



Jemena Electricity Networks (Vic) Ltd

JEN 2023-24 Pricing Proposal



An appropriate citation for this paper is:

JEN 2023-24 Pricing Proposal

Our Ref: JEN 2023-24 Pricing Proposal

Contact Person

Sandeep Kumar
Group Regulatory Analysis and Strategy Manager

Jemena Electricity Networks (Vic) Ltd

ABN 82 064 651 083
Level 16, 567 Collins Street
Melbourne VIC 3000

Postal Address

PO Box 16182
Melbourne VIC 3000
Ph: (03) 9713 7000
Fax: (03) 9173 7516

Table of contents

1.	Introduction	1
1.1	JEN's pricing approach.....	1
1.2	Submission structure and rule compliance	1
2.	Tariff classes and tariffs.....	6
2.1	Distribution use of system services.....	6
2.2	Alternative control services (ACS)	7
2.3	Sub-threshold tariffs.....	8
3.	Approach to setting tariffs	10
3.1	Stand-alone and avoidable cost for each tariff class.....	10
3.2	Long run marginal cost	11
3.3	Remaining pricing principles in the Rules	12
4.	Pricing proposal elements	16
4.1	Price variation elements	16
4.2	Comparison to revised proposal indicative prices.....	16
4.3	Revised indicative prices	17
5.	Designated pricing proposal, pass-throughs and jurisdictional scheme outcomes	18
5.1	Tariff variation for pass-throughs	18
5.2	Designated pricing proposal costs	19
5.3	Jurisdictional scheme recoveries	20

List of tables

Table 1-1:	Rule compliance submission references.....	2
Table 2-1:	Tariff classes for standard control DUOS services.....	6
Table 2-2:	Alternative control services tariff classes	7
Table 3-1:	Stand-alone & avoidable cost estimates compared to expected revenues (\$M, 2023-24).....	10
Table 3-2:	JEN LRMC estimates	11
Table 3-3:	Discount applied to cost-reflective residential tariffs.....	11
Table 3-4:	Growth Rates	13
Table 4-1:	JEN annual SCS price variation elements.....	16
Table 5-1:	Estimated TUOS revenue increase (\$M, Nominal).....	19

1. Introduction

In developing our tariffs for the current regulatory period—1 July 2021 to 30 June 2026 — Jemena Electricity Networks Ltd (VIC) (**JEN**) engaged with customers, stakeholders, and the community to better understand what they want and value and to help us make decisions that reflect their priorities and long-term interests.

Customers may not see our network tariff itemised on their electricity bill, as retailers incorporate our tariffs in their end prices and charges, along with the other costs of generating and supplying electricity. This submission (this document, its attachments and appendices combined, known as the **annual pricing proposal**) is meant to provide greater visibility to customers and other stakeholders on our network tariffs applicable from 1 July 2023 to 30 June 2024.

Like most other energy distribution network businesses in Australia, our network tariffs are regulated by the Australian Energy Regulator (**AER**). The AER reviews our network tariffs to check that they comply with the requirements of the National Electricity Rules (NER or the Rules) and ensure that they promote the long-term interests of customers.

NER 6.18.2(a)(2) requires that JEN submits an annual pricing proposal to the Australian Energy Regulator (**AER**) three months before the commencement of the second and each subsequent regulatory year of the regulatory control period. This submission is made in accordance with this requirement.

1.1 JEN's pricing approach

In accordance with the Rule requirements¹, JEN established its tariff classes and the tariff structures within its Tariff Structure Statement (**TSS**)² approved by the AER for the regulatory period 2021-26.³ This annual pricing proposal applies those approved tariff structures to 2023-24 tariffs and establishes tariff levels (prices) that meet the network pricing objective⁴ and pricing principles.⁵

Our proposed 2023-24 prices are based on the banking of the S-factor. If the AER had not approved Jemena's request to bank the S-factor, 2023-24 prices would necessarily have been affected through an increase to the total allowed 2023-24 revenue by \$9.45 million.

From the 2023-24 regulatory year, and in accordance with section 6.18.1C of the Rules, JEN intends to introduce two subthreshold tariffs to meet the changing needs of our community. JEN has notified the AER of the intention to conduct these tariff trials in a letter dated 28 February 2023. Further details, including proposed tariff structures for the trial, have been included in section 2.3.

1.2 Submission structure and rule compliance

1.2.1 Submission structure

JEN has structured this submission to demonstrate compliance with each of the requirements of rule 6.18.2(b) of the NER and the AER's 2020 Final Decision.⁶ The submission dedicates a section to each of the key areas of rule compliance:

- Section 2 – Tariff classes, tariffs and charging parameters
- Section 3 – Approach to setting tariffs

¹ National Electricity Rules (NER), cl 6.8.2

² AER, *Final Decision, Jemena distribution determination 2021-26, Revised Tariff Structure Statement April 2021 - Clean*, 30 April 2021.

³ AER, *Final Decision, Jemena distribution determination 2021-26, Tariff Structure Statement April 2021*, 30 April 2021.

⁴ NER, cl 6.18.5(a).

⁵ NER, cl 6.18.5(e)-(j).

⁶ AER, *Final Decision, Jemena distribution determination 2021-26, Tariff Structure Statement April 2021*, 30 April 2021.

- Section 4 – Pricing proposal elements
- Section 5 – Designated pricing proposal, pass-throughs and jurisdictional scheme recoveries
- Attachment 1 - Jemena 2023-24 proposed network tariff schedule
- Attachment 2 - Jemena 2023-24 alternative control services (**ACS**) and public lighting charges
- Attachment 3 - Jemena – FINAL – 2023-24 annual SCS pricing model – 31 March 2023
- Attachment 4 - Jemena ACS – Public lighting Model
- Attachment 5 - Annual pricing confidentiality template
- Attachment 6 – Evidence of inputs in the financial tab

1.2.2 Rule compliance

Table 1-1 sets out the specific rule requirement and where in this pricing proposal JEN has demonstrated compliance.

