

Jemena Electricity Networks (Vic) Ltd

AMI Charges Revision Application for CY2015

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AMI Charges Revision Application for CY2015

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GLOSSARY

AER	Australian Energy Regulator
CROIC	Cost Recovery Order In Council
JEN	Jemena Electricity Networks
RIN	Regulatory Information Notice
WACC	Weighted Average Cost of Capital

OVERVIEW

SUMMARY OF PROPOSED CHARGES FOR 2015

Jemena Electricity Networks (**JEN**) proposes to slightly increase its 2015 metering tariffs relative to those previously approved by the Australian Energy Regulator (**AER**).¹

HISTORY OF AER CHARGE APPROVALS

On 28 February 2011, JEN submitted an initial charges application to the AER (setting out initial charges for 2012 to 2015)², which was later, with some amendments, approved by the AER (**initial charges application**).³

On 31 August 2012, JEN submitted a charges revision application for 2013-2015 metering tariffs (**2012 charges application**)⁴, which was later approved by the AER.⁵ JEN's 2012 charges application did not propose any changes to the original AER-approved charges.

On 30 August 2013, JEN submitted a charges revision application for 2014-2015 metering tariffs (**2013 charges application**)⁶, which was later approved by the AER.⁷ JEN's 2013 charges application did not propose any changes to the original AER-approved charges for 2014, and proposed a slight reduction to 2015 tariffs.

This document is JEN's charges application for revised charges for 2015 for costs associated with Regulated Services, as required under the AMI Cost Recovery Order in Council (**CROIC**)⁸.

PROPOSED CHARGES

The charges proposed in this application are consistent with the CROIC, and with the pricing principles in the AER's Framework and Approach Paper⁹.

The proposed 2015 charges are above those in JEN's approved initial charges application, due to changes in the underlying cost drivers, and the resulting increases in costs, relative to those assumed by the AER in its original decision. These cost drivers are JEN's actual and forecast spend in the period from 2013 to 2015, which are summarised in sections 1.5 and 1.7.

A summary of the previously approved and JEN's revised proposed charges is set out in Table OV-1.

¹ AER, Final Determination: Victorian Advanced Metering Infrastructure Review 2012-15 budget and charges applications, October 2011.

² JEN, Advanced Metering Infrastructure Roll-out Subsequent Budget Application from Jemena Electricity Networks (Vic) Limited, 28 February 2011, and JEN, AMI Initial Charges Application for 2012 – 2015, 28 February 2011.

³ AER, Final Determination: Victorian Advanced Metering Infrastructure Review 2012-15 budget and charges applications, October 2011.

⁴ JEN, AMI Charges Revision Application, 31 August 2012.

⁵ AER, Determination: Advanced Metering Infrastructure Revised Charges, October 2012.

⁶ JEN, AMI Charges Revision Application, 30 August 2013.

⁷ AER, Determination: Advanced Metering Infrastructure 2014 revised charges, 31 October 2013.

⁸ Order under Section 15A and Section 46D of the Electricity Industry Act 2000 made on 28 August 2007, as amended by the Advanced Metering Infrastructure Order in Council 2008 made on 25 November 2008.

⁹ AER, Framework and approach paper – Advanced metering infrastructure review 2009-11, Final Decision, January 2009

Table OV–1: Approved and revised regulated services charges for 2015

Nominal \$/meter	Approved	Revised
Single phase single element	219.90	231.28
Single phase single element meter with contactor	219.90	231.28
Three phase direct connected meter	270.24	284.22
Three phase current transformer connected meter	300.45	315.99

JEN also proposes a manual meter charge that is the same as JEN’s manual special meter read charge. The charge would apply from 1 April 2015, be set at \$10.83, and apply each time a manual meter is read.

STRUCTURE OF THIS CHARGES REVISION APPLICATION

This application is structured as follows:

Table OV–2: Report structure

Section	Title	Details
1	Regulatory requirements	This section outlines the relevant regulatory requirements for this charges revision application and explains how JEN has complied with those requirements
2	Revised charges for Regulated Services	This section sets out JEN’s revised proposed charges for 2015 and describes how those charges comply with the AER’s pricing principles.
3	Manual Meter Charges	This section outlines JEN’s proposed manual meter charges to apply to customers that have retained a non-AMI meter.
Appendices		
A	2013 JEN RIN Response – Regulatory Accounting Statements (confidential)	
B	KPMG audit report on 2013 actual costs (confidential)	
C	Filled out AER template (public)	
D	Expenditure Excess Explanation (confidential)	
E	Supporting documentation on the appropriate rate of return (public)	

CONFIDENTIALITY

JEN requests that the AER keeps Appendices A, B, and D confidential for the following reasons.

