

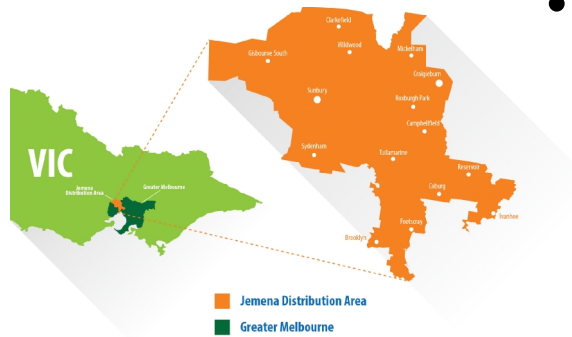
JEN 2016-20 EDPR Update for the substitution decision

Meeting with AER Board



4 March 2016

What we see as important



- **Our priorities are**
 - Providing safe and reliable energy
 - Responding to our customers' needs (e.g. providing data, looking at new service offerings)
 - Aligning long-term investment with changing network use
- **Our regulatory policy focus this year**
 - Cost recovery – for instance, by ensuring that depreciation is consistent with changes in future network use
 - Ring-fencing guidelines – ensuring that we can offer innovative solutions to our customers that provide value for money
 - Cost reflective pricing – ensuring that customers are incentivised to use the network efficiently

The AER's Preliminary Decision

- **We are pleased the AER has accepted many aspects of our initial proposal**
 - Demand forecast are credible
 - Operating expenditure base year
 - Replacement capital expenditure
 - A sensible outcome on depreciation



Jemena maintains these elements of our proposal are efficient

- **We still have some areas to work through**
 - Rate of return (e.g. considering the ACT decision)
 - Augmentation capital expenditure
 - Operating expenditure step changes
 - Power of choice



We have been working these through our 6-Jan submission and the Q&A process however we would like to engage more

Customer engagement

Our customers remain at the centre of our submission

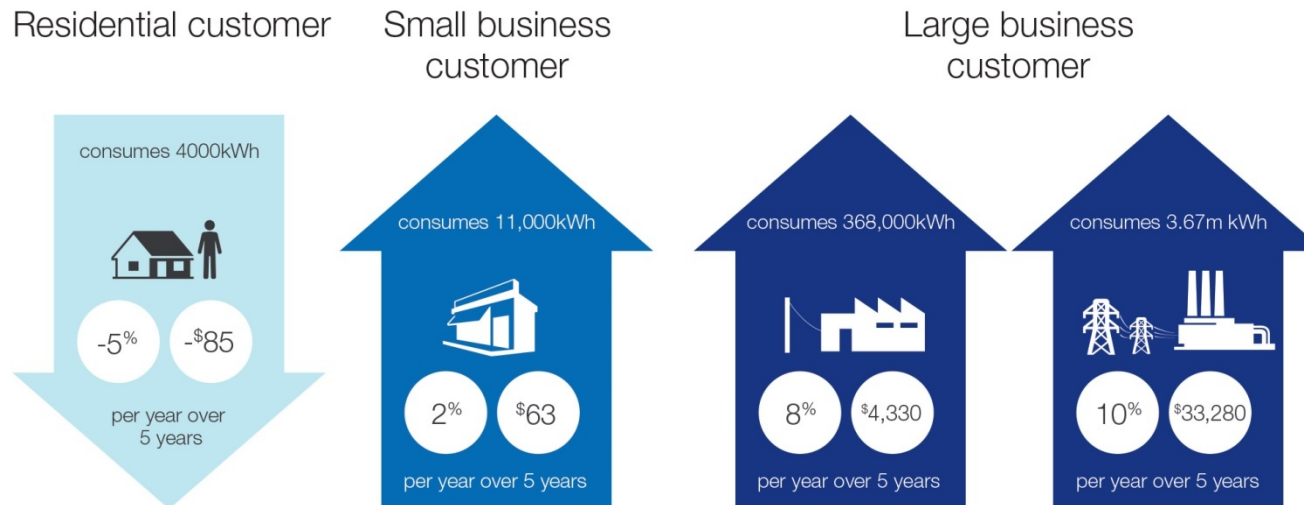
- We engaged with our customer council on the EDPR process and next steps
 - Inform: We held workshops to explain the complexities of the rate-of-return
 - Consult: Our customer council supported simplifying our Jan 2016 submission to make it easier for others to engage with (e.g. by using tariff lights, graphics and plain English language)
- We continue to engage with customer groups outside of the EDPR process including setting up regular meetings with Energy Consumers Australia.



