Draft decision

Jemena electricity distribution determination

1 July 2026 – 30 June 2031

Attachment 3 – Operating expenditure

September 2025

AUSTRALIAN ENERGY REGULATOR

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AER reference: AER23008248

Amendment record

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3 Operating expenditure

Operating expenditure (opex) refers to the operating, maintenance and other non-capital expenses incurred in the provision of network services. Forecast opex is one of the building blocks we use to determine a service provider's annual total revenue requirement.

This attachment outlines our assessment of Jemena's proposed opex forecast for the 2026–31 regulatory control period (2026–31 period).

3.1 Draft decision

Our draft decision is to not accept Jemena's total opex forecast of $615.2 million,[1] including debt raising costs, for the 2026–31 period.[2] This is because our alternative estimate of $564.7 million is materially different ($50.4 million, or 8.2% lower) than Jemena's total opex forecast proposal. Therefore, we consider that Jemena's total opex forecast does not reasonably reflect the opex criteria.[3]

This material difference is primarily driven by our alternative estimate not including, or including lower alternative estimates, for the proposed step changes because either we consider them to:

- not be justified against our step change criteria under our opex framework.[4]
- double count costs provided for under the base and trend components of our opex forecasting methodology
- overestimate the prudent and efficient level of costs required.

Our draft decision, which is less than Jemena's proposed total opex forecast, is:

- $63.0 million (10.0%) lower than the opex forecast we approved in our final decision for the 2021–26 regulatory control period (2021–26 period)
- $93.4 million (19.8%) higher than Jemena's actual (and estimated) opex in the 2021–26 period.

In our final decision we will update for any required mechanical adjustments (e.g. latest inflation and labour price growth forecasts). We also encourage Jemena in its revised proposal to include the further information we have requested (outlined in section 3.3.4).

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1 All dollars are in this document are in $2025–26 terms, unless otherwise stated.

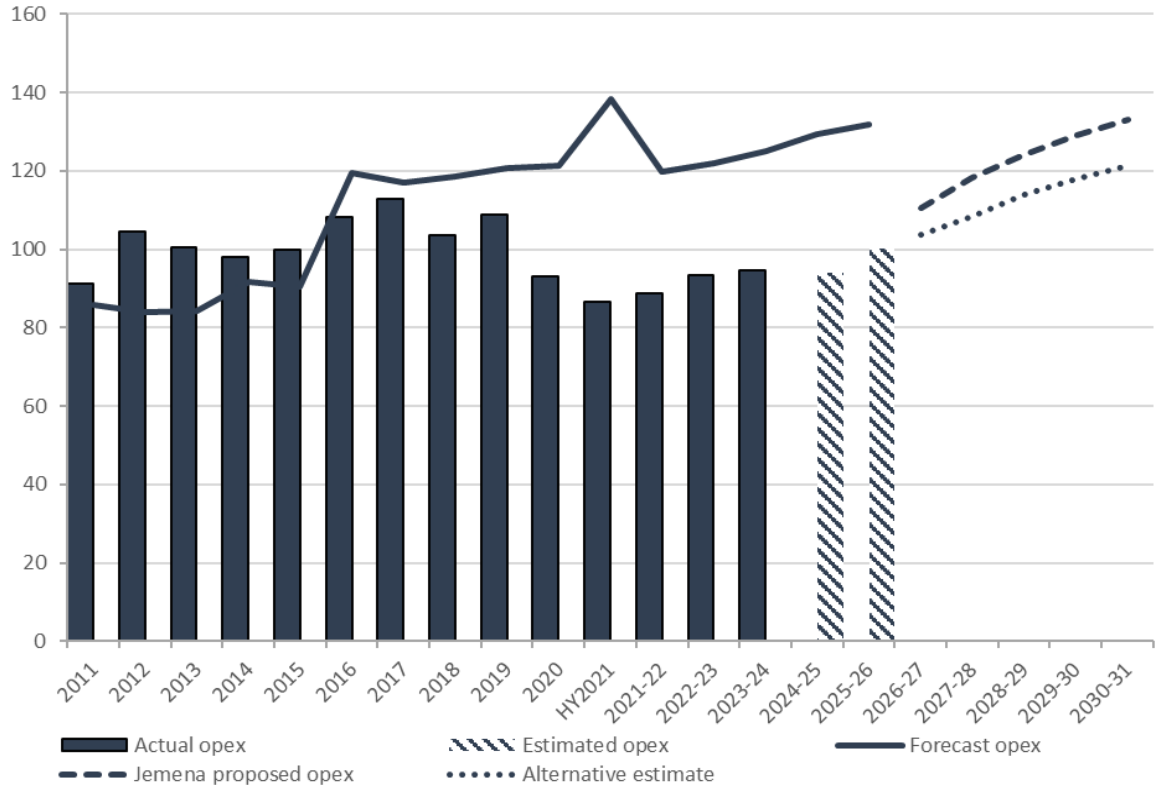
2 Jemena, *Att 06–03M SCS Opex model, January 2025.*