JEN’s response to the AER’s Regulatory Information Notice (**RIN**) in Appendix A contains detailed financial information that is commercially sensitive. Keeping it confidential is consistent with the historical treatment of regulatory accounts. JEN has also previously provided a public version of this information to the AER.

KPMG prepared its audit report on 2013 actual costs (Appendix B) for the information of JEN and the AER on terms and conditions that preclude the report from being distributed to any other party.

JEN considers the Expenditure Excess Explanation (Appendix D) to be confidential information because it includes detailed commercial information that is commercially sensitive, including commercial strategies to reduce prices from suppliers on input services to JEN, as well as unit rates for goods and services procured in a competitive market. JEN does not want to prejudice any future competitive procurement processes that JEN or other parties may conduct in relation to metering. JEN has provided a public version of this appendix, with the confidential information redacted.

1. REGULATORY REQUIREMENTS

This section sets out the regulatory requirements relevant to this charges revision application and explains how JEN has complied with those requirements.

1.1 OVERVIEW OF REGULATORY OBLIGATIONS

Under clauses 5G.1 and 5G.2 of the CROIC, by 31 August 2013, JEN must submit a charges revision application to set revised charges for the year commencing 1 January 2015 (**2015 revised charges**).

The form and content of this charges revision application is determined by the CROIC, guidance provided by the AER's Framework and Approach Paper (**the AER Approach Paper**), and the AER's information template. In particular, this application complies with the application requirements in clauses 5 and 5A of the CROIC, and the process and content requirements set out in clauses 5G, 5H and 5I.

The AER's determination is to be made in accordance with the regulatory principles in clause 4.1 of the CROIC, the general application requirements in clause 5, and the process set out in clauses 5G and 5I.

1.2 CLAUSE 5.3

Clause 5.3 of the CROIC states that:

An application must set out the information and identify the documents upon which the distributor relies. Provided that if a distributor relies on information it previously provided to the Commission for an application or a Pricing Proposal, it does not need to set out that information again in its application if the distributor identifies where that information may be found in that previous application or Pricing Proposal (as the case may be).

This application relies on:

1. all information previously provided by JEN to the AER with its initial budget application, initial charges application, and JEN's 2012 and 2013 charges revision applications (including all appendices to those charges revision applications)
2. The Regulatory Accounting Statements that form part of JEN's RIN response for the 2013 calendar year, provided to the AER on 30 April 2014 and also attached to this application for convenience as Appendix A
3. KPMG's audit report relevant to clause 5H.2 of the CROIC, provided as Appendix B
4. the AER's charges application template, as filled out by JEN, attached to this application as Appendix C
5. the Expenditure Excess Explanation for CY2013, attached to this application as Appendix D
6. relevant supporting documentation on the appropriate rate of return, attached to this application as Appendix D

1.3 CLAUSE 5.4

Clause 5.4 of the CROIC states that:

1 — REGULATORY REQUIREMENTS

An application must also include the information specified by:

- (a) any framework and approach paper (as amended from time to time) of the Commission; and*
- (b) information templates (as amended from time to time) of the Commission.*

In relation to 5.4(a), the AER Approach Paper sets out the following requirement:

In relation to verification, an appropriate verification statement in respect of historical information (where that historic information is not addressed by any required audit certification) could be to the effect that the officer has reviewed the information provided, made all relevant and appropriate enquiries in relation to the information provided, and is satisfied it is true and correct and drawn from the internal business records of the distributor. Specifically, budget applications, budget variation applications, charges applications and charges revision applications should include a verification statement signed by the distributor's chief executive officer or equivalent officer.

In relation to forecast and estimated information, including budget applications, an appropriate statement would set out that the officer has reviewed the basis on which the forecast or estimate is made and is satisfied that the forecast or estimate is a genuine forecast or estimate made on a reasonable basis.¹⁰

This application is accompanied by a cover letter from JEN's CEO, providing the verification required by the AER.

In relation to 5.4(b), the AER has provided JEN with a set of information templates, which JEN has filled out and provided as Appendix C.