Our submission continues to provide benefits to residential customers



- Our residential customer will enjoy the benefits of real price reductions
 - Rebalancing tariffs will see large customers pay their share



- **Lower metering charges** – driven reductions in bills for residential customers
- **Shift to long-run marginal cost pricing** – lead to tariff rebalancing between customer classes (i.e. from residential to business)

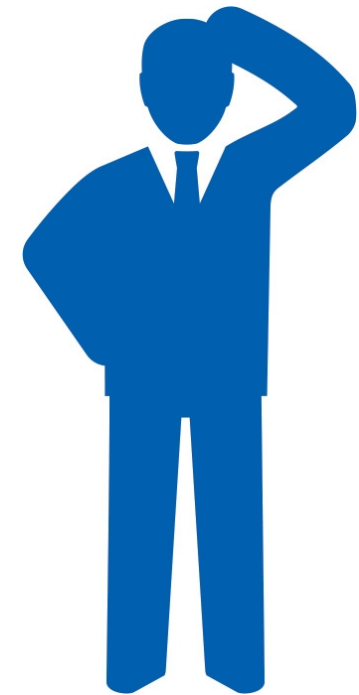


* Real change in retail bills over the 5-year period for typical customer. Includes standard control and metering services.

Impact of Tribunal decision on VIC DBs

Rate of return decision relevant to Vic EDPR

- It will take some time to digest the outcomes of the tribunal decision
- The Tribunal has remitted the rate of return (and other) matters back to the AER
 - Return of equity – The AER's decision has been upheld
 - Return on debt – For further consideration required
 - Gamma – Prefers 0.25 and has remitted this to the AER
- We seek to consult with the AER on the remitted matters.



Augmentation capital expenditure

We have double checked our augmentation

- We have taken on board the AER's comments in relation to Augmentation projects at Sunbury, Flemington and Preston. We engaged external experts to review 49 different options, including demand management:
 - Where opportunities for further efficiency are identified we implemented them in our 6-Jan submission;
 - Otherwise we maintain our projects are efficient.



Step changes

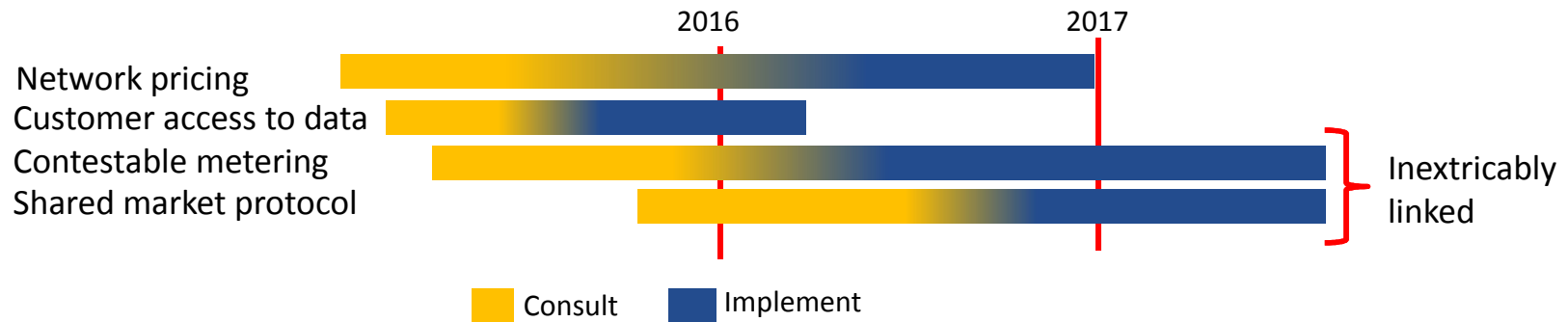
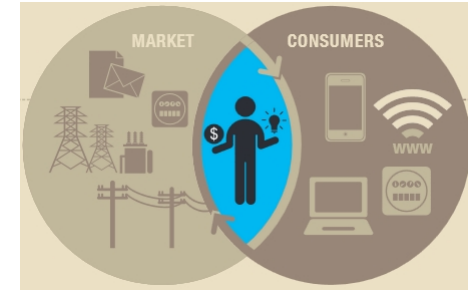
Our step changes are necessary but not in the base year