3 NER, cl. 6.5.6(c)–(e).

4 Consistent with our opex framework under the NER, a business should demonstrate that a step change is required to meet an increase in its costs that cannot otherwise be managed within existing opex or through trend (i.e. rate of change). Three potential drivers of the material increase in cost include a new regulatory obligation, a capex to opex trade off, or an external factor outside the businesses control. Further guidance on how we assess step changes is provided in the AER's *Expenditure Forecast Assessment Guideline* and the *Better Resets Handbook* available on our website.

In Figure 3.1, we compare our alternative estimate of opex to Jemena's proposal for the next regulatory control period. We also show the forecasts we approved for the last 2 regulatory control periods, and Jemena's actual and estimated opex over these periods.

Figure 3.1 Historical and forecast opex ($million, 2025–26)



Source: Jemena, *Att 06–03M – SCS Opex Model, January 2025*; AER, *Jemena distribution determination 2021–26 – PTRM – 2024–25 RoD update*, August 2024; AER, *Jemena distribution determination – 2020 return on debt update – PTRM*, October 2019: AER, *Final decision – Jemena 2011 to 2015*, August 2013; AER analysis.

Table 3.1 sets out Jemena's opex proposal, our alternative estimate for the draft decision, and the differences between these forecasts.

Table 3.1 Comparison of Jemena's opex proposal and our alternative opex estimate ($million, 2025–26)

	Jemena's proposal	Our alternative estimate	Difference ($)
Based on estimated opex in 2024–25	**478.9**	**475.2**	**–3.6**
Base adjustment – Sass	8.9	8.9	–
Base adjustment – Incremental ICT project opex	4.0	–	–4.0
Base adjustment – ESC licence fee	–	–2.2	–2.2
Base year adjustments	**12.9**	**6.7**	**–6.2**
Non- recurrent efficiency gain	**–**	**24.5**	**24.5**
Remove category specific forecasts	**–3.2**	**–0.5**	**2.7**
2024–25 to 2025–26 final year increment	**13.0**	**12.9**	**–0.1**
Trend – Output growth	58.8	50.4	–8.4
Trend – Price growth	8.8	9.6	0.8
Trend – Productivity growth	–7.6	–7.9	–0.3
Total trend	**60.1**	**52.1**	**–7.9**
Step change: ICT services	21.6	8.1	–13.6
Step change: CER integration – grid stability and flexible services	0.5	–	–0.5
Step change: CER integration – voltage and PQ management	1.1	–	–1.1
Step change: CER integration – data visibility and analytics	1.5	–	–1.5
Step change: New REFCL obligations	4.9	4.9	–
Step change: Resilience – outage preparation and response	4.5	–	–4.5
Step change: Safety – LBRA hazard trees management program	2.6	–	–2.6
Step change: Resilience – deploying mobile vehicle response	0.4	–	–0.4
Step change: Customer systems and education	4.3	–	–4.3
Negative step change: Insurance adjustment	–	–27.2	–27.2
Total step changes	**41.4**	**–14.3**	**–55.7**

	Jemena's proposal	Our alternative estimate	Difference ($)
GSL	1.3	1.0	–0.2
Innovation Fund	4.2	1.0	–3.2
Debt raising costs	6.7	5.9	–0.7
Total category specific forecasts	**5.5**	**8.0**	**–4.1**
Total	**615.2**	**564.7**	**–50.4**

Source: Jemena, *Att 06-03M – SCS Opex Model,* January 2025; AER analysis.
Note: Numbers may not add up to total due to rounding. Values of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

The key differences between Jemena's opex proposal, which we have not accepted, and our alternative estimate are that we have:

