeted at retailers who package them with other costs in their service offerings to electricity customers, including the cost of wholesale energy. As a result, the retail electricity tariff may not directly reflect the network tariff.

Victorian distributors plan and develop their TSSs for strong consistency across the distributors. For this reason, much of this section of the issues paper refers to Victorian distributors generally, only drawing out Jemena specifically where it has proposed something unique.

This is the third regulatory period for which Victorian distributors have been required to submit a TSS. Their TSSs for the 2026–31 regulatory period each continued a process of incremental tariff reform. However, the energy sector transition has increased the importance and urgency for greater progress on network tariff reform. We've already seen the benefits from cost reflective tariffs to consumers in another jurisdiction when the AER rejected $76.1 million in proposed capex from Evoenergy that it proposed to support EV driven demand (almost 15% of its proposed capex). We rejected that capex on consideration that there would be near 100% smart meter roll out by 2030 and all EV owners would be assigned to cost reflective network tariffs.

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[83] NER, cll. 6.12.3(c)(1) and (2); 6.12.3(c1); 6.18.1A(e).

The AER considers tariff reform should ultimately progress to 100% assignment to cost reflective network tariffs to ensure lowest cost network services for all consumers. We also note the ongoing importance of small customers retaining the option to choose a flat retail offer and to have the choice (through their retailer) of an alternative cost reflective network tariff.

Historically, distributors charged retailers based on their customers' electricity use irrespective of when it was consumed. But distribution costs are driven by how consumers use (or supply) energy during periods of maximum (and minimum) demand. Increasing consumption during periods of abundance and reducing consumption (and increasing supply) during periods of scarcity, mitigates network investment needs. This leads to cheaper electricity bills and is in the long-term interests of all consumers. Cost reflective network tariffs provide a low-cost mechanism to incentivise this outcome.

Cost reflective network tariffs ensure the price charged for individual consumers more accurately reflects the way they use electricity. Under cost reflective pricing, electricity use at times of abundance attracts lower rates that reflect there is plenty of unused network capacity, electricity use in peak periods (times of scarcity) attracts higher rates that better reflect the costs of network investment needed to accommodate peak demand. Similarly, exports at times of abundance will attract charges to reflect the cost of providing export services and exports in times of scarcity could receive rewards.

Network tariffs are charged to retailers and cost reflective pricing is intended to facilitate retailer innovation to increase network capacity utilisation. Retailers can achieve this with retail offers that encourage consumers with flexible load to shift their behaviour (only some of the load, some of the time is required to mitigate network investment) or with business models that offer control and orchestration of load and supply. More specifically, retailers may manage and respond to network price signals by offering customers insurance style flat tariffs (either with a price premium to account for network tariff price risk or with elements of control to manage the price risk), pass network prices through to end users, or offer 'prices for devices' style offers. Where customers prefer flat electricity charges, including for customers experiencing vulnerability, it is retailers who are best placed to offer flat billing structures as retailers already manage the complexities of the wholesale market on behalf of their customers (a fundamental part of their role).

With increasing levels of CER, we anticipate more retailers and intermediaries will be developing business models that seek value from cost reflective tariffs and flexible load/supply. We encourage retailers to continue to innovate to access this value through helping consumers shift and reduce their load, including through drawing on energy efficiency initiatives and offering flat retail tariffs where this is preferred by customers.

Cost reflective network tariffs remain as important now as when reform commenced. All distributors are anticipating an increase in maximum demand and increasing prevalence of minimum demand periods, both of which drive capex. As discussed in section 2.2, under the revenue cap form of control that currently applies to Victorian distributors there is a risk that—for the same amount of revenue—lower than forecast volumes could mean higher network tariffs. This would further increase the importance and scope for cost reflective network tariffs to increase network utilisation.

CER are increasing rapidly and are a material contributor to the maximum and minimum demand issues. However, they are also generally flexible and represent a potential solution to demand driven capex if they can be operated in ways that shift demand to periods of abundance and shift supply to periods of scarcity (i.e. increase network capacity utilisation for both import and export services). Over the past two resets, Victorian distributors have progressively increased the cost reflectivity of their cost reflective tariffs by more narrowly targeting the periods of scarcity and abundance and by increasing the price ratios between periods of scarcity and abundance.

However, despite having long-term 100% smart meters, only 29.39% of Victorian residential customers (19.74% of Jemena residential customers) are on cost reflective network tariffs.[84] In this context, with increasing maximum demand, increasing prevalence of minimum demand and increasing uptake of CER, the AER expects all Victorian distributors to demonstrate ambition in progressing tariff reform, including to encourage assignment to cost reflective tariffs. We are interested in stakeholder views on what more the Victorian distributors should be doing in their tariff strategies to progress tariff reform and further increase network capacity utilisation.

Based on our initial review we consider the Victorian distributors have provided TSSs that aim to meet our expectations. However, we will assess each TSS in further detail against the pricing principles and other NER requirements, including with respect to demonstrating progress on tariff reform to mitigate future network costs (i.e. by aligning their tariff strategies with their broader business plans.

Questions on TSS

32) Do you consider there are further tariff reforms Jemena should implement to encourage increased network capacity utilisation and mitigate future network costs? Identify any specific options you think should be considered.

33) Do you consider there are any aspects of Jemena's proposed TSS that require adjustment?