Table 1-1: Rule compliance submission references

Topic	Relevant rules	Submission reference
Pricing Proposal elements	6.18.2(b)(2) of the NER requires that the pricing proposal set out the proposed tariffs for each tariff class;	Section 2, Attachment 1 (SCS) and Attachment 3
	6.18.2(b)(3) of the NER requires that the pricing proposal set out, for each proposed tariff, the charging parameters and the elements of service to which each charging parameter relates;	Section 2, Attachment 1 (SCS) and Attachment 2 (ACS)
	6.18.2(b)(4) of the NER requires that the pricing proposal set out, for each tariff class related to standard control services, the expected weighted average revenue for the relevant regulatory year and also for the current regulatory year;	Attachment 3
	6.18.2(b)(5) of the NER requires that the pricing proposal set out the nature of any variation or adjustment to the tariff that could occur during the course of the regulatory year and the basis on which it could occur;	Section 5
	6.18.2(b)(6) of the NER requires that the pricing proposal set out how designated pricing proposal charges are to be passed on to customers and any adjustments to tariffs resulting from over or under recovery of those charges in the previous regulatory year;	Attachment 3 and Section 5
	6.18.2(b)(6A) of the NER requires that the pricing proposal set out how jurisdictional scheme amounts for each approved jurisdictional scheme are to be passed on to customers and any adjustments to tariffs resulting from over or under recovery of those amounts;	Attachment 3
	6.18.2(b)(6B) of the NER requires that the pricing proposal describe how each approved jurisdictional scheme that has been amended since the last jurisdictional scheme approval date meets the jurisdictional scheme eligibility criteria;	Section 5
	6.18.2(b)(6C) of the NER requires that the pricing proposal set out how system strength charges for system strength connection points on its network are to be passed through as described in clause 6.20.3A;	Section 5

Topic	Relevant rules	Submission reference
	6.18.2(b)(7) of the NER requires that the pricing proposal demonstrate compliance with the Rules and any applicable distribution determination;	All
	6.18.2(b)(7A) of the NER requires that the pricing proposal demonstrate how each proposed tariff is consistent with the corresponding indicative pricing levels for the relevant regulatory year as set out in the relevant indicative pricing schedule, or explain any material differences between them;	Section 4
	6.18.2(b)(8) of the NER requires that the pricing proposal describe the nature and extent of change from the previous regulatory year and demonstrate that the changes comply with the Rules and any applicable distribution determination.	Sections 3 and 4
	6.18.2(d) of the NER requires the Distribution Network Service Provider to submit a revised indicative pricing schedule which sets out, for each tariff and for each of the remaining regulatory years of the regulatory control period, the indicative price levels determined in accordance with the Distribution Network Service Provider's tariff structure statement for that regulatory control period and updated so as to take into account that pricing proposal.	Section 4, Attachment 3
	6.18.2(e) of the NER requires that where the Distribution Network Service Provider submits an annual pricing proposal, the revised indicative pricing schedule referred to in paragraph (d) must also set out, for each relevant tariff under clause 6.18.1C, the indicative price levels for that relevant tariff for each of the remaining regulatory years of the regulatory control period, updated so as to take into account that pricing proposal.	Section 4, Attachment 3
Pricing principles	6.18.5(a) of the NER describes the network pricing objective, which is that the tariffs that a Distribution Network Service Provider charges in respect of its provision of direct control services to a retail customer should reflect the Distribution Network Service Provider's efficient costs of providing those services to the retail customer	Section 3
	6.18.5(e) of the NER describes that the revenue for each tariff class is expected to be recovered should lie on or between: <ul style="list-style-type: none"> (1) an upper bound representing the stand-alone cost of serving the customers who belong to that class; and (2) a lower bound representing the avoidable cost of not serving those customers. 	Section 3
	6.18.5(f) of the NER describes that each tariff must be based on the long run marginal cost of providing the service to which it relates to the retail customers assigned to that tariff with the method of calculating such cost and the manner in which that method is applied to be determined having regard to: <ul style="list-style-type: none"> (1) the costs and benefits associated with calculating, implementing and applying that method as proposed; (2) the additional costs likely to be associated with meeting demand from retail customers that are assigned to that tariff at times of greatest utilisation of the relevant part of the distribution network; and (3) the location of retail customers that are assigned to that tariff and the extent to which costs vary between different locations in the distribution network. 	Section 3