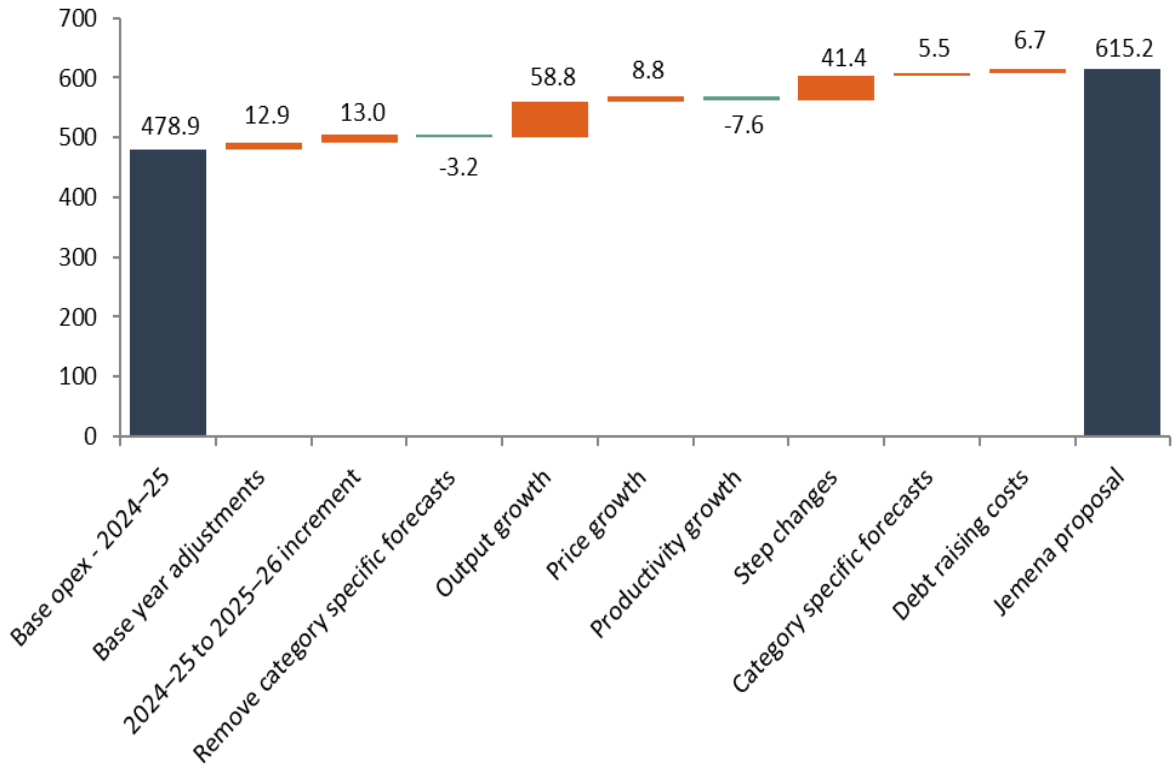
- not included the following step changes:
  - CER integration, including Grid stability and flexible services (–$0.5 million), Voltage and power quality (PQ) management (–$1.1 million), and Data visibility and analytics (–$1.5 million) step changes. We discuss this further in section 3.3.4
  - resilience, including the Outage preparation and response (–$4.5 million), Deploying mobile vehicle response (–$0.4 million), and Low Bushfire Risk Areas (LBRA) hazard trees management program (–$2.6 million) step changes
  - customer systems and education step change (–$4.3 million). We discuss this further in section 3.3.4
- included a lower alternative estimate for the ICT services (–$13.6 million) step change. We discuss this further in section 3.3.4.1
- included a negative insurance step change (–$27.2 million) for forecast opex to satisfy the opex criteria, and to treat the significant insurance premium underspends in the current period as non-recurrent efficiency gains. We discuss this further in section 3.3.4.
- included a non-recurrent efficiency gain ($24.5 million), equal to the insurance premium underspend in the base year, to satisfy the opex criteria, and to share the significant insurance premium underspends with network users. We discuss this further in section 3.3.4.10
- applied our output growth forecast rather than Jemena's, reducing forecast opex by $8.4 million. We discuss this further in section 3.3.3.
- used the latest available data for forecast Wage Price Index (WPI) growth and inflation (consumer price index (CPI)).