1.4 CLAUSE 5.5(B)

Clause 5.5(b) of the CROIC requires that this application must also include:

a forecast of the number of metering installations that the distributor proposes to install for each year of the period covered by the application

The required information on the forecast number of metering installations JEN proposed to install is presented in the table below.

Table 1–1: Metering installation forecast

Calendar Year	2014	2015
Meters to be installed	31,998	6,036

¹⁰ AER Framework and approach paper – Advanced metering infrastructure review 2009-11, Final Decision, January 2009, pages 75-6.

1.5 CLAUSE 5H.1

Clause 5H.1 of the CROIC states that:

In addition to the information and documents required pursuant to clause 5, a charges revision application shall:

(a) state the period to which it relates;

(b) set out the actual:

(i) Total Opex and Capex (broken down into actual capital expenditure and actual maintenance and operating expenditure); and

(ii) revenue (calculated in accordance with clause 4.1(k)) of the distributor from the provision of Regulated Services in the year ('year t-1') immediately preceding year t; and

(c) contain an updated forecast of the:

(i) Total Opex and Capex (broken down into forecast capital expenditure and forecast maintenance and operating expenditure); and

(ii) revenue (calculated in accordance with clause 4.1(k)) of the distributor from the provision of Regulated Services

for:

(iii) year t; and (iv) the remaining year or years of the initial AMI budget period or the subsequent AMI budget period (as the case may be).

This application relates to the period commencing 1 January 2015 and ending on 31 December 2015, being the final year of the initial budget period. JEN has provided the information required by clauses 5H.1(b) and (c) in the filled out information template, which is included as Appendix C. JEN's updated forecasts include costs for a project to integrate non-AMI meters with JEN's AMI systems and retire the non-AMI systems. The need for this project is driven by the small, yet material, refusing an AMI meter exchange.

When forecasting revenues for the purposes of clause 5H.1(c)(ii), JEN used updated meter number forecasts consistent with JEN's latest customer growth forecasts. The CROIC provides for a true up of actual costs and revenues, which adjusts for any variation between forecast and actual meter numbers.

1.6 CLAUSE 5H.2

Clause 5H.2 of the CROIC states that:

A charges revision application must be accompanied by an audit report prepared and signed by an external auditor certifying that:

(a) the actual expenditure incurred is for activities within scope; and

(b) the actual expenditure incurred has been incurred in the amount claimed.

Provided that where year t-1 is the year commencing 1 January 2009 an audit report that complies with clause 5I.3 must instead accompany the charges revision application.

1 — REGULATORY REQUIREMENTS

Pursuant to clause 5H.2, JEN sought and obtained an audit report from KPMG. KPMG’s report is provided as Appendix B.