Topic	Relevant rules	Submission reference
	<p>6.18.5 (g) of the NER requires the revenue expected to be recovered from each tariff must:</p> <ol style="list-style-type: none"> (1) reflect the Distribution Network Service Provider's total efficient costs of serving the retail customers that are assigned to that tariff; (2) when summed with the revenue expected to be received from all other tariffs, permit the Distribution Network Service Provider to recover the expected revenue for the relevant services in accordance with the applicable distribution determination for the Distribution Network Service Provider and (3) comply with sub-paragraphs (1) and (2) in a way that minimises distortions to the price signals for efficient usage that would result from tariffs that comply with the pricing principle set out in paragraph (f). 	Section 3
	<p>6.18.5(h) of the NER requires a Distribution Network Service Provider to consider the impact on retail customers of changes in tariffs from the previous regulatory year and may vary tariffs from those that comply with paragraphs (e) to (g) to the extent the Distribution Network Service Provider considers reasonably necessary having regard to:</p> <ol style="list-style-type: none"> (1) the desirability for tariffs to comply with the pricing principles referred to in paragraphs (f) and (g), albeit after a reasonable period of transition (which may extend over more than one regulatory control period); (2) the extent to which retail customers can choose the tariff to which they are assigned; and (3) the extent to which retail customers are able to mitigate the impact of changes in tariffs through their usage decisions. 	Section 3
	<p>6.18.5(j) of the NER requires tariffs to comply with the Rules and all applicable regulatory instruments.</p>	Section 4
Side constraint	<p>The final decision price control mechanism requires a side constraint to apply to each tariff class related to the provision of standard control services.⁷</p> <p>The expected weighted average revenue to be raised from a tariff class for a regulatory year must not exceed the corresponding expected weighted average revenue for the preceding regulatory year by more than the permissible percentage provided in the following formula</p> $\frac{\sum_{i=1}^n \sum_{j=1}^m p_t^{ij} q_t^{ij}}{\sum_{i=1}^n \sum_{j=1}^m p_{t-1}^{ij} q_t^{ij}} \leq (1 + \Delta CPI_t) \times (1 - X_t) \times (1 + 2\%) + I'_t + B'_t + C'_t$	Attachment 3
	<p>6.18.6(d) of the NER states that in deciding whether the permissible percentage has been exceeded in a particular regulatory year, the following are to be disregarded:</p> <ol style="list-style-type: none"> (1) the recovery of revenue to accommodate a variation to the distribution determination under rule 6.6 or 6.13; (2) the recovery of revenue to accommodate pass through of designated pricing proposal charges to customers; (3) the recovery of revenue to accommodate pass through of jurisdictional scheme amounts for approved jurisdictional schemes; (4) the recovery of revenue to accommodate any increase in the Distribution Network Service Provider's annual revenue requirement by virtue of an application of a formula referred to in clause 6.5.2(l). 	Attachment 3

⁷ AER, *Final Decision, Jemena distribution determination 2021 to 2026, Attachment 14, Control mechanisms*, Figure 14, April 2021.

Topic	Relevant rules	Submission reference
Designated Pricing Proposal Charges (includes recovery for transmission charges, inter DB charges and avoided transmission payments)	6.18.7(a) of the NER requires a pricing proposal to provide for tariffs designed to pass on to customers the designated pricing proposal charges to be incurred by the Distribution Network Service Provider.	Attachments 1 and 3
	6.18.7(b) of the NER determines that the amount to be passed on to customers for a particular <i>regulatory year</i> must not exceed the estimated amount of the <i>designated pricing proposal charges</i> adjusted for over or under recovery in accordance with paragraph (c)	Attachment 3
	6.18.7(c) of the NER requires the over and under recovery amount to be calculated in a way that: (1) subject to subparagraphs (2) and (3) below, is consistent with the method determined by the AER in the relevant distribution determination for the Distribution Network Service Provider; (2) ensures a Distribution Network Service Provider is able to recover from customers no more and no less than the designated pricing proposal charges it incurs; and. (3) adjusts for an appropriate cost of capital that is consistent with the rate of return used in the relevant distribution determination for the relevant regulatory year	Attachment 3
Jurisdictional scheme	6.18.7A(a) of the NER requires a pricing proposal to provide for tariffs designed to pass on to customers a Distribution Network Service Provider's jurisdictional scheme amounts for approved jurisdictional schemes.	Attachments 1 and 3
	6.18.7A(b) of the NER requires the amount to be passed on to customers for a particular regulatory year (year t) must not exceed the estimated amount of jurisdictional scheme amounts for a Distribution Network Service Provider's approved jurisdictional schemes for year t adjusted for over or under recovery in accordance with paragraph 6.18.7(c).	Attachment 3

1.2.3 Submission values and terminology

This submission employs the following standards:

- All cost estimates and revenues are expressed in \$2023-24 unless otherwise stated.
- All prices are expressed in \$2023-24.
- The term 'customer' should be interpreted as an end user of electricity rather than an electricity retailer.

2. Tariff classes and tariffs

In this section JEN sets out its tariff classes and tariffs for 2023-24, which are those outlined in our TSS.

2.1 Distribution use of system services

The tariff classes for distribution use of system (**DUOS**) standard control services are as set out in our TSS. Table 2-1 sets out JEN's 2023-24 DUOS tariff classes and the tariffs that are categorised within each of these.

Table 2-1: Tariff classes for standard control DUOS services

Tariff class	Relevant tariffs ⁸	Class definition
Residential	A100 / F100 ⁹ single rate A120 / F120 time of use A10D / F10D single rate – demand A180 off peak heating only (dedicated circuit)	Only available to residential customers. A180 is no longer available to new customers.
Small business ¹⁰	A200 / F200 single rate A210 / F210 time of use weekdays A20D / F20D single rate – demand A230 / F230 time of use weekdays – demand A23N / F23N time of use (demand opt out) A270 / F270 time of use extended – Demand A290 unmetered supply	Available to network customers (embedded or non-embedded) with annual consumption < 0.4 GWh AND maximum demand < 120 kVA. Customers with maximum demand greater than 120 kVA but consuming < 160 MWh pa are eligible for the demand 'opt out' A23N tariff. This may trigger a capital contribution recalculation.
Large business - low voltage	A300 / F300 LV ≤0.8 GWh A30E LV _{EN} annual consumption ≤0.8 GWh A30C / F30C LV ≤0.8 GWh cost-reflective A320 LV 0.8+ - 2.2 GWh A32E LV _{EN} 0.8+ - 2.2 GWh A32C LV 0.8+ - 2.2 GWh cost-reflective A340 LV 2.2+ - 6.0 GWh A34E LV _{EN} 2.2+ GWh A34C LV 2.2+ - 6.0 GWh cost-reflective A34M LV _{MS} 2.2+ - 6.0 GWh A34T LV _{MS} 2.2+ - 6.0 GWh cost-reflective A370 LV 6.0+ GWh A37C LV 6.0+ GWh cost-reflective A37M LV _{MS} 6.0+ GWh A37T LV _{MS} 6.0+ GWh cost-reflective	Only available to embedded network customers OR non-embedded network customers: with annual consumption ≥ 0.4 GWh <u>or</u> maximum demand ≥ 120 kVA.

