

**Jemena Electricity
Networks (Vic) Limited
Submission**

**Preliminary positions:
Framework and approach
paper – Citipower,
Powercor, Jemena, SP
AusNet and United Energy
Regulatory control period
commencing 1 January
2011**

Date: 13 March 2009

Contact Person

Anton Murashev

Title

Manager Asset Regulation & Strategy
(JEN and AMI)

Phone Number

03 8544 9036

Email

anton.murashev@jemena.com.au

**Jemena Electricity Networks (Vic)
Limited**

ABN 82 064 651 083

321 Ferntree Gully Road

Mt Waverley VIC 3149

Postal Address:

Locked Bag 7000

Mt Waverley

VIC 3149

Ph: (03) 8544 9000

Fax:(03) 8544 9888

Table of Contents

EXECUTIVE SUMMARY	1
1 INTRODUCTION	2
2 GROUPING, CLASSIFICATION AND CONTROL MECHANISMS FOR DISTRIBUTION SERVICES	2
2.1 Network services	4
2.2 Connection Services	5
2.3 Metering Services	5
2.4 Public lighting services	6
2.5 Quoted services	7
2.6 Fee based services	10
3 SERVICE TARGET PERFORMANCE INCENTIVE SCHEME	12
4 EFFICIENCY BENEFIT SHARING SCHEME	12
5 DEMAND MANAGEMENT INCENTIVE SCHEME	12
5.1 Risk of ex post disallowance of DMIS costs	14
5.2 Uncertainty of compensation of forgone revenue	14
5.3 High administrative costs	14
6 COST ALLOCATION	15

Executive Summary

Jemena Electricity Networks (Vic) Limited (JEN) welcomes the opportunity to comment on the Australian Energy Regulator's (AER's) Preliminary Positions Framework and Approach Paper (the AER paper).

The comments in JEN's submission are made without prejudice to any positions or approaches JEN may take in its regulatory proposal to be submitted to the AER by 30 November 2009. The key points in JEN's submission are summarised below:

- **Service Grouping, Classification and Control Mechanisms**—The National Electricity Rules (NER) require the AER's framework and approach to set out the AER's likely approach in the forthcoming determination to the classification of distribution services, rather than the determination itself.

JEN therefore anticipates that the AER framework and approach will set out the AER's likely approach to classifying distributors' services at the time when a determination is made, or at most its suggested classifications, and will recognise that the framework and approach does not constitute the AER's determination of the matter. In that context, JEN has made some preliminary comments on the service groupings, classifications and control mechanisms proposed in the AER paper.

- **Service Target Performance Incentive Scheme (STPIS)**—JEN will provide its comments on the STPIS in response to the AER's separate STPIS paper.
- **Efficiency Benefit Sharing Scheme (EBSS)**—JEN supports the intent of the proposed EBSS. However, the introduction of negative carryovers envisaged in the proposed EBSS creates an incremental penalty on the distributor without providing any incremental incentives (over and above the existing scheme approved by the Essential Services Commission of Victoria). JEN therefore does not support the introduction of negative carryovers.
- **Demand Management Incentive Scheme (DMIS)**—JEN supports the intent of the proposed DMIS. However, there are a number of implementation issues that, unless addressed, will impair the effectiveness of the scheme. The issues include:
 - the risk of ex-post non-recovery of costs incurred under the DMIS
 - uncertainty of compensation of forgone revenue, and
 - high administrative costs.
- **Cost Allocation**—JEN agrees with the approach proposed in the AER paper, as this approach is consistent with the relevant provisions of the NER.

1 Introduction

Jemena Electricity Networks (Vic) Limited (JEN) welcomes the opportunity to comment on the Australian Energy Regulator's (AER's) Preliminary Positions Framework and Approach Paper (the AER paper) for the electricity distribution price review in relation to the 2011-2015 regulatory control period (EDPR).

JEN looks forward to constructively participating in the EDPR process throughout 2009 and 2010.

The comments in this submission are made without prejudice to any positions or approaches JEN may take in its regulatory proposal to be submitted to the AER by 30 November 2009.

