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Warwick Anderson
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Dear Mr. Anderson,

Annual pricing process review - Position paper and preliminary standardised model template

Jemena Electricity Networks' (**JEN**) appreciates the opportunity to respond to the Australian Energy Regulator's (**AER**) position paper and preliminary standardised model template on the annual pricing process. We acknowledge the collaborative approach the AER has taken to improve the annual process.

We separate our provide comments below into the pre-lodgement process and preliminary model provided as part of the consultation. We have not made any comments on the potential for year 1 change, recognising this would be a separate engagement process and impacts more areas than tariff publications.

Pre-lodgement process

JEN supports the AER's intent to facilitate more timely and accurate annual pricing approvals. We recognise and appreciate the timing issues for the AER, retailers, state regulators and stakeholders that are about to be exacerbated by the movement of Victorian electricity and gas annual pricing proposals to financial year.

We therefore support a collaborative and informal pre-lodgement process that provides the AER with early meaningful information to enable some checks and activities to be run to ground prior to distributors formal proposals due by 31 March each year.

We are also mindful of the Australian Energy Market Commission's (**AEMC**) intent for the Tariff Structure Statement (**TSS**) process was to allow for a more streamlined the annual pricing process. At the time of introducing the TSS process, the AEMC noted:¹

¹ AEMC, Rule determination, Distribution Network Pricing Arrangements, 27 November 2014, pp 106-107.

“Changes to the timing of the annual network pricing process are possible under the final rule because a large proportion of the network pricing process will be undertaken in the regulatory determination process. As a result, the process to develop and approve annual network prices will be more streamlined, allowing the process to occur within a more definitive timeframe.”

Any approach should therefore avoid introducing any new burden's on the AER or distributors. To support this, we consider:

1. The the pre-lodgement process should focus on distributors providing the AER with a preliminary model (with available information pre-filled by the AER) for the purposes of:
 - facilitating the AER to discharge its obligation to assess the distributors demand forecast as 'reasonable'
 - enabling pre-filled model inputs, where available, to be checked and agreed
 - providing early sight of tariff trial information and stand-alone and avoidable cost inputs
 - testing to ensure the model is error free
 - ACS & metering pricing where this is unlikely to be subject to change
 - identifying where confidential information sits in the model and the required redactions for publishing
 - anything else the distributor wants to raise or test with the AER.
2. Standard control service prices are only included to demonstrate model compliance and to highlight any potential model computational or output issues. There is acknowledgement that:
 - these prices will change (given they will be based on a number of placeholder assumptions)
 - no variance explanation to final submitted prices or indicative prices is required.
3. Future indicative prices are not required with the preliminary model.

The AER indicates that estimated and forecast demand should be unchanged from the preliminary pricing proposal except in response to AER questions.² There are situations where distributors may need to update forecasts (for example, where an error is found or additional information becomes available) and should be able to initiate these in consultation with the AER.

Standardised pricing model

JEN supports the concept of a standardised pricing model template, which has worked well across the Victorian distributors. We support the AER pre-filling information so that distributors

² AER, Position paper, p. 11.

can check this. This brings forward any required conversations and the ability to resolve initial differences prior to formal lodgement of proposals.

We have some concern with how the AER intends to bring in and use RIN information and use historical quantities and prices to match the RIN revenue amount.³ As we don't yet have the compliance tabs to comment on, it's not clear how the AER might use these. We need to be careful when using information that was created for another purpose and avoid calculations that may not reconcile. Otherwise, we will instead create confusion and the need for additional explanations.

This is particularly relevant when there are multiple definitions for and use of 'customer numbers'. For example, the "Actuals" tab contains annual RIN inputs for customer numbers. Customer numbers reported in the annual RIN are calculated as the average number of customers at the start and at the end of the reporting period, and include all energised, de-energised and unmetered customers. For pricing purposes, all de-energised customers and un-metered customers are excluded. Therefore, the customer numbers in the "Actuals" tab will not match numbers in the "Hist.prices" tab.