1.7 CLAUSE 5I

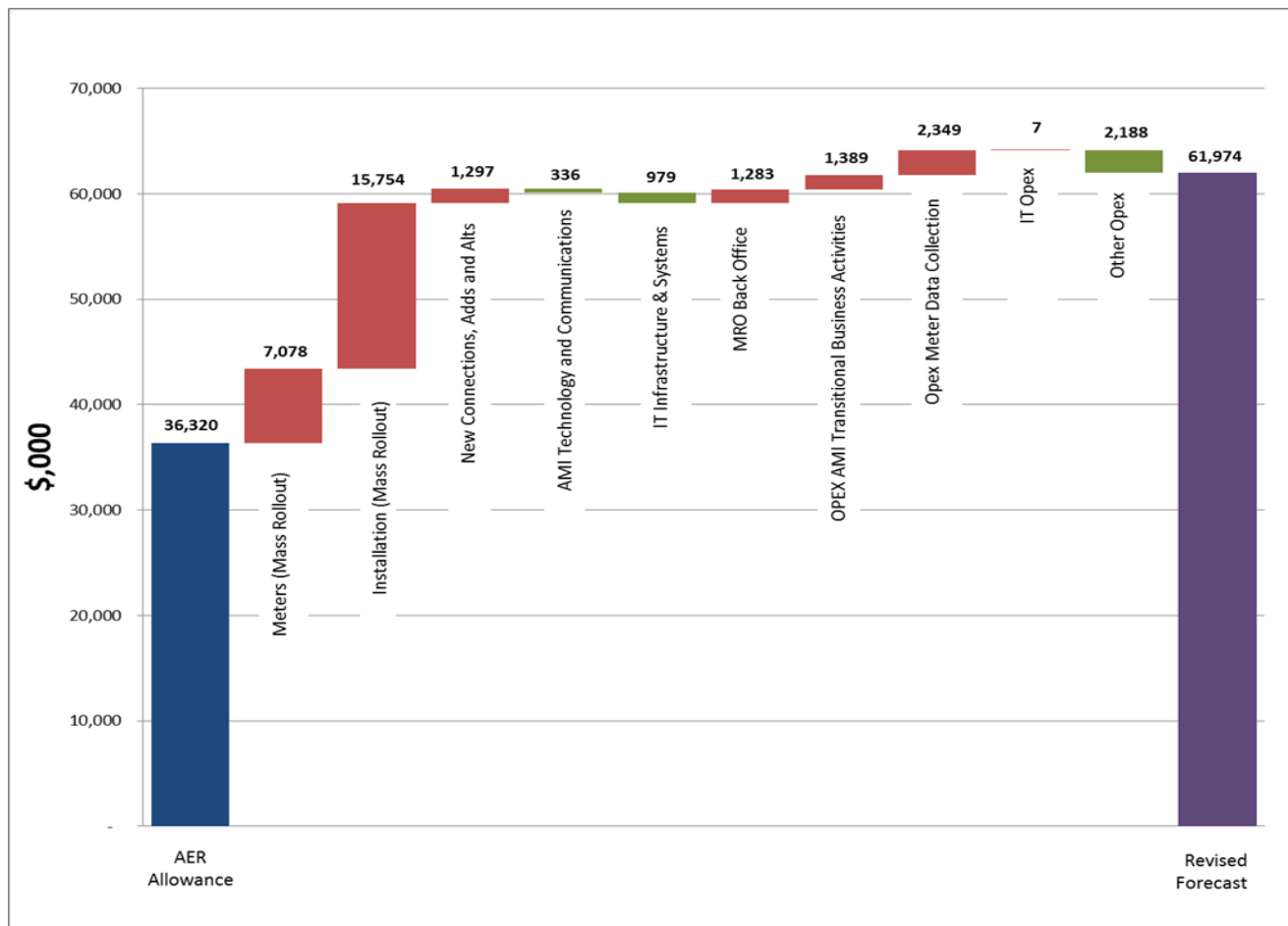
Clause 5I.2(a) requires that in determining the building blocks to be used in calculating the revenue that can be recovered, the AER must include actual capital expenditure and actual maintenance and operating expenditure where that actual expenditure satisfies a number of conditions. One such condition, articulated in clause 5I.2(a)(iii), is that the actual expenditure:

“in the case of the subsequent AMI budget period, does not exceed the Approved Budget for that year”

JEN’s actual expenditure for 2012 does not satisfy this condition. Therefore, in this instance, clauses 5I.5, 5I.5A, 5I.7, 5I.7, 5I.7A, 5I.7B, 5I.8 and 5I.9 apply. Appendix D sets out JEN’s views on how these clauses apply to JEN’s expenditure excess and explains why the AER should include JEN’s expenditure excess in the building block costs to be recovered through JEN’s revenues. A brief summary of Appendix D is provided below.

Figure 1–1 highlights the key cost categories driving JEN’s CY2013 expenditure excess. CY2013 being the final year of the originally mandated rollout, these expenditure excess drivers mainly reflect delays in earlier stages of the AMI rollout.

Figure 1–1: Contribution to expenditure excess



Source: Filename: ‘JEN AMI Charges 2014 Variance Analysis v0 9.xlsx’; Sheet Name: ‘waterfall summary’

While the CROIC provides for actual cost recovery where costs are prudent and efficient, JEN must still provide additional evidence where JEN has incurred an expenditure excess. Specifically, under clauses 5H and 5I of the, JEN can request, as part of a charges revision application, that the AER include the expenditure excess in the costs to be recovered through JEN's revenues. In making a decision as to whether to allow this expenditure excess to be reflected in charges, the AER must consider the requirements of the CROIC. In particular, Clause 5I.7A of the CROIC states that¹¹:

'...the expenditure excess is prudent where that expenditure excess reasonably reflects the efficient costs of a business providing the Regulated Services.'

The CROIC nominates a number of matters that the Commission may take into account when assessing a business' expenditure excess, for example *'the market conditions relevant to the provision... of advanced metering infrastructure'* and *'the nature of the rollout obligation'*¹².