3.2 Jemena's proposal

Jemena's proposal applied a base–step–trend approach to forecast opex for the 2026–31 period, consistent with our standard approach.

Jemena's method of applying our base step trend approach is set out in Table 3.1. In Figure 3.2 below we show the different components that make up Jemena's opex forecast for the 2026–31 period.

Figure 3.2 Jemena's opex forecast ($million, 2025–26)



Source: Jemena, *Att 06-03M – SCS Opex Model*, January 2025; AER analysis.

3.2.1 Stakeholder views

We received 4 submissions commenting on the Jemena's opex proposal from the Victorian Government (via a submission from the Minister for Climate Action, Energy and Resources), the Consumer Challenge Panel (CCP32), the Jemena Energy Reference Group (ERG) and the Victorian Greenhouse Alliance.

The Victorian Government supported investments in network resilience, but observed that Jemena had not provided information on how its resilience expenditure meets the AER resilience guidance note.[5] On CER-related expenditure, the Victorian Government encouraged Jemena to commit to procuring network support services and the publishing of low-voltage network data.[6] It further asked the AER to ensure that Jemena's proposed expenditure for enabling flexible services was justified and not double counting expenditure previously approved for the 2021–26 period.[7]

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5 Hon Lily D'Ambrosio MP, *Submission – Victorian electricity distribution proposals 2026–31,* June 2025, p. 2.

6 Hon Lily D'Ambrosio MP, *Submission – Victorian electricity distribution proposals 2026–31,* June 2025, pp. 4–5.

7 Hon Lily D'Ambrosio MP, *Submission – Victorian electricity distribution proposals 2026–31,* June 2025, p. 6.

The CCP32 submission focused primarily on opex step changes Jenema identified as being driven by customer preferences (i.e. the customer communications and education, and resilience step changes). CCP32 noted that while it was not clear how Jemena justified its customer communications step change against the AER criteria in the Better Resets Handbook, the resilience proposals seemed justified as a 'major external driver outside the control of the business' due to the increasing prevalence of extreme weather events. CCP32 also observed differences in customer engagement on the step changes, with the customer communications proposal consulted on after the draft plan, while the resilience proposals were informed by feedback on the draft plan as well as later rounds of engagement. CCP32 also observed that while customers appeared interested in better customer communication, it questioned why the extra cost could not be met through trending base opex. In contrast, CCP32 noted it observed strong customer support for the resilience proposal and a willingness to pay for the mid-range option.[8]

The ERG highlighted Jemena's forecast for significant growth in energy demand and uncertainties and risks around the forecasts, including that the energy demand may not materialise, placing upward pressure on prices. ERG recommended the AER seek regular updates on Jemena's demand forecasts, and engage with developers before finalising its final decision in this area.[9]

Victorian Greenhouse Alliances submitted that Jemena's proposed increased pole inspection rate was significantly less than other Victorian networks.[10] It also compared proposed consumer energy resource (CER), resilience and innovation expenditures across the 5 Victorian businesses, noting significant variation and asking that the AER to establish better methodologies for assessing these expenditures using metrics and benchmarks that are meaningful to consumers.[11]

3.3 Reasons for draft decision

Our draft decision is to not accept Jemena's total opex forecast of $615.2 million, including debt raising costs, for the 2026–31 period. Our alternative estimate of $564.7 million is materially different ($50.4 million or 8.2% lower) from Jemena's total opex forecast proposal. Therefore, we are not satisfied that Jemena's total opex forecast reasonably reflects the opex criteria, having regard to the opex factors. [12]

Table 3.1 sets out Jemena's proposal, our alternative estimate that has informed this draft decision, and the difference between our alternative estimate and the proposal.

The main drivers for this difference are also set out in section 3.1, and we discuss each of the components of our alternative estimate, and our assessment of Jemena's proposal,

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8 CCP32, *Submission – Jemena electricity distribution proposal 2026–31, May 2025*, pp. 17–21.

9 Jemena Energy Reference Group, *Submission –- Jemena electricity distribution proposal 2026-31,* May 2025, pp. 8–9.

10 Victorian Greenhouse Alliances, *Submission – Victorian electricity distribution proposals 2026-31*, May 2025, p. 12.

11 Victorian Greenhouse Alliances, *Submission - Victorian electricity distribution proposals 2026-31*, May 2025, pp. 16, 17 & 22.