This submission addresses issues in the order they are raised in the AER paper.

2 Grouping, Classification and Control Mechanisms for Distribution Services

The AER paper provides the AER's preliminary position on the appropriate grouping and classification, under the NER framework, of the existing prescribed and excluded services currently provided by the Victorian distribution network service providers (DNSPs).

The NER requires that, unless a different classification is clearly more appropriate, the AER's classification of a service should match the treatment of that service under the current Victorian regime, as administered by the Essential Service Commission of Victoria (ESC). The AER paper sets out a proposed classification of services that is largely consistent with that requirement.

The AER's proposed service groupings and classifications are reproduced in Table 1 below.

Table 1: AER’s Preliminary Position on Service Groupings and Classifications

Service Grouping	Negotiated Distribution Services	Direct Control Services – standard control services	Direct Control Services – alternative control services
Network services		All “standard” network services	
Connection services	Connection and augmentation works for new customer connections		Connection – energisation
Metering services			Metering services provided to existing first tier customers with annual consumption greater than 160 MWh that have either type 5 manually read interval meters or type 6 manually read accumulation meters Metering services for unmetered supplies
Public lighting services	New public lighting		Operation repair, replacement and maintenance of DNSP’s public lighting assets Alteration and relocation of existing DNSP public lighting assets
Fee based services			All fee based services
Quoted services			All quoted services

The AER paper also provides preliminary positions on the appropriate control mechanisms to apply to each service group.

JEN notes that section 6.8.1(b)(1) of the NER requires the AER’s framework and approach to set out the AER’s likely approach in the forthcoming determination to the classification of distribution services, rather than the determination itself.

Section 6.2.3 of the NER clearly states that:

“A classification forms part of a distribution determination and operates for the *regulatory control period* for which the distribution determination is made.”

In prior correspondence with the AER¹ on the informal information request, JEN has already noted that, while it is important for the AER to progress thinking about service classifications, it would be inconsistent with the NER for the AER to make any separate determination on this matter prior to making a final distribution determination. Nor does JEN believe that such a determination is desirable at an earlier stage, given the time and resources required to rigorously consider the relevant issues.

JEN therefore anticipates that the AER framework and approach will set out the AER’s likely approach to classifying DNSPs’ services at the time when a determination is made, or at most its suggested classifications, and will recognise that the framework and approach does not constitute the AER’s determination of the matter.

JEN makes its comments on service classification in that context, and the comments are preliminary only. JEN will put forward a proposed classification of its services in JEN’s regulatory proposal to be submitted by 30 November 2009, as it is required to do under section 6.8.2(c)(1).

In the following sections, JEN comments on the AER’s proposed groupings, classifications and control mechanisms for distribution services. JEN’s comments are structured by the AER’s proposed service groupings and, where appropriate, by individual services in a grouping.

2.1 Network services

The AER has grouped the following service activities as network services:

- constructing the distribution network
- maintaining the distribution network and connection assets
- operating the distribution network and connection assets for DNSP purposes
- planning the distribution network
- designing the distribution network
- emergency response, and
- administrative support (e.g. - call centre, network billing)

JEN agrees with the AER’s proposed classification of these services as *standard control services*. JEN also agrees that a weighted-average price cap control mechanism, consistent with the current approach applied in Victoria, is appropriate.

¹ Letter from Anton Murashev to Darren Kearney of 24 October 2008.

2.2 Connection Services

The AER has grouped the following services as connection services:

- energisation of new connections
- connection and augmentation works for new connections.

Each of these services is discussed in turn below.

2.2.1 Energisation of new connections

The ESC currently classifies the energisation of new connections as an excluded service by the ESC. While the service is described as “new connection”, the activity involves the installation of an aerial service and a meter, as well as energisation of the connection. JEN supports the AER’s description of this service as *energisation of new connections* as it aptly describes the activity and considers the AER’s proposed classification of these services as *alternative control service* is appropriate. JEN also supports the AER’s proposal for these services to use a price cap control mechanism, which would apply the same framework that currently applies under the ESC’s Guideline 14.