In relation to the latter matter, the key rollout obligation contained in the CROIC that has impacted JEN's expenditure excess is that¹³:

'Subject to clause 14.3, to the extent practicable each distributor must use its best endeavours to install a remotely read interval meter (which is operational as a remotely read interval meter in accordance with the functionality, distributor performance levels and distributor service levels set out in a further Order in Council to be made under section 46D of the Act) for all of the metering installations for customers with annual electricity consumption of 160MWh or less for which it is the responsible person on the End Date by that date' [Emphasis added].

JEN notes that its compliance with the rollout obligation above is being reviewed by the Essential Services Commission of Victoria (**ESCV**), with the assistance of Ernst & Young.

There are three key changes in market conditions that have influenced the timing and quantum of JEN's costs in 2013, relative to forecast. These are:

- The Mass Rollout (**MRO**) program was not completed by May 2013, as JEN had originally planned. The timing of meter installations leading up to the end of 2013 was affected by a number of changes in market conditions, not the least being the large number of 'no access and refusals' occurrences relative to what was reflected in JEN's initial budget application. The impact of the timing issue alone in 2013 is \$13.6M for capex (mainly due to more meters needing to be installed than planned) and \$2.6M for opex (mainly due to JEN not being able to retire legacy systems and processes that service non-AMI meters, as originally planned) relative to the AER-approved budget.
- JEN's AMI budget application for the CY2012-2015 regulatory period was based on utilising the services of its single AMI Installation Vendor (Service Stream) to complete the rollout by May 2013. This strategy became unsustainable, necessitating the adoption of a number of other initiatives to ensure that JEN used its best endeavours to complete the rollout by December, 2013. Amongst other things, JEN had to engage additional installation vendors, as well as having to re-negotiate its original contract with Service Stream (**SSIS**) to increase the rates paid to SSIS's sub-contractors to market levels. These issues are a key driver of JEN's overspend on installation costs, which in total, accounts for \$4.2M of the expenditure excess.

¹¹ Vic. Gov. Gazette No. G51 22 December 2011 – Amend CROIC ensuring cost efficiency

¹² As above, Clause 5I.8

¹³ As above, Clause 14.1(a)

1 — REGULATORY REQUIREMENTS

- JEN's AMI budget application for the CY2012-2015 regulatory period was also based on the policy and regulatory settings as at the end of February 2011, when JEN's budget application was submitted. Those policy and regulatory settings envisaged compulsory reassignment of all complex-site customers to time-of-use (ToU) tariffs. This meant that JEN could not consolidate metering installations with single-element meters as by design the compliant solution developed did not technically support two-element meters, multi-meter sites or the associated permutations of complex tariffs. Over the course of 2011 to the present time, the policy and regulatory settings have changed markedly, resulting in an opt-in approach to ToU tariffs and a substantive scope change in AMI requirements and therefore un-forecast change in the end-to-end AMI solution. This meant that JEN had to defer the exchange of meters for some 50,000 affected customers, until it had a functional IT system in place to cater for opt-in ToU tariffs. It also meant that JEN's single-element solution could not be used for all customers, and JEN had to incorporate two-element meters into its roll-out. The costs of this change were not provided for in the AER-budget—in fact the AER concluded, in 2011, that two element meters were, at that time, outside the scope of recoverable activities. This issue explicitly accounted for \$1.26M of JEN's expenditure excess in CY2013 (and \$2.7M over the 2012-2015 period), while also being a key contributing factor in delaying JEN's roll out schedule and re-sequencing the rollout program as sites are bypassed and later revisited.

In addressing each of the issues above, JEN has acted prudently to solve the issue at least cost, while still fulfilling its legal and regulatory obligations to provide metering services. This document explains how JEN made the relevant business decisions and demonstrates that those decisions resulted in efficient costs.

1.8 ALLOWABLE RATE OF RETURN

On 25 November 2013, after the AER approved JEN's 2013 charges application, JEN (together with other Victorian distributors) wrote to the AER to point out an error in its calculation of the debt risk premium used to set the WACC to apply for 2014 and 2015.¹⁴ In summary, JEN considered that the AER made an error by including a pair of bonds from Coca Cola that were not issued in Australia. Removing the Coca Cola bond pair would have the effect of increasing the debt risk premium by 6 basis points.