12 NER, cl. 6.5.6(c)–(e).

below. Full details of our alternative estimate are set out in our opex model, which is available on our website.

3.3.1 Base opex

This section provides our view on the prudent and efficient level of base opex that we consider Jemena would need for the safe and reliable provision of electricity services over the 2026–31 period. We discuss the choice of base year in section 3.3.1.1 and set out our analysis of the efficiency of base year opex in section 3.3.1.2.

3.3.1.1 Proposed base year

Jemena proposed a base year of 2024–25, and estimated base year opex of $95.8 million. This equates to $478.9 million over the 5 years of the next regulatory control period.[13] Jemena noted that it used an estimate of base year opex as audited actual costs for 2024–25 were not available when submitting its initial proposal, but will be available for the revised proposal in December 2025.[14]

Jemena's estimate of 2024–25 base year opex is $35.1 million (–27.2%) lower than the forecast opex approved for that year, and $1.8 million (1.9%) higher than the average actual opex over the period 2021–22 to 2023–24.

Jemena submitted that 2024–25 is the most suitable choice for base year because:

- it reflects the significant reduction in opex Jemena has achieved since the previous period
- the estimated level of opex for 2024–25 is below the approved allowance for that year
- the AER's 2024 annual benchmarking report demonstrates that the proposed base year opex is efficient
- its 2024–25 estimate represents the efficient costs necessary to operate and maintain the network and meet its regulatory and legal obligations in regard to safety, reliability, security, and the environment.[15]

While there will be year to year fluctuations in reported opex over the current regulatory period, we generally do not have concerns with the choice of base year due to the interaction with the efficiency benefit sharing scheme (EBSS), and provided we find Jemena's opex in the base year to be efficient.

In our alternative estimate for the draft decision, we have updated Jemena's estimated base opex amount for 2024–25 to $95.0 million, or $475.2 million over the next regulatory period. The difference between Jemena's proposed amount and our alternative estimate is because we have used different inflation values to convert the nominal amount into real terms. We have used the actual inflation for the year to August 2025, from the Australian Bureau of Statistics, and the Reserve Bank of Australia's (RBA) forecast of inflation for the year to June

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13 Jemena, Att 06–03M SCS Opex model, 31 January 2025.

14 Jemena, Att 06-01 Operating expenditure, 31 January 2025, pp. 10–11.

15 Jemena, Att 06-01 Operating expenditure, 31 January 2025, p. 11.

2026, from its May Statement on monetary policy.[16] These inflation forecasts are the best forecast possible in the circumstances because they are the most up-to-date information available at this time.

3.3.1.2 Efficiency of Jemena's estimate of base opex

As outlined in section 3.3, and in our Expenditure Forecast Assessment Guideline, our standard approach for forecasting opex is to use a revealed cost approach.[17] This is because opex is largely recurrent and stable at a total level. Where a distribution business is responsive to the financial incentives under the regulatory framework, the actual level of opex it incurs should provide a good estimate of the efficient costs required for it to operate a safe and reliable network, and meet its relevant regulatory obligations. However, we do not assume that the business's revealed opex is efficient. We use our top-down benchmarking tools, and other assessment techniques, to test whether the business is operating efficiently historically and particularly in the base year.

Analysis of revealed costs

Analysis of Jemena's revealed costs, as seen in Figure 3.3, shows a step down in Jemena's opex between the previous and current regulatory control periods, with its average annual opex declining from $105.3 million over the 2016–21 period to $94.2 million over 2021–26.[18]

Jemena's opex over the current period has slowly trended upward while remaining significantly below our approved opex forecast, with Jemena's actual opex over the current 2021–26 period estimated to be $156.5 million (24.9%) less than the approved forecast. [19]

Benchmarking the efficiency of Jemena's opex over time

We have used our benchmarking tools and other cost analysis to assess and establish whether Jemena is operating relatively efficiently. Our benchmarking results over the long and short time periods indicate that Jemena has historically been amongst the mid to lower performing distribution network service providers (DNSPs).[20]

Period average econometric opex cost function and productivity index number results

This section presents the results of the 4 econometric opex cost function models that compare the relative opex efficiency of Jemena to other distribution businesses in the

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16 Australian Bureau of Statistics (ABS), *Consumer Price Index, Australia, released on 30 July 2025* (accessed on 12 August 2025: https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/jun-quarter-2025); Reserve Bank of Australia (RBA), *Statement on monetary policy*, *August 2025*, (accessed on 12 August 2025: https://www.rba.gov.au/publications/smp/2024/aug/outlook.html#3-5-detailed-forecast-information).