2.2.2 Connection and augmentation works for new connections

New works and augmentation works may form part of the connection services a DNSP provides to a customer. The ESC’s Electricity Industry Guideline No.14 currently regulates and classifies these services as excluded services. JEN’s distribution licence requires it to make an offer to customers requesting such services. The offered charges, as well as the other terms and conditions, must be fair and reasonable.

JEN agrees with the AER proposal to classify these services as *negotiated distribution services*. Such a classification is consistent with the current treatment of such services.

2.3 Metering Services

The AER has grouped the following metering activities and proposed to classify them as alternative control services:

- Metering provider services for first tier customers with annual consumption greater than 160 MWh with Types 5 and 6 metering installations.
- Metering data provider services for first tier customers with annual consumption greater than 160 MWh with Types 5 and 6 metering installations.
- Metering data provider services for unmetered supplies with Type 7 metering installations.

The metering services mentioned above are currently classified as excluded services by the ESC. JEN agrees with the AER’s proposed classification of these metering services as *alternative control services*. JEN also supports the AER’s proposal for these services to use a price cap control mechanism, which would apply the same framework that currently applies under the ESC’s Guideline 14.

JEN also agrees that it would not be appropriate for the AER to classify any other metering services, as those metering services are regulated under a separate regulatory framework established the Cost Recovery Order in Council.²

2.4 Public lighting services

The AER paper provides a proposed classification for three different types of public lighting services:

- operation, repair, replacement and maintenance of existing DNSP public lighting assets
- alteration and relocation of existing DNSP public lighting assets, and
- new public lighting.

2.4.1 Operation, repair, replacement and maintenance of existing DNSP public lighting assets

The public lighting service relating to the operation, repair, replacement and maintenance of existing DNSP public lighting assets is currently classified as an excluded service by the ESC. The AER has proposed to classify this service as an *alternative control service*. JEN concurs with the AER's classification.

The AER has proposed that the control mechanism to apply to this service would be a "limited" building block approach. The AER paper does not provide detailed information on how this approach would differ from a "normal" building block approach. JEN is therefore unable to comment on the AER's proposal in detail.

At a principle level, an approach that achieves the benefits of building block regulation while simplifying the price review process is attractive. JEN would appreciate the AER clarifying the ways in which the building blocks approach can be simplified for the purpose of setting public lighting charges. For example, in setting the prices for public lighting in the previous EDPR, the ESC used high-level Victorian benchmarks for operating and maintenance costs per light, rather than detailed business-specific cost estimates.

2.4.2 Alteration and relocation of existing DNSP public lighting assets

Section 3.4.2 of the AER paper states:

"With the exception of metering services (unmetered supplies), all of these services are currently subject to a price cap control mechanism, although in the case of quoted services (which include recoverable works and the alternation and relocation of existing public lighting assets) the price cap applies to the cost of the units that are employed in providing the services."

² Order in Council under section 15A and section 46D of the Electricity Industry Act 2000 originally published in the Victorian Government Gazette on 28 August 2007 and amended on 25 November 2008.

In JEN's view, the above statement is not correct in relation to the alteration and relocation of existing public lighting assets. The current regulatory Electricity Distribution Pricing Determination (EDPD) does not set a price cap for the alteration and relocation of existing public lighting. Instead, the EDPD provides that these services should be provided on terms and conditions that are fair and reasonable. Moreover, this type of activity is currently regulated by the ESC's Public Lighting Code. Clause 4.4 of the Code allows a public lighting customer to alter, relocate or replace public lighting assets under certain conditions.

It is not possible to anticipate every type of request that public lighting customers may make on JEN. Therefore, on JEN's network, in cases where the number of lights involved is small (e.g. - less than ten), the alteration and relocation of existing public lighting assets is currently performed as recoverable works. ESC-approved unit rates are used where available, with all other costs being passed-through to the customer at the actual cost incurred.

For large scale requests for alteration and relocation of existing public lighting assets, JEN currently negotiates directly with the relevant customer, with the negotiation process ensuring the price offered is fair and reasonable.