⁸ Some of these tariffs are closed to new entrants as shown in Attachment 1.

⁹ A tariff code starting with the letter "F" indicates that the tariff attracts the premium feed-in tariff rebate but is otherwise the same as the equivalent "A" tariff. These are closed to new entrants.

¹⁰ Small business includes medium business.

Tariff class	Relevant tariffs ⁸	Class definition
Large business - high voltage	A400 HV A40E HV _{EN} A40C HV cost-reflective A40R HV _{RF} A40T HV _{RF} cost-reflective A480 HV - annual consumption >= 55 GWh A48C HV - annual consumption >= 55 GWh cost reflective	Only available to customers taking High Voltage supply (nominal voltage >= 1,000 volts AND <= 22,000 volts)
Large business - sub-transmission	A500 sub-transmission A50C sub-transmission cost-reflective A50A sub-transmission MA A50T sub-transmission MA cost-reflective A50E sub-transmission EG A50X sub-transmission EG cost-reflective A50M sub-transmission – multiple connection	Only available to customers taking supply form a nominal voltage > 22,000 volts

2.2 Alternative control services (ACS)

JEN has a single alternative control services tariff class as set out in our TSS. Within this tariff class, there are multiple user-requested services, each with their own associated price or unit rates that are proposed by us, but approved by the AER. The method for determining prices for these services takes two different forms as described in Table 2-2.

Table 2-2: Alternative control services tariff classes

Service	Relevant services	Definition
Fee based services	<p>Include:</p> <ul style="list-style-type: none"> Ancillary Network Services for which the AER has applied a cap on prices, for example services such as basic connections, de-energisations, re-energisations Metering services for 'small customers' (Type 5, 6 and AMI meters), Type 7 metering and other auxiliary metering services provided on a customer-requested basis The operation, maintenance and replacement (OM&R) services for public lighting, for which the AER has applied a cap on the price per lighting type. This also includes pricing for the written down value (WDV) and avoided cost for use when public lighting customers seek to change their old lighting stock to more efficient light types before the end of their economic life (section 3.3.3). 	Services for which the AER has applied a cap on the price per service.
Quoted services	Services for which the AER has placed a cap on the applicable labour rates (inclusive of labour on-costs and overheads). Prices for quoted services are based on quantities of labour plus materials and contractor services.	Services for which the AER has placed a cap on the applicable labour rates. ¹¹

¹¹ Cap does not apply to materials and contracts.

2.3 Sub-threshold tariffs

NER 6.18.1C allows distributors to conduct tariff trials within a regulatory period, provided the expected revenue from such tariffs does not exceed certain revenue thresholds. The following two trial tariffs are expected to commence in 2023-24:

- Community battery tariff, and
- A site-specific subtransmission tariff.

These tariffs will be updated annually, and maintained until 30 June 2026, the end of the current regulatory period. We notified the AER and retailers in our network about these trial tariffs in February 2023 in accordance with Rule 6.18.1C. We are also preparing a factsheet for retailers to provide them guidance on these trial tariff structures that we believe will assist them with in making changes at their end for timely implementation.

2.3.1 Community battery trial tariff

The objective of this trial is to explore whether a stand-alone community battery tariff will encourage the uptake of community batteries in our network and influence their operation to lower electricity bills over time. The tariff will be applicable irrespective of the ownership of the battery (i.e., whether owned by JEN or another party). The proposed structure is contained in Table 2-3 below.

Table 2-3: Community battery trial tariff structure

Tariff component	Unit	Import	Export
Fixed charge	\$/kVA battery capacity/annum	Per tariff A30C	
Solar soak, 10am-3pm, Sep-May	c/kWh	-1.5 (rebate)	0
Peak, 3pm-9pm, all year	c/kWh	Per tariff A30C	-1.5 (rebate)
Off-Peak, all other times	c/kWh	0	0
SDIC (Summer Demand Incentive Component) 4pm-7pm (workdays), Dec-Mar	c/kVA/day	Per tariff A30C	

While the revenue for this trial tariff has been included in the Total Allowed Revenue for 2023-24, any rebates to be paid to customers will be claimed, if allowable, as part of JEN's demand management incentive allowance (DMIA)¹². Uptake of community batteries could meaningfully defer network investment and result in long term savings for our customers. It may also promote innovation and improvements in battery technology over time and further benefits through network support. We therefore believe this trial tariff meets the requirements for the DMIA and seek the AER's approval for us to recover the cost through DMIA.

We will include any rebate expenditure and the justification for this in our annual DMIA report for each year in which rebates are paid over the balance of this regulatory period.

2.3.2 Site-specific subtransmission trial tariff

The objective of this trial is to offer a site-specific option to customers seeking to connect at subtransmission level. This will provide flexibility to customers who may not have the same profile as customers for whom the standard

¹² For this purpose, and to avoid cross-subsidisation of this trial tariff by other customers, we have excluded any forecast rebate from the calculation of the revenue cap for the remainder of the regulatory period.

tariffs have been developed, while still allowing cost-reflective revenue recovery. While each customer on this tariff will have its pricing calculated individually, the revenue recovery and structure will be similar to those of the cost-reflective subtransmission tariff A50C.

