Feedback on AER's Issues paper for Jemena Electricity Networks distribution determination 2026-31

Energy Reference Group 2025

TABLE OF CONTENTS

Background – The Energy Reference Group

As part of their customer and stakeholder engagement approach, Jemena established the **Energy Reference Group ("ERG")** to provide expert advice and insights to Jemena on the key issues relating to the 2026-31 regulatory period.

ERG is a diverse mix of independent energy experts and customer advocates with expertise and knowledge of:

- The energy sector,
- The requirements of electricity distribution networks,
- Regulatory topics,
- The energy transition, and
- Tariffs.

ERG members include:

- **Andrew Richards**, Chief Executive Officer, Energy Users Association of Australia
- **Gavin Dufty**, Executive Manager, Policy and Research, St Vincent de Paul
- **Kate Hansen**, CarbonLite Chief Operating Officer
- **Kellie Larsen,** Director, Verve Strategic Consulting
- **Lynda Osborne**, Client Lead APAC, Kraken
- **Dr Morley Muse**, Co-Founder and Director, iSTEM
- **Neil Watt**, Network Strategy Adviser
- **Ruchika Deora**, Head of Product, SEC Victoria
- **Ruth Harland**, Utilities Officer, Moonee Valley City Council
- **Tim Callaghan**, GM Strategic Initiatives, Victorian Chamber of Commerce and Industry.

The ERG met 10 times from October 2023 to October 2024, both in person and virtually, offering Jemena advice, perspective, and independent feedback based on their expertise.

Before each session, Jemena distributed comprehensive pre-read materials and delivered in-depth presentations on key topics to ensure ERG members had the necessary information to ask informed questions and seek clarifications. The ERG sessions were well-attended by members of the Jemena team, who actively engaged in listening and gathering insights from the discussions and collaborations. The Jemena team deserves commendation for their open, constructive engagement and curiosity throughout this process.

Throughout this process, there were structured opportunities for cross-collaboration between the People's Panel and the ERG. During select ERG sessions, members of the People's Panel were invited to provide their perspectives, enriching the discussions with diverse viewpoints. Conversely, ERG members had the opportunity to attend People's Panel sessions, where they could offer their expertise on key topics, fostering a robust exchange of knowledge and insights.

The ERG provided comprehensive feedback to Jemena on their views of the Draft Proposal.

Key Areas of focus in the AER Issues Paper for the ERG

Priorities

In late April 2025, ERG members met to review the AER issues paper, seek clarification from Jemena staff, and decide on key areas for feedback.

In this discussion, it was agreed that the ERG would focus on the following key areas:

1. Customer engagement
2. Demand forecasts and Capex
3. Asset utilisation
4. Tariffs
5. Incentive schemes, and
6. Metering.

This report provides a summary of the ERG's feedback to the AER on the Issues Paper published in March 2025 regarding the Jemena Electricity Networks distribution determination for 2026-31. It includes detailed feedback from the ERG's original submission on the Jemena's Initial proposal.

1. Customer Engagement

The AER asked a range of questions on customer engagement, including “How satisfied are you that Jemena sincerely partnered with consumers and equipped them to effectively engage in the development of its proposal?”, “How satisfied are you with the scope of issues on which consumers were engaged, and the level of detail at which Jemena engaged?”

The ERG's feedback on the customer engagement process was highly positive, with all members rating it highly. Members believed that Jemena's consultation efforts robustly reflected the perspectives of various customer groups, although engaging retailers proved to be more challenging. Despite this, the consensus was that the engagement had given the best chance to capture a wide range of customer inputs.

The ERG's comprehensive and positive response highlights the robustness of Jemena’s customer engagement process and its success in addressing diverse customer needs and preferences.

The ERG believe that the Jemena team have done an outstanding job engaging with various customer segments, capturing numerous perspectives and ideas. They have listened to and acted on the information provided, taking into account the multitude of views. No doubt, this was an extraordinarily difficult task, yet it was executed with a high degree of professionalism and effectiveness.

Jemena's customer and community engagement efforts have been exemplary and class-leading. The broad range and depth of engagement reflect a deep understanding of the importance of inclusivity, involving not only customers but also the broader community. This comprehensive approach is clearly mirrored in the draft proposal, highlighting the thoroughness and thoughtfulness of their engagement strategy.