JEN therefore considers that it would be appropriate to split this service category into large-scale and small-scale alteration and relocation, with the following classifications applying to the two sub-categories:

- Small-scale alteration and relocation—to be classified as an *alternative control service*. With the control mechanism:
 - specifying standard labour rates, and
 - providing for the pass through of all other actual costs incurred in providing the service (e.g. – materials, traffic management).
- Large-scale alteration and relocation—to be classified as a *negotiated distribution service*

JEN's proposed approach better reflects the treatment of the relevant services under the current EDPD and Guideline 14.

2.4.3 New public lighting

New public lighting installation works are currently contestable services in Victoria and are currently classified as excluded services by the ESC. Under JEN's distribution licence, it is required to make an offer to those requesting public lighting services. The offer must be on terms and conditions that are fair and reasonable.

JEN agrees with the AER's proposed classification of new public lighting services as a *negotiated distribution service*.

2.5 Quoted services

The AER has grouped the following service activities as quoted services:

- a) rearrangement of network assets at customer request, including alteration and relocation of existing public lighting assets
- b) supply enhancement at customer request
- c) emergency recoverable works
- d) auditing of design and construction
- e) specification and design enquiry fees; and
- f) watchman lights — installation.

The AER Paper proposes that a price cap control mechanism will apply to the unit costs for the quoted services grouping of alternative control services. However, JEN notes that, while labour unit costs can be readily set, for a number of relevant costs (such as traffic management and material costs) it is not feasible to set unit costs. Additional comments on each service are provided below.

2.5.1 Quoted services (a) to (b) – customer-requested rearrangement of network assets or supply enhancement

Currently on JEN’s network, quoted service activities (a) and (b) above are regulated as recoverable works. The regulation of recoverable works, as it pertains to alteration and relocation of public lighting assets, is discussed in section 2.4.2 above. That section also explains that pricing for large-scale alteration and relocation of public lighting assets is directly negotiated with the customer.

Further to the discussion in section 2.4.2, it is important to understand why it is not practical to apply standard price caps to such activities. The costs of individual requests may vary widely. For example, consider a customer request for pole relocation. The pole may be wood or concrete, and the construction at the top of the pole can range from a single low voltage circuit with an intermediate structure to a complex structure consisting of multiple high voltage circuits with multiple single and/or double terminations. All of these differences create a significant difference in the cost of the relocation.

JEN considers it would be appropriate to split quoted service categories (a) and (b) into large-scale works and small-scale works sub-categories, with the following classifications applying to the two sub-categories:

- Small-scale works—to be classified as an *alternative control service*. With the control mechanism:
 - specifying standard labour rates, and
 - providing for the pass through of all other actual costs incurred in providing the service (e.g. – materials, traffic management).
- Large-scale works—to be classified as a *negotiated distribution service*.

JEN’s proposed approach better reflects the treatment of the relevant services under the current EDPD and Guideline 14.

2.5.2 Quoted service (c) – emergency recoverable works

JEN notes that it is not clear what is meant by the term “emergency recoverable works”. In JEN’s understanding, this term could refer to either or all of:

- a) Repair of damage as a result of genuine network emergency.
- b) Emergency call out cost where the customer fault (e.g. – customer did not check whether the main switch is in the “ON” position).
- c) Costs resulting from damage to a DNSP’s network, as a result of an accident caused by a third party.

In the case of (a), the cost is born by the DNSP and is recovered as part of the revenue collected from standard control services (currently Distribution Use of System charges). No fee is charged to the customer. In the case of (a) therefore, no separate classification is required.

In the case of (b), the customer is charged a standard call out rate, set out in the schedule of excluded service charges approved by the ESC. Therefore, in this case, a classification of *alternative control service* is appropriate, with the control mechanism being a simple price cap on a defined standard call out fee.

In the case of (c), no current classification by the ESC exists. The distributor negotiates the recovery directly with the third party that is liable for the damage caused. Cost recovery of damages in the case of (c) is a purely commercial matter that is not related to distribution services and, therefore, no classification is required.