Table 2-4: Site-specific subtransmission trial tariff

Tariff component	Unit	Import
Fixed charge	\$/annum	Site-specific
Peak, 8am-8pm weekdays, all year	c/kWh	Site-specific
Off-peak, all other times	c/kWh	Site-specific
Annual demand charge	\$/kVA/annum	Site-specific

3. Approach to setting tariffs

3.1 Stand-alone and avoidable cost for each tariff class

Rule 6.18.5(e) requires that revenues from each tariff class for direct control distribution services lie between the economically efficient bounds of stand-alone and avoidable costs. The purpose of applying stand-alone and avoidable cost bounds on expected tariff class revenues is to ensure that, for each tariff class, the Distribution Network Service Provider (**DNSP**) is not pricing outside the bounds defined by economic efficiency. These stand-alone and avoidable cost bounds are the highest and lowest theoretical prices that a distributor could charge a customer class without imposing costs on other classes. That is, pricing outside these efficient bounds implies cross subsidisation between customer classes if the business is recovering its costs.

The avoidable cost of serving a group of customers is the reduction in cost that could be achieved if those customers were no longer served, i.e., the reduction in cost associated with a decrease in output that was previously provided to that class of customer. The stand-alone cost of serving a group of customers is the total cost required to serve those customers alone, i.e., if JEN were to build the network anew, removing all other customers from the network.

Our TSS outlines JEN's approach to estimating stand-alone and avoidable costs for standard control services (**SCS**).

Table 3-1 presents the stand-alone and avoidable cost estimates and the 2023-24 expected revenue results for each tariff class. It demonstrates that the expected revenue falls between avoidable and stand-alone costs for each tariff class.

Table 3–1: Stand-alone & avoidable cost estimates compared to expected revenues (\$M, 2023-24)

Tariff class	Avoidable cost	Expected revenue	Stand-alone cost estimate
Residential	\$16.02	\$143.95	\$1,222.52
Small business	\$5.69	\$55.17	\$1,384.55
Large business - low voltage	\$9.83	\$68.83	\$1,561.05
Large business - high voltage	\$3.30	\$22.76	\$520.38
Large business - sub-transmission	\$0.69	\$2.93	\$173.05

Our ACS are priced at cost as these services are incremental to the distribution business. The initial costing was reviewed and approved by the AER as part of the 2021-26 Electricity Distribution Price Review¹³ with annual updates to occur in accordance with the price control mechanism.¹⁴

¹³ AER, Final Decision, Jemena distribution determination 2021 to 2026, Attachment 16, Alternative Control Services, April 2021.

¹⁴ AER, Final Decision, Jemena distribution determination 2021 to 2026, Attachment 14, Control Mechanisms, April 2021.

3.2 Long run marginal cost

Rule 6.18.5(f) requires that each tariff be based on the long run marginal cost (**LRMC**) of providing the service to which it relates to the retail customers assigned to that tariff.

Table 3-2 sets out the LRMC estimates JEN has developed, using the methodology described in our TSS and updated for CPI.

Table 3–2: JEN LRMC estimates¹⁵

Tariff class	Unit	LRMC
Residential	\$/kW	\$59.72
Small business	\$/kW	\$41.49
Large business - low voltage	\$/kVA	\$35.86
Large business - high voltage	\$/kVA	\$22.48
Large business – sub-transmission	\$/kVA	\$0.23

3.2.1 Application of LRMC

Rule 6.18.5(f) requires that our tariffs be based on LRMC. Our LRMC has been calculated based on our cost driver, which is capacity (kW or kVA). All tariff classes have at least one tariff with a demand tariff component. This includes an opt-in tariff with a demand tariff component for small customers.

The demand tariff component is based on the LRMC levels. As our LRMC levels are relatively low compared to historical levels we have to collect a higher proportion of residual revenue in a way that minimises price distortions.¹⁶ This might normally lead to collecting the full residual revenue from fixed charges. However, consistent with our TSS, we recognise the disproportionate impact that increasing fixed charges has on smaller customers. In previous years we continued our approach to increase fixed charges by \$6 above the average price change. However, in 2023-24, with allowable revenue rising far more than forecast, this would have led to a bill increase that some socioeconomically disadvantaged customers would struggle to meet. We have therefore paused this approach for the current year and will resume it in future years of the regulatory period. However, where reasonable, we have increased the fixed charge component of small customers above the increase to other tariff components.

We have set the prices of our residential time of use tariff so that a typical customer's network bill is the same whether on the demand tariff or time of use tariff. As set out in our TSS, we have set both of these at a small discount to the single rate tariff (see Table 3-3). The time of use tariff will still, therefore, be set to best reflect the LRMC values and revenue we would obtain had a demand charge applied. This provides a link between the LRMC levels and our tariff levels (or prices) for our other residential tariffs.

Table 3–3: Discount applied to cost-reflective residential tariffs

Tariff Code	Tariff Name	Peak (kWh)	Off Peak (kWh)	Demand (kW)	DUOS bill (\$)	% Discount to A100
A100	Residential single rate	4,301			\$417	
A120	Residential time of use	1,763	2,538		\$402	3.5%
A10D	Residential demand	4,301		3	\$402	3.6%

¹⁵ Per page 21 of Jemena's TSS, these are converted demand charge components of tariffs, escalated annually by CPI.

¹⁶ Rule 6.18.5(g)(3).

Similarly, our business customer demand tariff components include some residual revenue recovery to ensure we minimise year-on-year price (or period-on-period) volatility driven by updated LRMC calculations. More information on how we set prices can be found in our TSS.

3.3 Remaining pricing principles in the Rules

As required by the Rules, JEN has had regard to a number of other relevant pricing principles when determining our 2023-24 tariff levels.