Moreover, Jemena has developed a customer engagement process that is well tailored to the unique attributes of their electricity network. By engaging across multiple stakeholder groups, they have successfully uncovered and revealed the diverse preferences of various groups of people. It is evident that Jemena has diligently adhered to the requirements outlined in the Better Resets Handbook, ensuring that their engagement efforts are both effective and compliant with best practices. The challenge will remain to be to integrate the learnings in way that resonates with the regulator under current interpretation of the regulatory frameworks

Depth and Breadth of Engagement

Jemena demonstrated commendable efforts in engaging a diverse cross-section of consumers, including targeted user groups and community members. Jemena also engaged directly with large C&I customers on a range of broader energy market issues that has helped to increase awareness of both existing and emerging issues that Jemena needs to be aware of. However, there was limited representation from large market commercial users, which could be further improved.

The engagement was broad, deep, and tailored to effectively educate and engage a wide range of customer groups. Although some customer groups may not have had as many opportunities to engage as others due to practical or time constraints, this presents an opportunity for Jemena to review and incorporate lessons learned into ongoing customer engagement efforts. By identifying and addressing these challenges, Jemena can further refine and enhance their engagement processes, ensuring that all stakeholder voices are heard and considered.

Sincerity and Responsiveness

The ERG acknowledged Jemena's genuine co-design approach and iterative engagement process, which was inclusive and tailored to varied consumer groups. Adjustments were made in response to feedback, such as improvements in tariff clarity and support programs.

Jemena's efforts to target both minorities and mainstream customers were particularly noteworthy, ensuring that all groups had a clear understanding of critical issues such as customer market pressures around the affordability of energy, aspirations for the future of their customer base, the need for change to renewables, and the specific customer requirements during this transitional phase.

The content presented during our ERG engagements was structured appropriately to ensure it could be easily understood. This approach minimised the risk of overly influencing views, focusing instead on educating, informing, and seeking inputs from participants.

The ERG was impressed by Jemena’s thorough engagement efforts, particularly its collaboration with third-party mediators and engagement with capable stakeholders on detailed issues. However, further clarity around projections and potential risks associated with uncertainty in new technologies was recommended. While Jemena has limited control over variables such as EV adoption rates, energy efficiency innovations, and computational power demand, the transparency of their basis for projections was noted.

Overall, Jemena's approach to customer and community engagement is an excellent model of genuine engagement. The team's ability to navigate and address the complexities of diverse customer needs has set a high standard for future engagements. Their work not only meets the immediate needs of their stakeholders but also lays a strong foundation for sustained improvements and positive outcomes in the future. The commitment to continuous improvement and the willingness to adapt and evolve their engagement strategies further underscore Jemena's dedication to fostering meaningful and impactful stakeholder relationships.

The AER asked, "How would your views on Jemena's proposal change if its estimated network tariff and electricity bill impacts did not eventuate?"

The ERG acknowledges the uncertainty in transitioning the energy system, especially in Victoria where government policy promotes electrifying gas load. This issue presents a challenge that is not yet fully understood. Estimates of the speed of this process and the required additional spending on network infrastructure and supporting technology affect tariffs and electricity bill impacts.

Feedback showed varying preferences based on bill impacts:

- **If higher**: Focus on reducing costs non-essential to reliability and vulnerable customer support, such as delaying digitisation initiatives.
- **If lower**: Greater investment in renewables, EV infrastructure, and customer education was preferred over simple bill reductions.

2. Demand Forecasts

The AER asked, "Do you have any feedback on the demand forecasts that have informed Jemena's proposal?"

The Energy Reference Group (ERG) has provided feedback on Jemena Electricity Networks' (JEN) demand forecasts, with a particular focus on projections associated with data centre developments. Below is a consolidated summary of the key points raised:

Evaluation of Forecast Accuracy and Risks

The ERG acknowledges JEN's forecast of significant growth in energy throughput, largely driven by new data centre connections. While these connections are anticipated to deliver benefits, including tariff reductions for residential customers during the 2026–2031 regulatory period, uncertainties remain regarding the accuracy of these forecasts. Specifically, there are risks that the projected energy demand may not materialise as expected, potentially placing upward pressure on network tariffs under the current revenue cap framework.