Similarly, the total revenue for Distribution and Designated Pricing Proposal Charges (DPPC) charges in the "Hist.rev.detail" tab will differ slightly to what is reported in the "Actuals" tab. This is because the distribution revenue reported in the annual RIN is based on the revenue reported in Jemena's General Ledger with adjustments incorporated into it. It is accurate as it is calculated using actual monthly customer numbers and reconciles to our billing. In comparison, the historical revenue calculation is based on multiplying actual prices and annual quantities (including annual customer numbers). This may also impact how the AER intends to incorporate compliance checks into the model and we question whether this level of additional information in the model detracts from the simplicity of simply using RIN revenue as an input in previous models.

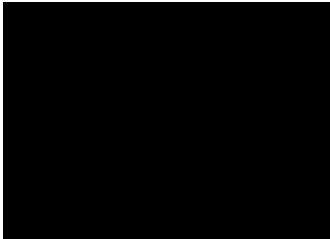
Finally, we understand that the model the AER has used for this consultation was provided to aid this consultation and was not complete. Additional output tabs and compliance checks are still to be added. To support the AER's next round of consultation, we have highlighted some points of detail on the preliminary model in **Appendix A**.

³ For example, the "Actuals" tab brings in RIN information, potentially to be pre-filled by the AER. By comparison, the "Hist.rev.detail" also looks to calculate the historical revenue based on actual quantities and prices.

If you have any questions regarding this submission, please contact Ju-Ai Ng on



Kind regards,



Chris Stewart
Group Network Pricing & Compliance Manager
Jemena Electricity Networks

Appendix A. Comments on standardised model template

Location	Cell/column	Potential issue
TAR tab	Cell J7 to cell L7	Refer to Financial tab section in the table below (needs to pull in the correct inflation figures).
	Cell C12-cell C13	Appears to be incorrect labelling. Cell C12 should be C factor and cell C13 should be B factor
	Cell M20	Total allowed revenue for unders/overs account formula needs to refer to the corrected B factor cell instead of C factor
Prop.rev.detail	Calculated fields in columns H to T	<p>Appears to be an omission in the formulas – the “0” is missing from the index match formulas leads to the incorrect calculation of revenues as the formula is not searching for an exact match.</p> <p>It appears that the formulas don’t yet cater for tariff components that operate for part year only. For example, our summer demand incentive charge operates from December to March only.</p> <p>It could be useful for cross checking purposes for a totals row to be added to the calculated tables.</p>
His. rev.detail tab	Calculated fields in columns H to T	<p>Appears to be an omission in the formulas – the “0” is missing from the index match formulas leads to the incorrect calculation of revenues as the formula is not searching for an exact match.</p> <p>It appears that the formulas don’t yet cater for tariff components that operate for part year only. For example, our summer demand incentive charge operates from December to March only.</p> <p>It could be useful for cross checking purposes for a totals row to be added to the calculated tables</p>
	Calculation table 8 2020 revenue - SCS tariffs – Distribution	Need to be careful which customer numbers are used and how to interpret outputs.
	Calculation table 8 2020 revenue - SCS tariffs – Designated Pricing Proposal Costs	Need to be careful which customer numbers are used and how to interpret outputs.
Accounts tab	Cell J8 to cell L8	Refer to Financial tab section in the table below (needs to pull in the correct inflation figures).
SC revenue tab	Calculated fields in columns F, H to T	<p>Appears to be an omission in the formulas – the “0” is missing from the index match formulas, leading to the incorrect calculation of revenues as the formula is not searching for an exact match.</p> <p>It appears that the formulas don’t yet cater for tariff components that operate for part year only. For example, our summer demand incentive charge operates from December to March only.</p> <p>For 2021-22, the indicative revenues in Calculation tables 25 and 26 are used for side constraint assessment only, which does not apply to initial year prices. Also, the introduction of the new tariffs in 2021-22 misalign the prices and quantities and make these non-comparable.</p>
Movements tab	Highlighted cells in blue	The use of blue cells indicates input, but we presume these will be calculated fields.

Location	Cell/column	Potential issue
Financial tab	Cell J7 to cell L7	Inflation figures differ to the 2021-22 Victorian pricing proposal template. December inflation indexes are not applicable for Victorian distributors until 2021-22 with the regulatory year changing from calendar to financial year. The December t-2 to December t-1 indexes are used for CY19 and CY20 and HY21 inflations in the model template. The CPI for CY19 and CY20 should be measured as June t-2 to June t-1 as t is calendar year. For HY21, the index should be measured using June t-2 and December t-2.
Lookup Tables tab	Column G	The lookup table requires a kVA reference to be added to the list.