On 12 February 2014, the AER replied to JEN (and the other Victorian distributors) that it would not make any changes to the debt risk premium,¹⁵ due to, among other things:

- the quantum being immaterial
- the administrative complexity of reconsidering and amending a determination
- stakeholder certainty would be reduced by re-opening 2014 and 2015 charges.

JEN maintains that the AER has made an error in the calculation of the debt risk premium and should correct this error. The process for considering charges revision applications creates an opportunity to make this correction without incurring incremental administrative costs (as the charges revision process must take place regardless of this issue) or introducing incremental stakeholder uncertainty on pricing (the AER must reconsider charges for 2015 regardless of this issue). JEN's charges revision application uses the corrected debt risk premium and WACC. Appendix E provides the relevant supporting evidence, which was already submitted to the AER on 25 November 2013.

¹⁴ Letter from JEN, CitiPower, PowerCor, SP AusNet and United Energy, Advanced Metering Infrastructure revised charges determination – debt risk premium, 25 November 2013.

¹⁵ Letter from Chris Pattas to Eli Grace-Webb, Error in the debt risk premium calculation – AMI charges applications for 2014, 12 February 2014.

2. REVISED CHARGES FOR REGULATED SERVICES

In its Approach Paper, the AER stipulated pricing principles to be used when setting charges.

This chapter sets out JEN's revised proposed 2015 and describes how those charges comply with the AER's pricing principles.

2.1 PROPOSED REVISED CHARGES

JEN proposes 2015 charges equal to those approved by the AER in October 2011 as part of JEN's initial charges application process. Table 2-1 shows JEN's previously approved and proposed revised charges for 2015.

Table 2-1: Approved and revised regulated services charges for 2015

Nominal \$/meter	Approved	Revised
Single phase single element	219.90	231.28
Single phase single element meter with contactor	219.90	231.28
Three phase direct connected meter	270.24	284.22
Three phase current transformer connected meter	300.45	315.99

2.2 COMPLIANCE WITH AER PRICING PRINCIPLES

In section 4.5.2 of its Approach Paper, the AER set out a number of pricing principles. The AER accepted JEN's initial charges application as being compliant with those pricing principles. JEN is proposing to change the previously approved 2015 charges by the same percentage across all tariff classes, with the balance between tariff classes remaining the same. JEN therefore considers that its revised 2015 charges comply with the AER's pricing principles.

3. MANUAL METER CHARGES

Pursuant to clause 14AAB.2(a)(i) of the CROIC, JEN is applying for the AER to approve a manual meter charge that is the same as JEN's manual special meter read charge. For CY2014 the special meter read charge is \$10.32 per read, which is expected to increase to \$10.83 per read in CY2015, in accordance with the AER-approved CPI-X price path.

JEN considers that a manual meter charge of \$10.83 per manual meter read from 1 April 2015 would recover the costs of visiting the manually-read meter to read it, and entering the collected data into JEN's computer systems.

There are two types of manually read meters providing Regulated Services on JEN's network—those that are read quarterly and those that are read monthly. As the manual meter charge can only apply from April 2015, JEN would only apply the charge for three quarters of CY2015. Therefore:

- for meters that are read quarterly, the annual amount charged in CY2015 will be \$32.49 (three times the proposed manual meter charge per read), reflecting the three expected chargeable reads in CY2015, and
- for meters that are read monthly, the annual amount charged in CY2015 will be \$97.47 (nine times the proposed manual meter charge per read), reflecting the nine expected chargeable reads in CY2015.

JEN has also estimated the CY2015 costs to be incurred in providing the manual meter reads and the 2015 revenues to be collected through manual meter read charges (the two are equal) and has removed those costs and revenues from JEN's AMI charges application model. This, in turn, results in a slight reduction to JEN's proposed AMI meter charges, compared to the charges that would have been necessary if JEN was not able to apply a manual meter charge.

Appendix A

JEN RIN Response for calendar year 2013 - Regulatory Accounting Statements

(Attached as a separate file (confidential))



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Appendix B

KPMG audit report on 2013 actual costs

(Attached as a separate file (confidential))



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Appendix C

Filled out AER template

(Attached as a separate file (public))



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Appendix D Expenditure Excess Explanation

(Attached as a separate file (confidential))



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Appendix E

Supporting documentation on the appropriate rate of return

(Attached as a separate file (public))



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