Scenario Analysis

At the request of the ERG, JEN has provided an analysis of residential tariff price paths under three scenarios to assess the implications of varying levels of data centre connection and energy consumption:

- **Base Scenario**: All proposed data centre connections proceed as forecast, along with corresponding energy consumption.
- **Scenario 1:** The assumed data centre connections are established, but no energy is consumed. While considered unlikely by the ERG, this scenario provides a useful comparative basis.
- **Scenario 2**: 50 % of data centre connections do not proceed, reflecting reduced demand due to unforeseen circumstances. The ERG notes credible evidence of signed contracts and construction activity supporting the Base Scenario.

In all scenarios analysed, nominal price path reductions are still projected for residential customers, underscoring the robustness of JEN's mitigation measures such as fixed charges and contractual commitments.

Within this analysis, it is assumed that 80% of the capital costs associated with new loads will be funded by the proponent, with 20% covered by the JEN customer base. In the information presented to the ERG, the specific dollar amount of capital contributions from both the proponent and JEN customer base for each scenario was not clearly detailed. Although this issue was addressed in subsequent discussions between the ERG and JEN, a more detailed analysis is recommended.

Regardless of the final total capital expenditure associated with new loads, there is a 20% residual risk for all JEN customers. The ERG has not formed an opinion on the efficiency of the capital investments related to new loads, relying on the AER to make this assessment.

The impact of corporate tax on capital contributions was also discussed with the ERG. It remains unclear what effect this has on JEN customer bills, aside from resulting in a post-tax contribution

by JEN customers that exceeds the headline 20% of capital expenditure. More clarity is needed to fully understand the final bill impacts.

Recommendations for Risk Mitigation

To enhance transparency and safeguard customer interests, the ERG has recommended several measures:

- **Pipeline Updates:** Before finalising the 2026-31 Determination, it is recommended that the AER request regular updates on JEN's pipeline of data centre connections, capital expenditure and energy consumption forecasts.
- **Engagement with Developers:** The AER is encouraged to engage directly with data centre developers to validate JEN's projections and provide assurance regarding the pipeline's accuracy.
- **Clarity of capital expenditure contributions:** It would be beneficial for JEN to clearly define the various levels of capital expenditure associated with each customer load growth scenario.

These actions are aimed at reducing uncertainties and reinforcing confidence in the final demand forecasts and price path projections.

Long-Term Trends and Considerations

The ERG emphasises the importance of incorporating broader market trends and technological developments into forecasting. For instance:

- **Efficiency Improvements:** Advances in technology, such as reduced energy usage per computational output and adoption of new battery technologies, may impact future data centre energy demand.
- **Consumer Energy Resources (CER):** Increased electrification and uptake of distributed energy technologies, including rooftop solar, battery storage, and electric vehicles, should be factored into forecasts to align with net-zero transition goals.

JEN’s proposed forecast reflects these trends and supports reduced residential bills, though ongoing refinement using real-time data is essential for maintaining accuracy and equity.

Equitable Cost Allocation

The ERG has raised concerns regarding the allocation of costs associated with data centre-driven demand. To ensure fairness, it is recommended that expenditures linked to these forecasts not be allocated to residential customers.

By excluding such costs, modest increases in network charges for residential and small business consumers can facilitate the transition to a distributed, low-emissions energy system.

Overall, the ERG recognises the potential benefits associated with JEN’s forecast pipeline of data centre connections, including tariff reductions for residential customers. However, risks tied to demand variability and cost allocation require careful consideration and proactive management. JEN's demand forecasts support sustainable energy transition through clear forecasting, stakeholder engagement, and fair cost distribution.

3. Utilisation

The AER asked, “How well do you think Jemena’s proposal takes existing and forecast network utilisation levels into account?”

