



Jemena Electricity Networks (Vic) Limited

AMI Charges Revision Application

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1 Executive summary

1.1 Summary of proposed charges 1 January 2011

On 1 June 2009, JEN submitted an initial charges application to the AER (setting out initial charges for 2010 and 2011), which was later approved by the AER (**initial charges application**).

This charges application now details JEN's revised charges for 2011 for costs associated with Regulated Services, as allowed under the AMI Cost Recovery Order in Council (**CROIC**)¹.

The charges proposed in this application are consistent with JEN's initial charges application, the CROIC, and with the pricing principles established by the AER in its Framework and Approach Paper². The philosophy adopted by JEN is to develop charges that are simple and comprehensible, with a price path designed to manage customer impacts effectively.

A summary of the charges proposed is as follows.

Table 1-1: Initial and revised proposed regulated services charges for 2011

Nominal \$/meter	2011 Initial	2011 Revised
Single phase single element	136.70	136.70
Single phase single element meter with contactor	136.70	136.70
Three phase direct connected meter	167.99	167.99
Three phase current transformer connected meter	186.77	186.77

1.2 Structure of this charges revision application

This application is structured as follows:

Table 1-2: Report structure

Chapter	Title	Details
2	Regulatory requirements	This chapter outlines the relevant regulatory requirements for this charges revision application and explains how JEN has complied with those requirements

¹ Order under Section 15A and Section 46D of the Electricity Industry Act 2000 made on 28 August 2007, as amended by the Advanced Metering Infrastructure Order in Council 2008 made on 25 November 2008.

² AER, *Framework and approach paper – Advanced metering infrastructure review 2009-11, Final Decision*, January 2009

Chapter	Title	Details
3	Revised charges for regulated services	This chapter sets out JEN's revised proposed charges for 2011 and describes how those charges comply with the AER's pricing principles.
Appendices		
1a-c	2009 Regulatory Accounting Statements (confidential)	
2	KPMG audit report on 2009 actual costs (confidential)	
3	Filled out AER template (confidential)	

1.3 Confidentiality

JEN requests that the AER keeps Appendices 1a, 1b, 1c, 2 and 3 confidential for the following reasons.

The regulatory accounts in Appendices 1a, 1b and 1c contain detailed financial information that is commercially sensitive. Keeping them confidential is consistent with the historic treatment of regulatory accounts.

KPMG prepared its audit report on 2009 actual costs (Appendix 2) for the information of JEN and the AER on terms and conditions that preclude the report from being distributed to any other party.

JEN considers the filled-out AER templates (Appendix 3) to be confidential information because they enable unit price forecasts to be established for meters, installation services and IT systems and infrastructure, which are yet to be tendered by JEN (or by others, on behalf of JEN). JEN does not want to prejudice any future competitive tender processes that JEN or other parties will conduct in relation to AMI.

2 Regulatory requirements

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

2.1 Overview of regulatory obligations

Under clauses 5G.1 and 5G.2 of the CROIC, by 1 June 2010, JEN must submit a charges revision application to set revised charges for the year commencing 1 January 2011 (**2011 revised charges**).

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

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

2.2 Clause 5.3

Clause 5.3 of the CROIC states that:

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

This application relies on:

- (a) information previously provided by JEN to the AER with its initial budget application and initial charges application
- (b) JEN's Regulatory Accounting Statements for the 2009 calendar year, provided to the AER on 30 April 2010 and also attached to this application for convenience as Appendices 1a, 1b and 1c
- (c) KPMG's audit report relevant to clauses 5H.2 and 5I.3 of the CROIC, provided as Appendix 2
- (d) the AER's charges application template attached to this application as Appendix 3.

2.3 Clause 5.4

Clause 5.4 of the CROIC states that:

An application must also include the information specified by:

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

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

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

In relation to forecast and estimated information, including budget applications, an appropriate statement would set out that the officer has reviewed the basis on which the forecast or estimate is made and is satisfied that the forecast or estimate is a genuine forecast or estimate made on a reasonable basis.³

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

In relation to 5.4(b), the AER has provided JEN with a set of information templates, which JEN has filled out and provided as Appendix 3.

2.4 Clause 5H.1

Clause 5H.1 of the CROIC states that:

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

- (a) state the period to which it relates;

³ AER Framework and approach paper – Advanced metering infrastructure review 2009-11, Final Decision, January 2009, pages 75-6.