5.2.1 Expectations for tariff structure statements

The Handbook sets out our expectations that a proposed TSS will:

- Demonstrate progression of tariff reform consistent with the network pricing objective and pricing principles set out in the NER
  - The Victorian distributors' progress on tariff reform is limited by assignment policies for small customers to cost reflective tariffs that remain largely opt-in (to align with Victorian Government positions). With that constraint, they incentivise uptake by continuing to discount the residential time-of-use tariff relative to tariffs without cost-reflective price signals. They have also proposed new default residential tariffs that include a solar soak period and optional residential tariffs that also feature stronger

[84] Annual RIN Responses for AusNet Services, Jemena, CitiPower, Powercor and United Energy, consolidated, October 2024.

price signals, and export charges and rewards. Large business customers are in the process of moving to or already on fully cost-reflective tariffs.

- Demonstrate incorporation of its tariff strategy in its overall business plan
  - The distributors linked their proposed TSSs to their forecast network expenditure and designed tariffs to encourage increased network capacity utilisation. This was demonstrated in their respective overview documents.
- Demonstrate significant stakeholder engagement and broad stakeholder support
  - The distributors collectively held 3 tariff workshops over 7 months which included a broad and diverse range of stakeholders. The distributors' proposed TSSs explain how their proposed suites of tariffs were linked to stakeholder feedback.
- Demonstrate insight into and management of any adverse customer impacts
  - The distributors modelled customer bill impacts for a variety of residential and small business customers, including for different load profiles (customer archetypes). The distributors also provided the option for small customers to opt-out of the default time-of-use tariffs.

5.2.2 Progress on tariff reform

The Victorian distributors' proposed tariff reforms focus on providing increasingly cost reflective tariffs that encourage efficient integration of consumer energy recourses. Key reforms proposed, and common to all networks are:

- default residential time-of-use tariffs which feature new solar soak periods and shorter peak periods than current time-of-use tariffs
- continued discounting of the residential time-of-use tariff relative to tariffs without cost-reflective price signals to encourage uptake
- optional residential time-of-use tariffs with stronger (than default tariff) price signals, export charges (during peak export periods when excess roof-top solar is contributing to network constraints) and export rewards to encourage export of energy to the network during evening peak periods when more energy is needed
- withdrawal of the optional residential demand tariff
- withdrawal of legacy residential time-of-use tariffs (except in AusNet Services)

Additional reforms that Jemena has proposed are:

- withdrawal of an obsolete small and medium business demand tariff
- withdrawal of obsolete transitional tariffs for large business customers
- a large business battery tariff
- individually calculated customer tariffs for large business customers

5.2.3 Long run marginal cost (LRMC)

LRMC refers to the distributor's forward-looking cost of providing one more units of service, measured over the long run where all factors of production can be varied.[85] Under the NER, a distributor's TSS must comply with the pricing principles.[86] One of these pricing principles requires that network tariffs be based on the LRMC of providing a distribution service to the customer.[87]

Distributors typically demonstrate compliance with this pricing principle by calculating LRMC using forecasts for demand and expenditure (where it relates to forward-looking costs) as inputs. The Victorian distributors used 5 years of capital expenditure forecasts in their LRMC calculations. This forecast horizon does not adequately capture the long run – we have previously considered a forecast horizon of at least ten years was required.[88]

Questions on TSS

34) Do you have views on Jemena's approach to calculating LRMC?

5.2.4 Export reward tariffs

All Victorian distributors have proposed to introduce opt-in export reward tariffs for residential customers, that is, opt-in rewards and charges for customers who export electricity to the grid.[89] The tariffs included relevant customer protections as required by the NER, including:

- a basic export level (the amount of electricity a customer may export at no cost during peak export periods in the middle of the day)
- an export tariff transition strategy.

No export reward tariffs have been proposed for small or large business customers.

All Victorian distributors have proposed that the export reward and export charge periods align with the proposed default residential TOU charging windows. From 4pm to 9pm, during the evening peak period, all exports would receive an export reward (to incentivise exporting when it is most needed). From 11am to 4pm, exports above the basic export level would attract a modest charged (to incentivise self-consumption when solar exports are abundant). All Victorian distributors have proposed a basic export level of 1 kWh per day. Jemena (unlike CitiPower, Powercor, and United Energy) have proposed export reward tariffs without seasonality elements.

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85 NER, Chapter 10 defines long run marginal cost as 'the cost of an incremental change in demand for direct control services provided by a distribution network service provider over a period of time in which all factors of production required to provide those direct control services can be varied.'

86 NER, cl. 6.18.1A(b)

87 NER, cl. 6.18.5(f)

88 AER, *Draft decision – AusNet Services, CitiPower, Jemena, Powercor, and United Energy distribution determination 2021-26 - Attachment 19 - Tariff structure statement - September 2020*, p. 41.

89 As allowed for under the AEMC's Access, pricing and incentive arrangements for distributed energy resources rule change (12 August 2021).

Export reward tariffs remain a relatively new feature for TSSs, so we intend to closely examine Victorian distributors' proposals - as the AER has done for the NSW and ACT 2024–29 resets and is currently doing for the QLD and SA 2025–30 resets.

5.2.5 Large business tariffs

The Victorian distributors have proposed large business tariffs that would be or would become fully cost reflective over the 2026–31 regulatory period. Ausnet Services and Jemena have also proposed individually calculated customer (ICC) tariffs in response to the AER's 2021–26 regulatory period determination which requested that distributors pursue the development of these tariffs for the 2026–31 period.[90] ICC tariffs are typically offered to customers whose energy use is so large they can have localised impacts on a networks' investment needs and the tariffs are designed to reflect the individual costs or benefits they could drive.