The Energy Reference Group (ERG) feedback on Jemena's proposal concerning network utilisation levels. Their observations highlighted the following key points:

- Jemena’s projected increase in network utilisation, reaching 69% by 2031, is deemed reasonable and supported by probabilistic planning and improved demand forecasting facilitated by smart meter data.
- The utilisation outcomes reflect a prudent balance between reliability and cost-effectiveness for customers, particularly in light of augmentation and replacement capital expenditure.
- Innovative tariff measures, such as critical peak demand pricing, enhance efficiency in managing peak load and complement the network's capacity improvements.
- Expanding adoption of grid-interactive batteries, facilitated by incentives for domestic battery installations as well as bidirectional EV charging, is expected to provide buffering against demand spikes.
- The ERG acknowledges the need for effective Consumer Energy Resource (CER) orchestration. JEN's measures and AEMC's efforts may improve network utilisation, encouraging more CER connections and reducing network tariffs.
- However, emerging concerns include increased urban heat island effects from data centres, which may cause regional air conditioning demand to exceed the anticipated depth of storage solutions during extreme heat events.

4. Tariffs and Charges

The AER asked, *"Do you consider there are further tariff reforms Jemena should implement to encourage increased network capacity utilisation and mitigate future network costs? Identify any specific options you think should be considered."*

The Energy Reference Group does not have a consensus view on tariffs.

One point of view recommends the removal of the demand tariff for residential customers and the transition to a time-of-use (TOU) tariff. Although the TOU tariff has been met with resistance, this viewpoint believes there is sufficient time to educate and engage customers on its benefits. This would need transparent communication to mitigate any negative perceptions and to ensure clarity.

However, an alternate viewpoint opposes changes to the export tariff. Whilst it is recognised its intention to encourage self-consumption and modify customer behaviour, this view cautions against penalising customers who invest in Customer Energy Resources (CER). Alternative approaches, such as controlled flexible demand (e.g., hot water systems, pool pumps) and storage solutions, should be considered to address minimum demand issues without discouraging CER investment. Additionally, it is suggested to introduce a cap on the size of solar installations or requirements for storage solutions for larger systems to optimise peak hour contributions.

Small Business Tariffs

We support the proposed changes to the small business tariffs and emphasise the importance of providing certainty and clear communication to this customer segment. Ensuring that the pricing structure is easily understood will help maintain positive engagement with small business customers.

Large Business Tariffs

We agree with the proposed tariff structure for large businesses and appreciate the efforts to provide clear and straightforward information. This will help large businesses make informed decisions about their energy usage.

General Comments

We advocate for the use of effective price signals to optimise network usage across all customer segments while providing practical options for improved affordability. The current tariff proposals largely reflect this goal.

Additionally, we recommend better direct communication with consumers, and co-ordination with Retailers, to facilitate the implementation of opt-out tariffs and dynamic operating envelope tariff structures based on seasonality. Flexible tariff structures for direct load control should also be considered to enhance customer engagement and satisfaction.

For Large Business Tariffs

The Energy Reference Group has identified several key areas where large business tariffs can be improved for better understanding and efficiency.

Simplification of Tariff Components

The most challenging aspects of the current large business tariffs are the demand charges and the Summer Demand Incentive Charge (SDIC). These elements are complex because businesses must accurately forecast their peak demand and manage usage, particularly during the summer months. Simplifying the calculation process and providing clear guidance on managing peak demand would greatly enhance comprehensibility.

Improving Alignment Between Consumption and Charges

Large businesses often face difficulties with fluctuating demand charges due to short-term spikes in consumption. Restructuring these tariffs to mitigate the impact of such spikes could offer more predictability and fairness in billing, thereby aiding businesses in better managing their energy costs.

Adapting to Energy Transition

As the energy transition accelerates, it is crucial to consider whether incentives should also be applied to reduce usage during winter, especially with increased electrification. This approach will ensure businesses are adequately incentivised year-round.

Practical Understanding

While some members of our group are familiar with these tariffs, there is a view that the demand-based tariffs, particularly the SDIC, require further clarification. Providing more intuitive names and straightforward explanations will help in fostering a broader understanding among all stakeholders.

Alternative tariff structures

The Energy Reference Group underscores the importance of balancing simplicity, customer control, and network compatibility in designing alternative tariff structures for large business customers. The Group offers the following consolidated feedback regarding alternative tariff structures for large business customers:

1. Capacity-Based Tariffs: Implementing a capacity-based tariff, where businesses pay based on their required capacity rather than actual usage peaks, could help reduce the unpredictability of demand charges. This structure would provide large businesses with greater control over their costs.