(b) set out the actual:

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

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

(c) contain an updated forecast of the:

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

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

for:

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

This application relates to the period commencing 1 January 2010 and ending on 31 December 2010, being the final year of the initial budget period. JEN has provided the information required by clauses 5H.1(b) and (c) in the filled out information template, which is included as Appendix 3.

When forecasting revenues for the purposes of clause 5H.1(c)(ii), JEN has used updated meter number forecasts consistent with JEN's roll out schedule and customer growth forecasts submitted by JEN to the AER in JEN's revised regulatory proposal as part of the Victorian electricity distribution price review. It should also be noted that, given that the CROIC provides for a true up of actual costs and revenues, which adjusts for any variation between forecast and actual meter numbers.

2.5 Clauses 5H.2 and 5I.3

Clause 5H.2 of the CROIC states that:

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

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

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

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

Clause 5I.3 of the CROIC further states that:

Where year t-1 is the year commencing 1 January 2009 and notwithstanding clause 5I.2(a)(ii) and 5I.4, actual expenditure for that year included in the charges revision application is for activities within scope if it is supported by an external auditors report, prepared and signed by that auditor, certifying that:

(a) the expenditure incurred is for activities within scope at the time of commitment to or incurring of that expenditure; and

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

For the purposes of this clause, the external auditor must be an auditor approved by the Commission or in default of approval, nominated or engaged by the Commission. The Commission must approve a person as an auditor if:

(a) that person is a member of CPA Australia, The Institute of Chartered Accountants in Australia or the National Institute of Accountants;

(b) that person holds a current Public Practice Certificate; and

(c) there is in place an agreement in writing (consent to which must not be unreasonably withheld by either the Commission or a distributor) between that person, the distributor and the Commission in which it is agreed that the auditor owes a duty to both the Commission and the distributor to provide an independent report as to the matters that person is certifying as to.

Note: An audit report provided for the purposes of this clause is conclusive as to whether expenditure is for activities that are within scope.


Pursuant to clauses 5H.2 and 5I.3, JEN sought and, on 31 March 2010, obtained AER approval of KPMG as auditors for this application. KPMG's report is provided as Appendix 2.

2.6 Clause 5I.2(a)(iii)

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

“in the case of the initial AMI budget period, is up to 120% of the Approved Budget for that year”

JEN's actual expenditure for 2009 satisfies this condition. JEN notes that the actual 2009 expenditure provided in Appendix 3 is in 2009 nominal dollars. JEN also



notes that JEN's approved budget⁴ was set by the AER in 2008 real dollars. Therefore, in order to ensure an appropriate comparison when applying the test in clause 51.2(a)(iii), the AER must adjust the figures in the approved budget by the AER's calculated actual inflation for 2009, being 4.98%.

⁴ AER Notice of Variation of the Final Determination – Victorian advanced metering infrastructure review – 2009-11 AMI budget and charges applications by the Australian Competition Tribunal for Jemena Electricity Networks (Vic) Ltd and United Energy Distribution Pty Ltd, January 2010, Table 3.3, page 1.

3 Revised Charges for Regulated Services

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

This chapter sets out JEN's revised proposed charges for 2011 and describes how those charges comply with the AER's pricing principles.

3.1 Proposed revised charges

JEN proposes to maintain the charges proposed in its initial charges application, which were approved by the AER in October 2009. Table 3-1 shows JEN's proposed revised charges for 2011.

Table 3-1: Proposed revised regulated services charges for 2011

Nominal \$/meter	2011
Single phase single element	136.70
Single phase single element meter with contactor	136.70
Three phase direct connected meter	167.99
Three phase current transformer connected meter	186.77

3.2 Approach to setting charges

Consistent with CROIC clause 4.1(p), JEN has opted to set its charges based on its revenue requirement over the initial and subsequent AMI budget periods. JEN notes that this approach will result in JEN under-recovering its revenue requirements over the initial AMI budget period, with an expectation that JEN will recover the shortfall in the subsequent AMI budget period.

3.3 Compliance with AER pricing principles

In section 4.5.2 of its Approach Paper, the AER set out a number of pricing principles. The AER accepted JEN's initial charges application as being compliant with those pricing principles. As JEN is not proposing to vary the charges put forward in its initial charges application, JEN considers that its revised charges are also compliant with the AER's pricing principles.



Appendix 1: 2009 Regulatory Accounting Statements

Attached as a separate files 1a, 1b and 1c (confidential).

Appendix 2: KPMG audit report on 2009 actual costs

Attached as a separate file (confidential).

Appendix 3: Filled out AER template

Attached as a separate file (confidential).