Some of Jemena's large business customers are currently on transitional tariffs which are scheduled to be fully cost reflective at the end of the current regulatory period. Therefore, all of Jemena's large business customers will be on cost reflective demand tariffs by the 2026–31 regulatory period. Jemena has proposed ICC tariffs for its high voltage and sub-transmission customers. These tariffs would be available at Jemena's discretion.

5.2.6 Grid-scale storage tariffs

All Victorian distributors have either proposed or proposed to trial grid-scale storage tariffs for the 2026–31 period. The proposed tariffs for community batteries include either a fixed or a capacity charge alongside volumetric import and export charges and rewards. The tariffs are similar in structure to the proposed optional residential export reward tariffs.

Jemena has proposed a new large business storage tariff. In addition to the volume charges, the tariff includes a summer demand incentive charge which applies an additional demand charge during evening peaks between December and March. This tariff is also based on Jemena's existing community battery tariff trial.

5.2.7 Tariffs for electric vehicles (EVs)

The Victorian distributors' TSS proposals include features to address the increasing uptake of electric vehicles on their distribution networks. However, we are interested in whether there is more distributors could do to give effect to their assignment policies for small customers with electric vehicle supply equipment (colloquially termed EV chargers).

The distributors maintained their current assignment policies for residential and small business customers with a dedicated EV charger.[91] These customers must be on a cost-reflective network tariff and cannot opt out to a flat network tariff. The default time-of-use tariffs are designed to encourage these customers with a dedicated charger to charge EVs during the lower priced off-peak and solar soak periods. In addition, these customers can

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90 AER, *Final decision – AusNet Services, CitiPower, Jemena, Powercor, and United Energy distribution determination 2021-26 - Attachment 19 - Tariff structure statement*, April 2021, p. 12.

91 The Advanced Meter Infrastructure (Retail and Network Tariffs) Order in Council defines a dedicated charger as 'a dedicated charger for an electric powered passenger car with a specified capacity or charging rate of 3.6kW or greater.'

access the optional residential export reward tariffs which are designed to encourage residential EV owners to charge EVs using their own solar.

Relevant to EV public charging stations, the distributors have continued their current assignment policy of offering medium business customers access to the default demand tariff or an optional time-of-use tariff.[92]

These small customer and medium business assignment policies align to a Victorian Government Order in Council that requires distributors to:

- not allow access to a flat network tariff if they can identify a small customer with a dedicated EV charger
- allow medium business customers to have access to a tariff other than a demand tariff.[93]

However, Victorian distributors and Victorian Government have not identified a formal mechanism by which distributors can identify that a customer has an EV charger. We note that installation or replacement of electric vehicle supply equipment concerns work that must be covered by a Certificate of Electrical Safety (CoES) as required by Energy Safe Victoria; the CoES lists or describes electrical work done, that it has been tested and meets current wiring rules. While the data as currently collected and recorded may not be readily extractible for/by distributors, we consider it may provide the foundation for a mechanism to identify customers with EV chargers. We are interested in what more Victorian distributors could do to identify small customers with EV chargers in order to give effect to their assignment policies.

Questions on TSS

35) Are there formal mechanisms the distributors could pursue or develop to identify small customers with electric vehicle supply equipment (EV chargers)?

5.3 Alternative control services

Alternative control services are customer specific, or customer requested services and so the full cost of the service is attributed to the customer, or group of customers, benefiting from the service. Our determinations set service specific prices to provide a reasonable opportunity to the distributor to recover the efficient cost of each service from customers using that service. Our F&A classified the following as ACS:

- metering services
- ancillary network services,
- certain connection services, and
- public lighting services.

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92 The Advanced Meter Infrastructure (Retail and Network Tariffs) Order in Council defines a medium customer as 'a customer who is not a small customer and whose aggregate consumption of electricity is not […] more than 160 MWh per annum.' The same Order defines a small customer as a domestic customer or a small business customer (consumption not more than 40 MWh per annum).

93 Victorian Advanced Meter Infrastructure (Retail and Network Tariffs) Order in Council, s11 and s12.

5.3.1 Metering

Metering services include the maintenance, reading, data services and recovery of capital costs of meters. Victorian distributors are currently the exclusive providers of metering services to residential and small business in Victoria.[94]

As a result of the mandated smart meter rollout in Victoria from 2006, nearly all Victorian households and businesses have smart meters installed. This differs from other networks across the NEM, where the AEMC has recently introduced a rule to accelerate the rollout of smart meters.[95]

The smart meters in Victoria are now coming to the end of their asset life, both financially (through depreciation) and, as indicated by the Victorian distributors in their proposals, mechanically (through failure of the meter or its components). As these smart meters come to the end of their financial asset life (set at 15 years), the capital cost to be recovered reduces. This significantly reduces the costs to be recovered in relation to metering services as capital costs make up between 49% and 72% of the Victorian distributors' metering revenues in 2025–26.[96] However, as any smart meters come to the end of their mechanical life (determined by failure and not a set number of years as is the case for financial asset life), the likelihood of failure of the meter or its components increases[97] [98]. Capital costs then increase to reflect the replacement of these meters.