2. Real-Time Pricing: For businesses equipped with sophisticated energy management systems, real-time pricing that reflects actual network conditions could encourage more efficient energy use. This setup incentivises businesses to reduce consumption during high demand periods, leading to both cost savings and network benefits.

3. Simplicity and Network Compatibility: While simplicity in tariff structures is essential, it is equally important to ensure that these structures are compatible with the network's needs, particularly given the significant load that large customers can create.

4. Solar Energy Utilisation: Encouraging solar soak during relevant hours could be particularly beneficial as more solar installations come online. Exploring options for large customers to utilise unused solar energy, such as storing excess capacity in community batteries, could offer financial remuneration and green accreditation for their efforts.

5. Direct Engagement: Further direct engagement with this customer class is recommended to better understand their specific needs and preferences.

6. Fixed Tariff Options: Considering a fixed tariff that accounts for Jemena's cost risk could offer businesses a more predictable budgeting framework.

5. Incentive Schemes

The AER asked a range of questions regarding incentive schemes in Jemena's proposal.

This is a summary of previous feedback the ERG has provided on Jemena's incentive schemes.

The AER asked, "Do you consider there is a need to modify the application of the CESS to allow CESS exclusions on certain capex categories? Please explain why."

The Energy Reference Group has considered the inclusion of new connections under the current Capital Expenditure Sharing Scheme (CESS) and has several observations.

Firstly, including new connections under the CESS could present challenges in ensuring fairness and accuracy of efficiency assessments. New connections, particularly in growing areas, involve expenditures influenced by factors beyond the control of Distribution Network Service Providers (DNSPs), such as government policies, housing market fluctuations, and regional growth patterns. Including these unpredictable costs in the CESS might distort the scheme's goal of promoting efficiency, as these expenditures do not necessarily reflect a DNSP's management performance.

The network is rapidly evolving due to a variety of unforeseen occurrences. Previously, it would have made sense for new connections to be included under the CESS; however, moving forward, this is no longer the case. The types of connections are changing, with a shift from residential and commercial to data centres, and the requirements of these connections are also evolving, particularly with higher loads due to electrification. These factors should be carefully considered by the AER.

The Capital Expenditure Sharing Scheme (CESS) remains an important mechanism. While Jemena has expressed concerns about being held accountable for scope changes and subsequent cost increases, excluding all new connection costs from the CESS transfers a significant portion of the overrun risk onto Jemena's customers, who have no influence over these expenditures. It is important that exemptions from the CESS be granted under clear conditions and on a project-specific basis, ensuring that the Australian Energy Regulator (AER) is satisfied with the efficiency of the associated capital expenditures.

The proposed changes by Jemena to the CESS in relation to new connections are well presented, including the timing of expenditure and contributions. If Jemena can address concerns that including net new connections (i.e., connections capex less customer contributions) removes concerns about leaving new connections capex in the CESS, the proposal seems sound.

Lastly, we agree that the risk of penalties is high given the increasing number and magnitude of new connections, and the difficulty in predicting these for the next regulatory period.

Therefore, the Energy Reference Group recommends a thorough review of these considerations to ensure the CESS remains fair, accurate, and supportive of efficiency goals.

Exclusion of new connections volume from CESS

The Energy Reference Group has reviewed the proposal to exclude new connections volumes from the CESS and calculate the CESS using the same method as other elements of the building block approach. Similar to our rationale above, we find this proposal to be appropriate, particularly considering the pipeline of datacentres applications already received.

By excluding new connection volumes from the CESS, the proposal aligns with the principle of isolating controllable expenditures from non-controllable ones. This ensures that the CESS focuses purely on Jemena's efficiency in managing their capital investments, rather than penalising or rewarding them for factors beyond their control. Furthermore, employing a consistent calculation method across all building block elements enhances transparency and trust in the regulatory assessment process.

This approach has been significantly discussed within Jemena, and the methodology appears sensible and reasonable. We believe it is prudent to exclude new connections volumes from the CESS and calculate the CESS using the same method for other elements in the building block approach.

Alternatively, incorporating the value of risk into the connect charge for these customers could be considered.

The AER asked, "Do you have any feedback on the design of Jemena's proposed CSIS?"

Overall, we believe the CSIS offers a promising framework for promoting strong customer service outcomes. By incentivising DNSPs to improve customer interactions and deliver timely services, the scheme encourages networks to prioritise customer experience.