3.3.1 Recovering efficient costs

Rule 6.18.5(g) requires that we only recover our efficient costs and that tariffs reflect the total efficient costs of serving retail customers assigned to each tariff. It also requires that allowed revenue is recovered in a way that seeks to minimise distortions to efficient price signals.

Attachment 3 demonstrates that our expected revenue falls within our efficient allowance (total allowed revenue or TAR). Section 3.2.1 details our approach to recovering residual revenue to minimise price distortions.

Calculating our expected revenue requires we forecast customer numbers, consumption and demand for:

- 1 July 2022 to 30 June 2023 (t-1) - this forecast impacts the unders and overs account via the t-1 under or over recovery.
- 2023-24 - this forecast impacts the expected 2023-24 revenue, and therefore, 2023-24 price levels.

Our 2023-24 demand forecasting methodology combines:

- Projections based on historical data.
- Customer number and consumption growth rates established as part of our 2021-26 regulatory proposal.¹⁷
- Adjustments based on up-to-date large business customer connection information.

We detail this approach further for each of customer numbers, our volume forecast and demand forecasts below.

3.3.1.1 Customer number forecast

Our approach for the customer numbers forecast is to:

- Begin with the most recent customer numbers for year $t-2$ (year ending 30 Jun 2022) as submitted in table P1.3 of RIN A.
- Project customer numbers forward for year $t-1$ (year ending 30 Jun 2023) by applying the forecast customer number growth rates provided by ACIL Allen for our 2021-26 Plan to the $t-2$ estimates. These numbers are then adjusted for observed and material opt-in/opt-out movements between tariffs.
- Project forward customer numbers for year t (year ending 30 June 2024) by applying the forecast customer number growth rates provided by ACIL Allen for our 2021-26 Plan to the $t-1$ estimates.

Manually adjust our high-voltage large-business tariff segment based on expected new connections.¹⁸

¹⁷ Forecast growth rates provided by ACIL Allen in *JEN Demand Forecasts 2019-2028: Customer Number, Annual Electricity Consumption and Network Maximum Demand Forecasts*, 17 January 2020. These have an assumed impact of solar penetration and weather normalisation built into them.

¹⁸ These additional new sites are also taken into consideration when forecasting energy consumption and demand via the approach to forecast consumption (or demand) per customer and multiplying these by the forecast customer numbers on each tariff.

3.3.1.2 Volume forecast

Our approach for the volume (consumption) forecast differs slightly depending on the tariff we are forecasting. For tariffs with many customers, we use a consumption per customer approach. Where customer numbers are few, customer consumption is evaluated at a more granular level.

Our approach is to:

- Estimate $t-1$ consumption:
 - Year $t-1$ consumption (including consumption per customer) is estimated using the first six months of actuals coupled with half of the forecast of the last six months of consumption (as submitted in our 2022-23 submission). The last six months' forecast consumption was calculated using the long-term averages of consumption.
 - Analysis of the likelihood of unusually hot or cold weather in a season to impact on typical consumption for a season was also considered; however, no adjustment was made to consumption for weather in this submission. The established methodology for estimating an adjustment for weather normalisation resulted in consumption well below historical averages (since 2012-13) and would have resulted in further increases in prices to customers.¹⁹
 - Reflect the actual take-up trend of previous changes in tariffs in tariff consumption projections.
- Forecast consumption for each tariff component for year t :
 - Apply the adjusted growth rates provided by ACIL Allen for our 2021-26 Plan to the $t-1$ consumption (including consumption per customer) estimates.²⁰

Growth rates are adjusted as appropriate for the impact of new large business connections.

3.3.1.3 Demand (capacity) forecast

Our approach for the capacity (demand) forecast is to:

- Estimate $t-1$ capacity:
 - Extract the most recent actual capacity (i.e., demand measured in kW or kVA as appropriate for the tariff) for each tariff from the SAP billing system. Calculate each tariff component capacity divided by tariff customer numbers.
 - Update $t-1$ capacity per customer by using the first six months of actual capacity per customer and multiplying it by the updated $t-1$ customer number estimate.
- Forecast capacity for each tariff component for year t :

Multiply the updated $t-1$ tariff component capacity per customer by the year t customer numbers forecast calculated above

Table 3–4: Growth Rates

Customer Segment	Customer Number	Consumption
Residential	1.5%	1.5%
Small Business	0.8%	0.1%
Large Business – LV	1.4%	2.6%
Large Business – HV	0.0%	-0.1%
Large Business – Sub-transmission	0.0%	0.0%

¹⁹ ESC has indicated in its work on Victorian Residential Default Offer that average consumption/residential customer on a fixed rate tariff is 4,000kWh which is comparable to our current forecast without weather normalisation; application of the weather normalisation methodology would have reduced forecast consumption from residential customers to materially lower than this average resulting in higher pressure on prices.

²⁰ JEN - ACIL Allen Att 05-03 Electricity demand forecasts report - 20200131 - Public

3.3.2 Impact on customers

JEN has considered the impact on retail customers (Rule 6.18.5(h)) of changes in tariffs between 2022-23 and 2023-24. A significantly high out-turn December 2022 CPI of 7.83% is contributing to a larger than expected increase in DUOS revenue for 2023-24 regulatory year. A further addition of the STPIS outcome would increase volatility in prices.

3.3.2.1 Banking S-factor

At a time when out-turn inflation and interest rates are high, creating cost of living pressure, we consider that banking of STPIS further into the period is the right thing to do by our customers. Banking the S-factor will cause allowable revenue to increase by a lesser amount in 2023-24 and would also allow a less volatile price path for our customers to the end of the regulatory period.