The Victorian distributors have proposed to take a proactive approach to replacing smart meters in their 2026–31 regulatory proposals (with some differences).[99] This would mean smart meters are replaced to avoid failure, based on end of financial asset life and anticipating end of mechanical asset life, and would be expected to produce relatively stable price increases over the 2026–31 regulatory period and beyond. That is, the price decline that would otherwise occur would be offset by a proactive replacement of smart meters, meaning that prices would not decline as significantly (or at all) and therefore not increase as much (or at all) as replacements occur. This approach also allows for more efficient

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94 Victoria Government Gazette, *No. S 346*, 12 October 2017 - https://resources.reglii.com/VGG.2017.10.12.S346.pdf

95 AEMC, *National Electricity Amendment (Accelerating Smart Meter Deployment) Rule*, November 2024.

96 AER, *AusNet Services 2021–26 metering PTRM – 2024–25 RoD update*, February 2024; AER, *CitiPower 2021–26 metering PTRM – 2024–25 RoD update*, March 2024; AER, *Jemena 2021–26 metering PTRM – 2024–25 RoD update*, December 2023; AER, *Powercor 2021–26 metering PTRM – 2024–25 RoD update*, March 2024; AER, *United Energy 2021–26 metering PTRM – 2024–25 RoD update*, March 2024; AER analysis.

97 Failures generally relates to meter batteries, load switch controls, flash storage/memory chip errors, mesh network interface cards, and display screens, all of which contribute to data quality or functional issues.

98 AusNet, *EDPR 2026 - 2031 Regulatory Proposal*, January 2025, pp. 347–8; CitiPower, *Regulatory Proposal 2026-31 - Part B - Explanatory Statement*, January 2025, p. 97; Jemena, *Attachment 10-01 Advanced Metering Infrastructure*, January 2025, p. 21; Powercor, *Regulatory Proposal 2026-31 - Part B - Explanatory Statement*, January 2025, p. 112; United Energy, *Regulatory Proposal 2026-31 - Part B - Explanatory Statement*, January 2025, p. 97.

99 AusNet, *EDPR 2026 - 2031 Regulatory Proposal*, January 2025, p. 350; CitiPower, *Regulatory Proposal 2026-31 - Part B - Explanatory Statement*, January 2025, p. 95; Jemena, *2026-31 Proposal*, January 2025, p. 121; Powercor, *Regulatory Proposal 2026-31 - Part B - Explanatory Statement*, January 2025, p. 110; United Energy, *Regulatory Proposal 2026-31 - Part B - Explanatory Statement*, January 2025, p. 95.

replacement programs, taking advantage of economies of scale, reducing the overall costs of meter replacement.[100] A more proactive replacement is also likely to reduce risks related to safety and reliability.[101]

In contrast, a reactive approach of replacing these smart meters upon failure or anticipated failure (that is, based on mechanical asset life), would produce a sharp decline in prices over the 2026–31 regulatory period as capital cost recovery winds up. This would be followed by a slow increase in prices as meters are replaced, with this increase expected to get more apparent in the following 2031–36 regulatory control period as failure rates, and therefore replacements, increase. The Victorian distributors noted this approach includes the risk of large numbers of meters failing in a similar timeframe, requiring replacement and increasing price volatility, as well as increasing compliance risks.[102] [103] It would be expected that in the long-term, prices would naturally stabilise as a more organic replacement of meters takes place over time.

The Victorian distributors noted in their proposals that any savings from more reactive replacement programs, either through replacement of failed meters or failed components, are unlikely to offset the additional labour costs of replacement.[104] The Victorian distributors also noted the increased demand for multi-phase meters either for new connections or upgrades to current meters to support Victoria's Gas Substitution Roadmap, which cannot be addressed through the use of refurbished single-phase meters.[105]

We will consider several factors as part of our assessment of these proposals and seek stakeholder views on these below. These include:

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100 AusNet, *EDPR 2026 - 2031 Regulatory Proposal*, January 2025, p. 353; CitiPower, *Regulatory Proposal 2026-31 - Part B - Explanatory Statement*, January 2025, p. 97; Jemena, *2026-31 Proposal*, January 2025, p. 121; Powercor, *Regulatory Proposal 2026-31 - Part B - Explanatory Statement*, January 2025, p. 112; United Energy, *Regulatory Proposal 2026-31 - Part B - Explanatory Statement*, January 2025, p. 97.

101 AusNet, *EDPR 2026 - 2031 Regulatory Proposal*, January 2025, p. 353; CitiPower, *Regulatory Proposal 2026-31 - Part B - Explanatory Statement*, January 2025, p. 97; Jemena, *Attachment 10-01 Advanced Metering Infrastructure*, January 2025, pp. 21–2; Powercor, *Regulatory Proposal 2026-31 - Part B - Explanatory Statement*, January 2025, p. 112; United Energy, *Regulatory Proposal 2026-31 - Part B - Explanatory Statement*, January 2025, p. 97.

102 AusNet, *EDPR 2026 - 2031 Regulatory Proposal*, January 2025, p. 345; CitiPower, *BUS 11.01 - Metering*, January 2025, p. 17; Jemena, *Attachment 10-01 Advanced Metering Infrastructure*, January 2025, pp. 21–2; Powercor, *BUS 12.01 - Metering*, January 2025, p. 17; United Energy, *BUS 12.01 - Metering*, January 2025, p. 17.

103 Victorian distributors are required to repair/replace faulty meters within 10 business days of being reported, which differs to 15 business days allowed for other jurisdictions in the NEM.