The weightings within the CSIS require thoughtful consideration to ensure they align effectively with customer priorities. This includes timely fault resolution, clear communication during outages, and accurate billing processes. While the proposed weightings appear appropriate, it is crucial to factor in the preferred methods of customer communication. For example, if a significant majority of customer interactions occur via digital channels, the weightings should reflect this reality.

We also note that the 25% weighting for unplanned outages is relatively high, given that many such outages are related to uncontrollable factors like weather and vegetation. A more specific categorisation of customer satisfaction metrics could enhance the scheme's effectiveness.

The proposed CSIS measures and weightings are impactful and pragmatic, supporting ongoing improvement in services and behaviours aimed at enhancing the customer experience. We believe that the CSIS aligns well with customer expectations by incorporating accountability and benchmarking into our customer service framework. Adopting these KPIs across all providers, as outlined in the Proposal would be beneficial.

The Energy Reference Group endorses the proposed CSIS with the consideration that adjustments may be needed to ensure accurate representation of customer interactions and uncontrollable outage factors. This will help maintain the focus on consumer outcomes and service excellence.

Other suggestions for the CSIS

Outage Communication Effectiveness. Customers highly value transparent and timely communication during outages. Thus, we suggest implementing a measure that tracks the effectiveness of communication regarding expected outage durations, updates, and resolution times.

It is essential to monitor customer satisfaction for specific services such as handling complaints, response times for outages, and new connections. We recommend tracking these metrics on a quarterly basis to ensure continuous improvement.

Additionally, we suggest including a measure for customer satisfaction with other digital communication channels and evaluating consumer sentiment and trust in Jemena

While keeping the CSIS simple is important, as reflected in the current proposal, incorporating these additional metrics will provide a more comprehensive understanding of customer satisfaction.

6. Smart Metering

The AER asked, "Do you consider proactive metering replacement is appropriate, and do you have any views around the different approaches proposed by the businesses?"

The Energy Reference Group support the strategic replacement of ageing Advanced Metering Infrastructure (AMI) meters and the extension of replacement timeframes to ensure prudent use of resources. We find the proposed approach to meter replacement both reasonable and well-structured. Aligning in-person inspections with meter replacements is deemed highly efficient, and we appreciate the proactive stance on maintaining compliance with new smart meter inspection obligations.

Proactive replacement of meters was broadly considered appropriate by members of the ERG for maintaining system reliability and ensuring compliance with market data upload requirements. It is noted that proactive replacements typically have lower unit costs due to enhanced resource and scheduling efficiencies compared to replacements conducted upon failure.

We also stress the importance of clear communication with the community to alleviate any concerns regarding the meter replacement process. It is crucial to outline the issues, present viable alternatives, and explain the rationale behind the chosen approach to maintain public trust and support.

Other recommendations

1. Customer Communication and Scheduling: It is important to give every customer forewarning of the upcoming metering upgrade and the opportunity to reschedule. This will allow customers to combine the truck visit with any planned electrical upgrades, such as moving to three-phase to install a premium induction hob.

2. Data Security and Privacy: Smart meters capture vast amounts of data. While this data supports valuable products and services, it is crucial to ensure that customer privacy is maintained. We recommend addressing potential data security risks and taking steps to ensure compliance with privacy regulations.

3. Cost Transparency: While the overall revenue requirement is forecast to decrease, it is essential that the associated costs of smart meter services are transparent to customers. Ensuring clarity on how price reductions will be reflected in customer bills will help build trust.

4. Customer Experience during Meter Replacement: As ageing AMI meters are replaced, there may be interruptions in service. It is vital to inform customers about the process and minimise disruptions, particularly with the recent rise in people working from home. Clear communication should be prioritised to avoid confusion.

5. Future-proofing Smart Meters: With the rapid advancement of technology, it is important to ensure that the new smart meters are future-proof. They should be adaptable to upcoming technologies, new tariff options, or standards to avoid frequent replacements. This is needed as there may be future submetering for embedded loads such as dedicated EV circuits within a house.

6. Data Governance and Efficiency: Data governance related to AMI meter data and other network data is underrepresented in the current documentation. We recommend including an assessment of the increase in efficiency, particularly regarding CER management through enhanced data insight capabilities.