Opex step change	Value (\$2015)*	
Service inspection and testing program	\$6.15m	Once-off benefits in AMI roll out are not sustainable
Vegetation management	\$6.93m	New obligations introduced in mid 2015
RIN reporting	\$5.88m	New processes necessary to collect RIN reporting data
New tariffs	\$2.45m	Amount approved in the preliminary decisions.
Other (post PD)	\$2.48m	Chapter 5A, GSL and PoC recently identified
Other	\$3.83m	Various obligations and responses to customer requests
Total	\$27.72m	

* Covering the 2016 – 2020 regulatory control period

Power of Choice

Splitting each component into separate rule changes and the timing of each makes it difficult to estimate, nevertheless the costs are real.



- Our experience in similar project (FRC, B2B, JGN-B2B) reveals the PoC size program is complex , lengthy and costly
- AEMO/IEC has identified 49 industry processes that need amending
- Metering and SMP is inextricably linked

Closing remarks



- We welcome the AER's acceptance of most of our 2016-20 regulatory proposal
- There is some work to do on rate-of-return and we would like to engage on this
- We would like to engage on remaining issues relevant to our proposal including:
 - Augmentation capital expenditure
 - Operating expenditure step changes
 - Power of choice program

JEN 2016-20 EDPR regulatory proposal

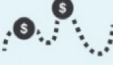






Annexure

4 March 2016



Our submission to the Preliminary Decision

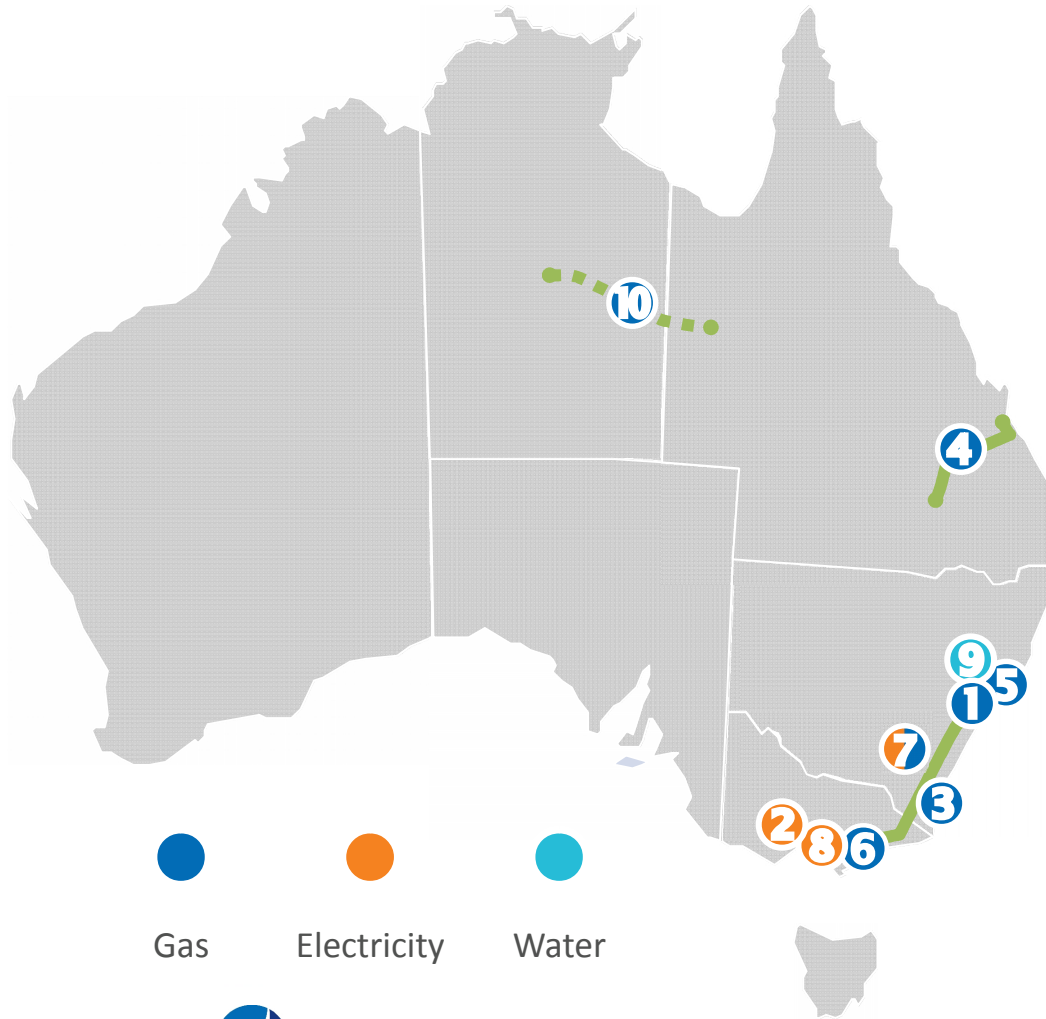
Key aspects of the preliminary decision and submission