We have also considered retail outcomes for customers, noting that the ESC is engaging on an increase to the Victorian Default Offer from 1 July 2023, which would increase a typical residential and small business customer's bill. This has been driven by recent wholesale market price volatility²¹.

We therefore proposed to the AER to bank Jemena's 2022-23 S-factor entitlement, which delays the recovery of \$9.45M from 2023-24 to a later year in the current regulatory period²². The AER has approved Jemena's request to bank its STPIS balance of \$9.45M. We welcome this as it will help to some extent with the current cost of living pressure and reduce price volatility.

3.3.2.1 Pass-through amounts

JEN has also considered the impact on different market segments of how we recover our pass-through amounts (jurisdictional and transmission use of system (**TUOS**) charges), which we began adjusting in 2020 tariffs. We consider that we can continue to improve how these pass-throughs are allocated to the different market segments to mitigate the volatility associated with these costs. We discuss this further in section 5.2.2.

In addition, we note that the final customer bill impacts are subject to the actions undertaken by retailers. For example, retailers may choose whether to pass through network price changes in full.

3.3.2.2 Typical customer bill impacts

Table 3-5 shows the proposed typical customer Network Use of System (**NUOS**) and AMI bill impacts for each market segment from 2022-23 to 2023-24.

Table 3-5: Proposed typical NUOS customer bill impacts (including AMI where applicable) (\$ nominal)

Market Segment	Bill for 2022-23	Bill for 2023-24	Bill change from 2022-23 to 2023-24	NUOS % change
Residential	\$631	\$676	\$45	7.1%
Small Business	\$2,272	\$2,435	\$163	7.2%
Large Business - low voltage	\$34,660	\$37,949	\$3,289	9.5%

²¹ Essential Services Commission Victoria, *2023–24 Victorian Default Offer: Draft Decision Factsheet*, 15 March 2023

²² JEN request to bank S-factor to the AER, 20 March 2023..

3.3.3 JEN ACS model and written-down value & avoided cost

Our ACS prices for 2023-24 escalate current prices by inflation. This is included in the draft ACS pricing model submitted to the AER on 17 February 2023. There is no change to the ACS model from the pre-lodgement submission, so the pre-lodgement model can be taken as our final submission.

In addition to the draft ACS pricing model, and consistent with our historical approach, we have escalated the WDV and avoided cost charges of our public lighting prices by inflation (refer to Attachment 4). The WDV and avoided cost charges are part of the public lighting prices as found in Attachment 2.

4. Pricing proposal elements

4.1 Price variation elements

Rule 6.18.2(b)(8) requires that we describe the nature and extent of change from the previous regulatory year.

The variables that influence the SCS DUOS prices are:

- Approved revenue path for the regulatory year (X-factor)²³ updated for the cost of debt
- Annual percentage change in the CPI
- F-factor incentive scheme amount
- STPIS (S-factor)
- Demand management incentive scheme (**DMIS**)
- Demand management innovation allowance (**DMIA**)
- Sum of approved cost pass-through amounts with respect to the regulatory year (C term)
- Under or over recovery of actual revenue collected through DUOS charges in prior years plus recovery of license fee charges, less previous year deliberate under-recovery (B term).

Table 4-1 shows the price variations for each variable in JEN's 2022-23 initial pricing proposal.

Table 4–1: JEN annual SCS price variation elements

Price variation element	Percentage / \$
CPI	7.83%
X-factor	0.1%
F-factor	\$43,200
S-factor	\$0 (with \$9.45M banked until a later year in the current regulatory control period as described in section 3.3.2)
DMIS	\$0
DMIA	N/A ²⁴
I (F-factor, S-factor, DMIS and DMIA)	\$43,200
C	\$0
B	\$4,453,820

4.2 Comparison to revised proposal indicative prices

6.18.2(b)(7A) requires that we demonstrate how each proposed tariff is consistent with the corresponding indicative pricing levels for the relevant regulatory year as set out in the relevant indicative pricing schedule, or explain any material differences between them.

²³ AER, *Final Decision, Jemena distribution determination 2021-26, Overview*, 30 April 2021.

²⁴ Note that the DMIA adjustment applies only in year 2 of the regulatory control period, and only to true up any unused portion of the DMIA from the prior regulatory control period. This is not affected by the use of the DMIA in the current period, as detailed in section 2.3.1.

We provided updated indicative 2023-24 prices in our 2022-23 pricing proposal model.²⁵ At a NUOS level, our 2023-24 proposed price levels are higher than our indicative price levels²⁶ because of:

- **Higher than expected CPI:** At the time the previous indicative pricing for 2023-24 was calculated, the RBA's forecast for December 2022 CPI was 2.75%. The out-turn CPI is significantly higher at 7.83%, adding \$21M to the Total Allowable Revenue (**TAR**) for 2023-24 and contributing to the DUOS TAR increase of 8.6%.
- **Higher than expected TUOS and JS increases:** The indicative pricing for 2023-24 included an assumption of a slight decrease to TUOS and JS pricing in 2023-24. The 2023-24 TAR for these components has risen by 13%, contributing to the total price increase. This has been most evident in those tariffs where TUOS makes a higher contribution to total revenue.

4.3 Revised indicative prices

We set out indicative price levels for each of the remaining regulatory years of the regulatory control period in the "Indicative prices" tab of Attachment 3. These have been updated to take into account this 2023-24 pricing proposal.

²⁵ Jemena – 2022-23 Pricing Proposal – Attachment 3a - Jemena 2022-23 annual SCS pricing model 6 April 2022 - CONFIDENTIAL - April 2022.

²⁶ We have adjusted the materiality threshold in the General tab of the pricing model to a 11 per cent trigger, consistent with AER advice provided to us on 16 December 2022.