JEN assumes that the AER’s intention was to describe case (b) only. JEN requests that the AER clarify this matter and consult further prior to finalising its framework and approach.

2.5.3 Quoted services (d) and (e) – auditing of design & construction and specification & design enquiry fees

Services (d) and (e) are currently offered under a negotiation framework regulated by the ESC’s Electricity Industry Guideline No.14. In JEN’s view, therefore, a classification of *negotiated distribution service* is more appropriate.

2.5.4 Quoted service (f) – watchman lights installation

This service is not currently regulated on JEN’s network. JEN only provides this service where it is possible to attach a security light to a power pole a structure in the public space. Where there is no such structure, the service is not offered. Business customers have the choice of installing their own security light within their property. This service is essentially a legacy service that has remained in place from the time prior to privatisation.

The AER has classified the installation of Watchman lights as an *alternative control service*. JEN does not support the AER’s classification and proposes that this service should not be classified, as it is fully contestable.

2.6 Fee based services

The AER has grouped a range of services as fee based services, has classified the services as *alternative control services* and has proposed that the control mechanism to apply to those services should be a simple price cap. With the exception of the services listed below, JEN agrees with the classification and proposed control mechanism for fee based services. The exceptions are as follows:

- location of underground cables
- supply abolishment
- high load escorts — lifting overhead lines
- elective underground service where an existing overhead service exists
- watchman lights — maintenance.

JEN does not consider it appropriate to group the above services as fee based service. JEN believes that a *quoted services* grouping is more appropriate in some cases, while for others, a grouping or classification is not necessary in principle. As a result, in some cases, the appropriate classification and control mechanism are also different to those proposed by the AER.

Each relevant service is discussed in more detail below.

2.6.1 Location of underground cables

This service is not listed in JEN's schedule of excluded services under the current EDPD. This service is provided on an infrequent basis and a recoverable works charge is applied.

The AER has grouped this service as a fee based service with a simple price cap applying to the service charge. JEN supports the AER's grouping, provided the service in question is limited to simple works for underground cable location. This *fee based* service would capture the majority of cable location requests.

However, some requests are large scale and complex, with widely varying costs to the DNSP. Complex works should be grouped as a *quoted service*, with a consistent classification as an *alternative control service* and a control mechanism that specifies standard labour rates, and provides for the pass through of all other actual costs incurred in providing the service.

In its regulatory proposal, JEN will put forward its proposed method for separating simple and complex undergrounding works.

2.6.2 Supply abolishment

This service covers the removal of a temporary or permanent supply service connection premises. Where the works involved are simple, JEN concurs with the AER's grouping of this service as a *fee based* service and the use of a simple price cap control mechanism.

However, some supply abolition requests are complex or large scale (e.g. – abolition involving a direct connection to a substation), with widely varying costs to the DNSP. Complex supply abolition should be grouped as a *quoted service*, with a consistent classification as an *alternative control service* and a control mechanism that specifies standard labour rates, and provides for the pass through of all other actual costs incurred in providing the service.

In its regulatory proposal, JEN will put forward its proposed method for separating simple and complex supply abolition works.

2.6.3 High load escorts — lifting overhead lines

The AER has grouped this service as a *fee based* service and has proposed that a simple price cap apply to the service charge. Works relating to high load escorts and lifting of overhead lines can vary in scope and duration and it is therefore not practical for a single fee to be specified.

JEN therefore proposes that this service should be grouped as a *quoted service* with a consistent classification as an *alternative control service* and a control mechanism that specifies standard labour rates, and provides for the pass through of all other actual costs incurred in providing the service.

2.6.4 Elective underground service where an existing overhead service exists

The AER has grouped this service as a *fee based* service and has proposed that a simple price cap apply to the service charge. JEN does not agree with this approach and considers a *quoted service* grouping is more appropriate.

JEN considers that this service is, in essence, an augmentation service, conceptually equivalent to the “connection and augmentation works for new connections” service, which the AER has proposed to classify as a *negotiated distribution service*. JEN therefore considers that elective undergrounding should also be classified as a *negotiated distribution service*. Such an approach is also more consistent with the current treatment of the service.