Revenue requirement for our distribution and regulated metering services 	ARR, MAR and X-factors	✗	Opex for our distribution services 	Base year efficiency	✓
	Regulatory Asset Base (RAB) roll-forward	≈		Opex step changes	✗
	Tax Asset Base (TAB) roll-forward	✓		Rate of change	✗
	Depreciation	✓	Form of regulation 	Service classification	✓
		Control mechanisms		≈	
Rate of return 	Tax compensation	✗	Incentive framework 	Efficiency Benefit Sharing Scheme (EBSS) and Service target performance incentive scheme (STPIS)	✓
	Cost of equity	✗		Capex expenditure sharing scheme (CESS) and Demand management incentive scheme (DMIS) ¹	✗
	Cost of debt and transition	✗		F-factor scheme	✓
Capex for our distribution services 	Replacement capex	✓	Risk management framework 	Cost pass through framework	≈
	Augmentation capex	≈		Charges for other services 	Fee-based services and quoted services (ancillary network services)
	Connections capex (including capital contributions)	≈	Public lighting ²		≈
	Non-network IT capex	✓	Negotiating services		✓
	Non-network other capex	✓			

¹ Also known as Demand Management and Embedded Generation Connection Incentive Scheme (DMEGCIS)

² Covers the operation, maintenance and replacement of public lighting

About Jemena



Gas



Electricity



Water



- 1 Jemena Gas Network
- 2 Jemena Electricity Network
- 3 Eastern Gas Pipeline
- 4 Queensland Gas Pipeline
- 5 Colongra Gas Transmission and Storage Pipeline
- 6 VicHub
- 7 ActewAGL Distribution Partnership (50%)
- 8 United Energy Distribution (34%)
- 9 Rosehill Recycled Water
- 10 Northern Gas Pipeline