5. Designated pricing proposal, pass-throughs and jurisdictional scheme outcomes

5.1 Tariff variation for pass-throughs

5.1.1 Rule requirements

Rule 6.18.2(b)(5) requires that a DNSP's pricing proposal must:

set out the nature of any variation or adjustment to the tariff that could occur during the course of the regulatory year and the basis on which it could occur

5.1.2 Potential tariff variation for pass-throughs

5.1.2.1 Possible pass-through events

Chapter 10 of the Rules specifies that the following pass-through events are applicable to all distribution determinations:

- regulatory change event
- a service standard event
- a tax change event
- a terrorism event.

In addition to the pass-through events and provisions set out in the Rule, the AER has determined the following pass-through events are also applicable to JEN:²⁷

- an insurance cap event
- an insurer credit risk event
- a natural disaster event
- a terrorism event
- a retailer insolvency event.

5.1.2.2 Retailer insolvency events

The insolvency of two retailers in 2022 has added \$0.17M to the TAR for 2023-24:

Table 5-1 - Unpaid charges resulting from retailer insolvency events

	2023-24
NUOS charges	\$155,558
Metering charges	\$13,084
	\$168,642

²⁷ AER, *Final Decision, Jemena distribution determination 2021-2026, Attachment 15, Pass through events*, April 2021.

5.2 Designated pricing proposal costs

5.2.1 Rule requirements

Rule 6.18.2(b)(6) requires that a DNSP's pricing proposal must:

set out how designated pricing proposal charges are to be passed on to customers and any adjustments to tariffs resulting from over or under recovery of those charges in the previous regulatory year

6.18.2(b)(6C) of the NER requires that the pricing proposal must:

set out how system strength charges for system strength connection points on its network are to be passed through as described in clause 6.20.3A;

5.2.2 Designated pricing proposal charges

JEN has set out a schedule of its proposed Designated Pricing Proposal Charges (incorporating TUOS tariffs) in Attachment 1 of this document. These tariffs are set to recover JEN's required transmission revenues as calculated in accordance with the mechanism specified in the AER's final determination²⁸ and shown in Attachment 3²⁹.

As shown in Table 5-1, the expected TUOS revenue increase from 2022-23 to 2023-24 is 11.1 per cent.

Table 5–1: Estimated TUOS revenue increase (\$M, Nominal)

	2022-23	2023-24
Grid Fee Forecast	\$72.7	\$78.3
Over/under recovery from previous year	-\$2.2	\$1.5
Actual/allowed revenue current year (grid fees plus under recovery)	\$70.5	\$79.8
Estimated revenue collected	\$71.8	\$79.8
% change		11%

Attachment 3 provides the full unders and overs account for TUOS. The volatility of transmission pass-through disproportionately impacts large business customer bills due to the larger proportion of their bills made up of transmission costs. Our long-term goal is to better align TUOS and DUOS allocations as set out in our TSS.

5.2.3 System strength connection points

If system strength charges arise, Jemena will pass through these charges in accordance with NER clauses 6.20.3A(b) and 6.20.3A(c). We will bill Distribution Network Users, identifying the relevant system strength connection points and providing other information required by the Distribution Network Users to verify the charges. The bills will be on a pass-through basis, and replicate as far as is reasonably possible the amount, structure and timing of the corresponding system strength charges billed to us by the relevant System Strength Service Provider (AEMO or Ausnet).

We have no system strength charges forecast for the 2023-24 period.

²⁸ AER, *Final Decision, Jemena distribution determination 2021-26 Attachment 14, Control mechanisms*, April 2021.

²⁹ TUOS charges are made up of scheduled charges per the attachments from our transmission suppliers AEMO and Ausnet, as well as connection charges relating to the South Morang Terminal Station (AEMO) and agreed augmentation costs (Ausnet).

5.3 Jurisdictional scheme recoveries

5.3.1 Rule requirements

Rules 6.18.2(b)(6A) and 6.18.2(b)(6B) require that a DNSP's pricing proposal must:

(6A) set out how jurisdictional scheme amounts for each approved jurisdictional scheme are to be passed on to customers and any adjustments to tariffs resulting from over or under recovery of those amounts; and

(6B) describe how each approved jurisdictional scheme that has been amended since the last jurisdictional scheme approval date meets the jurisdictional scheme eligibility criteria

5.3.2 Relevant jurisdictional schemes

There are two relevant jurisdictional schemes:

- Feed-in tariffs
- ESV levy.

Both the Premium Solar Feed-in Tariff (**PFIT**) and the Transitional Feed-in Tariff (**TFIT**) are now closed to new entrants. PFIT tariffs have been closed to new entrants from 1 January 2012 as per the Minister for Energy and Resources announcement on 1 September 2011. Eligible properties with an active PFIT contract will continue to receive this rate until 2024. Regulatory year 2023-24 will be the last full year in which PFIT is included, with PFIT for the remaining months in 2024-25 of the scheme to be included in the 2024-25 Pricing Proposal.

On 19 March 2021, the AER determined that the treatment of ESV levies established by section 8 of the Electricity Safety Act 1998 (Vic) (ESA) would become a jurisdictional scheme.

5.3.3 Jurisdictional scheme tariffs

JEN has set out a schedule of its proposed tariffs to recover costs incurred through relevant jurisdiction schemes in Attachment 1. These tariffs are set to recover JEN's required jurisdictional scheme revenues as calculated in accordance with the mechanism specified in the AER's Final Decision³⁰ and reflected in Attachment 3. We propose to recover jurisdictional scheme revenues from customer segments in the same proportion as we have historically.

³⁰ AER, *Final Decision, Jemena distribution determination 2021-26 Attachment 14, Control mechanisms*, April 2021.