The charges for this service only apply where a customer with an existing overhead service chooses to request an underground service. JEN currently provides the electrical connection from the pole or underground mains to the pit located on the property boundary. These works are undertaken as recoverable works and a quotation is supplied for these works upon application.

This service is costed on a project by project basis and the cost can vary significantly. For example, the cost of a pole to pit underground service can range from \$2,500 to \$6,000. This is because the underground cable can vary in length between jobs, with some of the jobs also requiring under-road crossing and traffic management.

It would be inappropriate to require JEN to provide a single average price for all elective undergrounding works, as it would create inadvertent cross-subsidies between customers and perverse incentives.

2.6.5 Watchman lights — maintenance

As discussed in section 2.5.4, the charges in relation to watchman lights are not currently regulated on JEN's network. Furthermore, this service is fully contestable. JEN therefore submits that this service should not be classified.

3 Service Target Performance Incentive Scheme

JEN notes that the AER has released a separate paper on the Service Target Performance Incentive Scheme (STPIS). JEN intends to provide detailed comments on the STPIS in response to that paper. JEN has chosen not to comment on the STPIS in this submission.

4 Efficiency Benefit Sharing Scheme

The AER Paper proposes to apply an efficiency benefit sharing scheme (EBSS) that is similar to the current scheme put in place by the ESC. The main difference between the two schemes is that the AER's proposed EBSS provides for negative carryovers where a distributor overspends its regulatory allowance for operating and maintenance expenditure. Under the current scheme only positive carryovers apply.

In JEN's view, negative carryovers create an incremental penalty on the distributor without providing any incremental incentives. Under the current carryover scheme, where a distributor overspends its regulatory allowance for operating and maintenance expenditure, the overspend cannot be recovered from regulated revenue. A strong incentive therefore already exists to not overspend. It is not clear to JEN what additional benefit is achieved by the proposed EBSS through an additional penalty equal to the amount of the overspend.

JEN also notes that, under section S6.1.3(3) of the NER, JEN must, as part of its regulatory proposal, propose how the EBSS should apply to JEN. Over the coming months, as JEN prepares its regulatory proposal, JEN will form a view on the appropriate way to apply the EBSS and put that view forward in the regulatory proposal.

5 Demand Management Incentive Scheme

The AER Paper proposes to apply a Demand Management Incentive Scheme (DMIS) in the 2011-2015 regulatory period. JEN notes that, in addition to discussing the DMIS in the AER Paper, the AER has also released a separate consultation paper on the DMIS. JEN has chosen not to make a separate submission on that consultation paper, and has provided all of its comments on the DMIS below.

In developing and managing its network assets JEN regularly considers non-network options, including demand management initiatives. JEN supports the intent of the proposed DMIS and believes it is a step in the right direction.

JEN also agrees with the AER's statement that:

"The proposed DMIS, however, is not intended to be the sole, or even the primary, source of expenditure recovery associated with demand management initiatives undertaken by DNSPs. To this end, the AER considers that the primary source of funding for demand management programs in a regulatory control period should be the forecast operating expenditure (opex) and capital expenditure (capex) approved in the distribution determination...

...The AER notes that there are existing incentives for DNSPs to conduct demand management within the current regulatory framework. For instance, the regulatory regime provides a financial incentive to undertake demand management expenditure that defers capex included in the forecast approved at the time of the distribution determination. The incentive will be realised to the extent that the benefits of the capex underspend outweigh the demand management expenditure required to achieve that deferral."³

In particular, JEN agrees that the primary source of cost recovery associated with demand management initiatives is the revenue DNSPs receive over time to recover AER-approved forecasts of operating and capital expenditure.

In JEN's understanding, the DMIS is an optional, supplementary scheme that is meant to provide an incremental incentive to undertake additional demand management, where such may be beneficial. Examples of this include incurring costs in relation to demand management initiatives that were conceived after the DNSP's regulatory proposal was approved by the AER, or initiatives that for various reasons were not viable without additional funding (e.g. – research and development activity with a low but material probability of success).