104 AusNet, *EDPR 2026 - 2031 Regulatory Proposal*, January 2025, p. 351; CitiPower, *BUS 11.01 - Metering*, January 2025, p. 17; Jemena, *Attachment 10-01 Advanced Metering Infrastructure*, January 2025, p. 22 Powercor, *BUS 12.01 - Metering*, January 2025, p. 17; United Energy, *BUS 12.01 - Metering*, January 2025, p. 17.

105 AusNet, *EDPR 2026 - 2031 Regulatory Proposal*, January 2025, p. 352; CitiPower, *Regulatory Proposal 2026-31 - Part B - Explanatory Statement*, January 2025, pp. 98-99; Jemena, *Attachment 10-01 Advanced Metering Infrastructure*, January 2025, p. 22; Powercor, *Regulatory Proposal 2026-31 - Part B - Explanatory Statement*, January 2025, pp. 113-114; United Energy, *Regulatory Proposal 2026-31 - Part B - Explanatory Statement*, January 2025, pp. 98-99.

- Affordability – whether the potential decreases in prices under a more reactive approach are more appropriate in the current environment or may offset potential increases in other areas of the network or retail bill.
- Resource strain and deliverability – whether a proactive metering replacement program in Victoria puts the AEMC's accelerated smart meter rollout across other NEM networks at risk by increasing demand for materials and labour from shared markets and reduces the possibility of deliverability in Victoria
- Forecast risk burden – under a revenue cap, if forecasts for proactive replacement programs are not met, customers still pay the same prices as if the replacement program goes to plan. Mechanisms have been introduced in other jurisdictions to true-up forecasts and manage such risks
- Alternatives – whether other options are viable, such as proactive replacement of components that are at risk of failure, or opportunities to defer the start of the proactive meter replacement program to achieve some short-term cost-relief.

A summary of Jemena's proposal is provided below. The Victorian distributors have proposed slightly different proactive approaches and pricing outcomes, with summaries for AusNet, and CitiPower, Powercor, and United Energy available in their respective issues papers. More detailed information is available in each of the Victorian distributors' proposals.

Jemena has proposed to replace 22% of meters on its network across both failures and end-of-life replacements, progressively increasing these works across the 2026–31 regulatory period.[106] Jemena has proposed a proactive program that seeks to increase efficiencies through leveraging metering end-of-life inspection programs and proactively replacing meters found to be in a poor state.[107]

Jemena's proposal includes an increase of the main single phase metering tariff from $61.98 in 2024–25 to $82.58 in 2030–31 ($nominal), an increase of 33%.[108]

Questions on metering

36) Do you consider proactive metering replacement is appropriate, and do you have any views around the different approaches proposed by the businesses?

37) In the short-term, how do you consider affordability and price stability should be balanced in relation to the pricing of metering services?

38) Do you have any views on how proactive metering replacement programs in Victoria may affect the ability for non-Victorian networks to complete the AEMC's accelerated smart metering rollout program and / or impact deliverability in Victoria?

106 Jemena, *2026-31 Proposal*, January 2025, p. 120.

107 Jemena, *Attachment 10-01 Advanced Metering Infrastructure*, January 2025, p. 22.

108 AER, *Stakeholder report – Jemena – 2024–25 Annual Pricing Proposal*, May 2024; Jemena, *Attachment 10-01 Advanced Metering Infrastructure*, January 2025, p. 33; AER analysis.

39) Do you consider any alternative approaches may be more appropriate such as a proactive metering component replacement program, or a delayed start to a proactive metering replacement program (as proposed by AusNet)? [109] If so, please explain why.

40) Do you consider a true-up mechanism should be introduced to ensure customers are protected from unfulfilled forecasts in relation to proactive replacement programs? Why?

41) More generally, do you have any other comments on the Victorian distributors' metering services proposals?

5.3.2 Ancillary network services

Ancillary network services are non-routine services provided to individual customers on request. These services are either charged on a fee or quotation basis. Fee-based services tend to be homogeneous in nature and can be costed in advance of supply with reasonable certainty. Quoted service prices are determined at the time of a customer's enquiry and reflect each customers' individual requirements.

Ancillary network services are regulated by price cap. Our distribution determination sets first year price caps for fee-based services, labour escalators used to escalate prices for the remaining years of the regulatory period, and capped labour rates used in quoted services. Labour costs make up a large proportion of ancillary network service costs. Another significant cost element is the time taken to perform the service, including travel time. Our assessment includes review of these elements for the most frequently requested ancillary network services. We also benchmark proposed labour rates and prices for fee-based services across distribution networks as well as with prices from the current regulatory period.

In March 2022, we published a standardised ancillary network services model for use by electricity distributors to develop their proposed prices. This streamlines our assessment, increases consistency, and provides stakeholders greater scope to engage in our distribution determinations.

5.3.2.1 Pre-lodgement engagement and service offerings

In response to our information request, Jemena stated it conducted customer engagement sessions with the other Victorian distributors to discuss benchmarking as part of ancillary network services. Further, that the Energy Reference Group endorsed its approach as aligning with customers' expectations to incorporate accountability measures and benchmarking into its service.[110]

It also invited customers to provide feedback on its draft plan, which included its ancillary network services proposal. Jemena noted it did not receive any specific feedback on these aspects of its draft plan. It interpreted the absence of any response to mean that it was not a

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109 AusNet, *EDPR 2026 - 2031 Regulatory Proposal*, January 2025, p. 345.