While, in general, JEN supports the AER's intent in proposing the DMIS, there are a number of implementation issues that, unless addressed, will impair the effectiveness of the scheme. The issues include:

- the risk of ex-post non-recovery of costs incurred under the DMIS
- uncertainty of compensation of forgone revenue, and
- high administrative costs, including requirements for director sign-off and annual reporting.

We discuss each of these issues in turn.

³ AER, "Explanatory Statement: Proposed demand management incentive scheme", December 2008, page 2.

5.1 Risk of ex post disallowance of DMIS costs

While the proposed DMIS provides for an ex ante budget allowance for demand management initiatives, some or all of that allowance may be clawed back ex-post if some or all of it was not spent, or was spent, but subsequently not approved by the AER. This poses a risk to DNSPs and will disincentivise them from undertaking demand management initiatives incremental to those put forward in the regulatory proposal as part of forecast operating and capital expenditure.

JEN notes that a better approach would be for distributors to apply to the AER during the regulatory period (ex ante) and obtain approval for demand initiatives before going ahead with those initiatives. The cumulative cost of demand initiatives approved by the AER for any DNSP in any regulatory period would be limited to the allowance cap proposed in the AER Paper.⁴

5.2 Uncertainty of compensation of forgone revenue

As part of the DMIS, the AER has proposed a mechanism that compensates the distributor for revenue forgone as a result of reductions in quantity of energy sold due to AER-approved demand management incentives.

JEN notes that the proposed mechanism applies only to AER-approved initiatives. While this approach is sensible in principle, it also extends the risk of ex-post disallowance (discussed in section 5.1 above) to the recovery of forgone revenue, since initiatives are approved (or not approved) ex post, rather than ex ante. JEN reiterates that a better approach would be for the AER to assess and approve (or not approve) initiatives proposed by DNSP before these initiatives are put into effect.

Furthermore, as noted by the AER, the appropriate method for estimating forgone revenue may vary from project to project and will, in any case, be approximate at best. To improve certainty, the ex ante assessment of a demand management initiative should also include an assessment of the DNSP's proposed method for estimating the forgone revenue.

5.3 High administrative costs

The AER has proposed annual reporting in relation to the DMIS. The AER has also proposed that the annual reports be signed off by a Director of the DNSP.

Given the relatively small annual allowance for demand management initiatives under the DMIS, the reporting requirements are overly onerous in JEN's view. In particular, the requirement for Director (rather than CEO) sign-off on information in relation to projects with a cost of \$200,000 per annum or less seems unnecessary.

JEN notes that the DMIS does not compensate DNSPs for the administrative costs of obtaining approvals for and providing regular reports on demand management

⁴ In the case of JEN, the amount would be \$1m (\$200,000 per annum proposed by the AER, multiplied by 5 years in the regulatory period).

initiatives. It is therefore important to ensure that administrative costs are minimised, in order to avoid disincentivising DNSPs from actively participating in the DMIS.

As noted above, JEN proposes that DNSPs apply to the AER on an as-needed basis where the DNSPs contemplate undertaking initiatives under the DMIS. Under JEN's proposed approach, the regular reports would simply provide information on the progress of any initiatives approved by the AER and implemented by the business. Instead of being annual, such reports could be provided in the first, third and last year of the regulatory period and be signed off by the CEO of the DNSP. The reports would also not be required from DNSPs that chose to concentrate on demand initiatives that form part of their opex and capex allowance under the EDPR, as opposed to under the DMIS.

6 Cost Allocation

The AER has proposed that:

- The Victorian DNSPs prepare and submit a Cost Allocation Method to the AER in accordance with the NER and section 3 of the AER's Victorian Cost Allocation Guidelines.
- The AER will approve, or reject, a Victorian DNSP's proposed Cost Allocation Method in accordance with section 4 of the Victorian Cost Allocation Guidelines.
- The Victorian DNSPs apply their approved Cost Allocation Method in accordance with section 5 of the Victorian Cost Allocation Guidelines.

This approach is consistent with the relevant provisions of the NER and JEN agrees with the proposed approach.