110 Jemena, *response to information request #001 – ANS stakeholder engagement and FBS cost drivers – 20250211*, received 26 February 2025, p.4.

top priority for customers. This is consistent with its earlier customer engagement reports.[111] It also met with its large commercial and industrial customers to discuss making new connections quicker and less resource-intensive for customers.[112]

We note Jemena's proposed list of fee-based services remains unchanged to the current period.

5.3.2.2 Benchmarking labour rates

Labour rates are a key cost input for ancillary network service prices. The distributors' proposed labour rates are assessed against benchmark efficient maximum labour rates developed using a bottom-up cost build up across five categories (administration, field worker, technical specialist, engineer and senior engineer).

The benchmark rates include increases to the superannuation allowance and the vehicle allowance because of the changes in the superannuation guarantee and inflation. The 'transmission line design engineer' has been removed from the engineer benchmark category as this occupation is not an appropriate benchmark for distributors' engineers.

Most of Jemena's proposed labour rates are slightly lower than our preliminary maximum efficient benchmark rates (these are based on inputs which will be updated for our draft decision). Our draft decision on Jemena's labour rates will be dependent on the updated maximum efficient benchmark rates we determine after applying the most recent inputs.

5.3.2.3 Benchmarking fee-based services prices

Proposed fee-based services are also benchmarked against prices from the current regulatory control period as well as similar services supplied by other distributors. Cost inputs may also be benchmarked.

Jemena developed prices for most of its fee-based services using a bottom-up approach. Its reserve feeder maintenance and type 7 metrology services were calculated using a top-down approach.[113] Jemena has also proposed to introduce an additional 6.0% margin and a 1.9% tax allowance to its fee-based services on top of its existing 61.0% overhead rate.[114]

In terms of price impacts, we note a significant average price increase of 47.3% in the first year of the 2026–31 period across Jemena's fee-based services, followed by annual inflation and labour escalation. In response to our information request, it stated that the main cost drivers for the price increases were labour, materials and indirect cost increases.[115]

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111 Jemena, *response to information request #001 – ANS stakeholder engagement and FBS cost drivers – 20250211*, received 26 February 2025, p.4.

112 Jemena, *response to information request #001 – ANS stakeholder engagement and FBS cost drivers – 20250211*, received 26 February 2025, p.2.

113 Jemena, *Attachment 11-01 Alternative control services, January 2025*, p. 1.

114 Jemena, *Attachment 11-01 Alternative control services, January 2025*, pp. 2, 10.

115 Jemena, *response to information request #001 – ANS stakeholder engagement and FBS cost drivers – 20250211*, received 26 February 2025, p.5.

Questions on ancillary network services

42) Do you consider the proposed labour rates and fee-based prices, and the associated increases, to be reasonable?

5.3.3 Public lighting

Public lighting services include the provision, construction and maintenance of public lighting assets. Customers of public lighting services primarily are local government councils and jurisdictional main roads departments.

There are a number of different tariff classes and prices for public lights. The factors influencing prices for a particular installation include which party is responsible for capital provision, and which party is responsible for maintaining and/or replacing installations.

Jemena's proposed prices recover the costs of providing public lighting services (including capex and opex as appropriate). For opex, Jemena has proposed a total opex of $20.07 million ($2025-26), over the 2026–31 period.[116] Jemena noted that important drivers include asset failures rates, spot and bulk maintenance cycles, labour rates and traffic controller assumptions. For capex, Jemena has proposed a total gross capex of $32.12 million ($2025-26).[117] The price of materials was noted as the underlying driver. Corporate overheads were also seen to be a material driver of public lighting prices.

For the 2026–31 regulatory control period, Jemena has proposed to incorporate our post-tax revenue model (PTRM) rather than using, as in the past, its cost build-up model to determine its public lighting prices. It expects this will flatten public lighting prices over a longer period.[118] The proposed use of the PTRM is consistent with our expectations.

5.3.3.1 Pre-lodgement engagement

Jemena engaged in various ways to prepare its public lighting proposal. This included a forum with councils to understand their issues and to shape its public lighting plan (August 2023) and a workshop to understand customers' issues in more detail (May 2024).[119]

Jemena's proposal noted it received the following feedback from its public lighting customers during its May 2024 workshop:[120]

- There should be a greater standardisation of lighting levels
- Communication and information sharing with its customers should be improved

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116 Jemena, *Attachment 11-02 Public Lighting, January 2025*, p. 21.

117 Jemena, *Attachment 11-02 Public Lighting, January 2025*, p. 20.

118 Jemena stated this is because our PTRM uses real straight line depreciation (and indexation) to determine the return on capital. This defers the return on capital compared with the nominal straight line depreciation used in Jemena's cost build-up model. See Jemena, *Attachment 11-02 Public Lighting,* January 2025, p. 5.

119 Jemena, *Attachment 11-02 Public Lighting, January 2025*, p. 1.

120 Jemena, *Attachment 11-02 Public Lighting, January 2025*, p. 12.

- Areas were identified where existing services could be improved
- Cost should be balanced with reliability, efficiency, longevity and sustainability
- Councils are interested in smart lighting technologies, including implementing a central management system and supported new pilot schemes, including alternative funding options for smart lighting.

Through further engagement with customers (councils) it was found they agreed with Jemena's proposed Light Emitting Diode (LED) rollout and smart lighting upgrade. Customers also supported establishing a working group to gather council feedback.[121]

Jemena noted its proposal had aimed to reflect its customer expectations and priorities.

5.3.3.2 Service and price offerings

Jemena has proposed to continue to offer the following public lighting services in the 2026–31 period:

- Operation, maintenance, repair and replacement (OMR) public lighting services
- Alteration and relocation of public lighting assets
- New public lighting services, including greenfield sites and new light types
- Provision, construction and maintenance of emerging public lighting technology.[122]

For OMR public lighting services, Jemena has proposed an average price increase of 43.2% for energy efficient LED lights in the first year of the 2026–31 period, followed by a 2.5% annual increase for the remaining four years. This is largely driven by the proposed LED rollout and replacement of mercury, CFL and T5 fluorescent luminaries.[123]

However, Jemena's proposed prices for council-funded energy efficient LED lights are proposed to decrease by 10.1% in the first year of the 2026–31 period, followed by annual 2.5% increases.[124] This is driven Jemena's shift to using our PTRM model to determine cost-reflective starting prices for councils that fund its own LED lights.[125]

Jemena has also proposed to continue its current approach of recovering incremental costs of decorative poles directly from councils that require pole replacement.[126]

5.3.3.3 LED and other new technologies

Jemena has proposed to replace its CFL, MH, MV and T5 luminaires with LED when lamps are due for replacement in its bulk re-lamping cycle. Jemena considered this approach reduces costs for its customers as lights are replaced just in time rather than prematurely.[127]

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121 Jemena, *Attachment 11-02 Public Lighting,* January 2025, p. 2.

122 Jemena, *Attachment 11-02 Public Lighting,* January 2025, p. vi.

123 Jemena, *Attachment 11-02 Public Lighting,* January 2025, p. 6.

124 Jemena, *Attachment 11-02 Public Lighting,* January 2025, p. vi.

125 Jemena, *Attachment 11-02 Public Lighting,* January 2025, p. 16.

126 Jemena, *Attachment 11-02 Public Lighting,* January 2025, pp. 13-14.

127 Jemena, *Attachment 11-02 Public Lighting,* January 2025, p. 11.

Jemena also supported its customers funding the accelerated LED rollout themselves and have implemented this in its public lighting pricing model.[128]

Jemena has also proposed to use 3000k lighting as the standard offering in response to customer feedback.[129]

For its smart lighting services, Jemena has proposed to implement Street Light Vision (SLV) in the 2026–31 period. SLV is a Central Management System (CMS) for smart street lighting where customers can remotely control the brightness either in real time or at scheduled times.[130] Jemena has proposed to install the required SLV hardware when existing lights are replaced with LED luminaire to save costs.[131]

Questions on public lighting

43) Do you consider Jemena's public lighting proposal generally incorporates stakeholder views from its pre-lodgement engagement? If not, did Jemena communicate any potential departure points to stakeholders and provide adequate explanation during pre-lodgement engagement?

44) Do you support Jemena's proposed suite of public lighting services and prices? If not, what are your views / concerns in relation to its proposal?

45) Do you have any other comments on Jemena's public lighting proposal and its pre-lodgement engagement?

128 Jemena, *Attachment 11-02 Public Lighting,* January 2025, p. 13.

129 Jemena, *Attachment 11-02 Public Lighting,* January 2025, p. 13.

130 Jemena, *Attachment 11-02 Public Lighting,* January 2025, p. 9.

131 Jemena, *Attachment 11-02 Public Lighting,* January 2025, p. 14.

Summary of questions

We encourage you to make submissions on any aspects of the proposal that are of interest to you. In this issues paper, we have highlighted the following questions we are particularly interested in.

Questions on demand forecasts

1) Do you have any feedback on the demand forecasts that have informed Jemena's proposal?

Questions on network utilisation

2) How well do you think Jemena's proposal takes existing and forecast network utilisation levels into account?

Questions on consumer engagement

3) How satisfied are you that Jemena sincerely partnered with consumers and equipped them to effectively engage in the development of its proposal?
4) How satisfied are you with the scope of issues on which consumers were engaged, and the level of detail at which Jemena engaged?
5) How satisfied are you with the variety of avenues Jemena used to engage with consumers?
6) How satisfied are you with the evidence Jemena's proposal provides of consumer preferences identified through its various engagement channels and that those preferences have been reflected in its proposal?
7) How well do you feel Jemena has responded to consumer and stakeholder feedback on its proposal, including but not limited to feedback on its draft proposal?
8) How would your views on Jemena's proposal change if its estimated network tariff and electricity bill impacts did not eventuate? For example:

- If tariff or bill impacts were potentially higher, are there areas in which you would be willing to accept a different outcome or prefer Jemena to spend less in order to avoid this?
- If tariff or bill impacts were potentially lower, are there areas in which you would prefer Jemena to deliver/spend more, or would you prefer the same outcomes at a lower cost or price?

Questions on regulatory depreciation

9) Do you have any feedback on Jemena's proposed regulatory depreciation approach?

Questions on capex

10) Are there any particular areas of Jemena's capex proposal that you would expect further engagement on?
11) Do you consider Jemena's capex proposal reflects consumers' preferences?

12) Do you consider that the areas of Jemena's capex proposal we have identified for greater assessment focus are appropriate, and, if not, what other areas should be considered and why?

13) Do you have any views on the prudency (need) and efficiency (cost) of any aspects of the proposed capex?

Questions on opex

14) Are there any particular areas of Jemena's opex proposal that you would expect further engagement on?

15) Do you consider that Jemena's opex proposal reflects consumers' preferences?

16) Do you consider that the areas of Jemena's opex proposal we have identified for greater assessment focus are appropriate, and, if not, what other areas should be considered and why?

17) Do you have any views on the prudency (need) and efficiency (cost) of any aspects of the proposed opex?

Questions on CESS

18) Do you have any concerns with the application of the CESS for Jemena in the 2026-31 regulatory period?

19) Do you consider there is need to modify the application of the CESS to allow CESS exclusions on certain capex categories? Please explain why.

20) If we were to modify the application of CESS, what factors should we consider in determining whether specific capex should be excluded from the CESS.

Questions on EBSS

21) Do you consider Jemena's proposal to exclude its new innovation fund allowance from the EBSS in 2026-31 is reasonable? Please explain why.

Questions on STPIS

22) Do you have any views on Jemena's proposed adjustments to its STPIS reliability targets for 2026-31?

23) Do you have any views on Jemena's proposed allocation of revenue at risk between the STPIS and its proposed CSIS?

Questions on CSIS

24) Do you have any feedback on the design of Jemena's proposed CSIS?

25) Do you have views on the proposed application of any of the CSIS?

26) Do you have views on the proposed equal weighting of the proposed CSIS measures?

27) Do you have feedback on the content of customer satisfaction surveys used to capture customer satisfaction with planned outages and new connections?

28) Do you have any views on Jemena's engagement process?

Questions on service classification

29) Do you have feedback on the classification of services set out in the Framework and Approach Paper, and whether there has been a material change in circumstances since July 2024 that may require changes?

Questions on control mechanisms

30) Do you have any feedback on the form of control set out in the Framework and Approach paper and Jemena's proposal and whether, if you've suggested a change to service classifications in response to the question above, the control mechanisms set out in that paper remain appropriate?

31) Do you have any feedback on the control formulae set out in the Framework and Approach paper and Jemena's proposal, and whether there has been a material change in circumstances which might justify a departure from these formulae?

Questions on TSS

32) Do you consider there are further tariff reforms Jemena should implement to encourage increased network capacity utilisation and mitigate future network costs? Identify any specific options you think should be considered.

33) Do you consider there are any aspects of Jemena's proposed TSS that require adjustment?

34) Do you have views on Jemena's approach to calculating LRMC?

35) Are there formal mechanisms the distributors could pursue or develop to identify small customers with electric vehicle supply equipment (EV chargers)?

Questions on metering

36) Do you consider proactive metering replacement is appropriate, and do you have any views around the different approaches proposed by the businesses?

37) In the short-term, how do you consider affordability and price stability should be balanced in relation to the pricing of metering services?

38) Do you have any views on how proactive metering replacement programs in Victoria may affect the ability for non-Victorian networks to complete the AEMC's accelerated smart metering rollout program and / or impact deliverability in Victoria?

39) Do you consider any alternative approaches may be more appropriate such as a proactive metering component replacement program, or a delayed start to a proactive metering replacement program (as proposed by AusNet)?[132] If so, please explain why.

40) Do you consider a true-up mechanism should be introduced to ensure customers are protected from unfulfilled forecasts in relation to proactive replacement programs? Why?

41) More generally, do you have any other comments on the Victorian distributors' metering services proposals?

[132] AusNet, *EDPR 2026 - 2031 Regulatory Proposal*, January 2025, p. 345.

Questions on ancillary network services

42) Do you consider the proposed labour rates and fee-based prices, and the associated increases, to be reasonable?

Questions on public lighting

43) Do you consider Jemena's public lighting proposal generally incorporates stakeholder views from its pre-lodgement engagement? If not, did Jemena communicate any potential departure points to stakeholders and provide adequate explanation during pre-lodgement engagement?

44) Do you support Jemena's proposed suite of public lighting services and prices? If not, what are your views / concerns in relation to its proposal?

45) Do you have any other comments on Jemena's public lighting proposal and its pre-lodgement engagement?

Glossary

Term	Definition
ACS	alternative control services
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
augex	augmentation capital expenditure
capex	capital expenditure
repex	replacement expenditure
CER	consumer energy resources
CESS	capital expenditure sharing scheme
CMS	central management system
CPI	consumer price index
CSIS	customer service incentive scheme
DMIAM	demand management innovation allowance mechanism
DMIS	demand management incentive scheme
DNSP or distributor	Distribution Network Service provider
EBSS	efficiency benefit sharing scheme
ERG	energy reference group
EV	electric vehicle
F&A	framework and approach
GSL	guaranteed service level
ICC	individually calculated customer
ICT	Information and communication technologies
ISP	Integrated System Plan
LED	light emitting diode
LRMC	long run marginal cost
MVA	mega volt amperes
NEL	National Electricity Laws
NEM	National Electricity Market

Term	Definition
NEO	National Electricity Objectives
NER	National Electricity Rules
opex	operating expenditure
PTRM	post-tax revenue model
RAB	regulated asset base
RFM	roll forward model
repex	replacement expenditure
RIN	regulatory information notice
RORI	Rate of return instrument
SaaS	software as a service
STPIS	service target performance incentive scheme
SLV	street light vision
TOU	time of use
TSS	tariff structure statement