17 AER, *Final decision, Expenditure forecast assessment guideline – electricity distribution*, October 2024.

18 Jemena originally reported on a calendar year basis from 2011 to 2020 and then switched to a financial year basis from the 2021-22 financial year onwards.

19 This figure incorporates actual opex for the first 3 years of the regulatory period and estimated opex for the 2024–25 and 2025–26 financial years

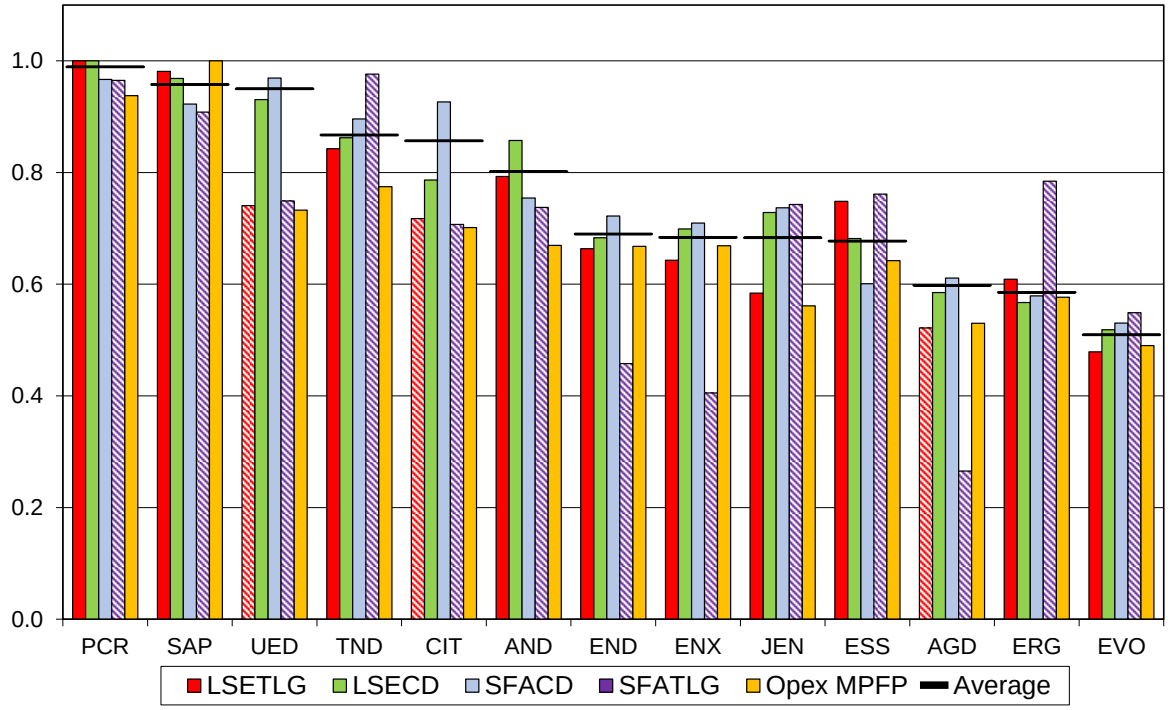
20 For information about the use and purpose of economic benchmarking, and details about the techniques we use to benchmark the efficiency of distribution businesses in the National Electricity Market, see AER, *2024 Annual Benchmarking Report – Electricity distribution network service providers*, November 2024.

National Electricity Market. These efficiency scores do not account for the presence of operating environment factors (OEFs).[21]

As set out in further detail in past decisions,[22] our standard approach for assessing base opex efficiency is to benchmark a business' efficiency on the basis of its average efficiency over time (using a period-average efficiency score from our econometric models). We consider that this is the appropriate place to start rather than looking at the efficiency of a single year (such as the base year), as this recognises that opex is generally recurrent, but with some degree of year-to-year volatility. Reflecting our conservative approach, we use a 0.75 benchmark comparison point (rather than 1.0) to assess the relative efficiency of distribution businesses. Where the econometric model-average score is below 0.75, we consider that as evidence that a network has been operating with some inefficiency over the relevant period. We consider this may be the case based on Jemena's efficiency score.

Figure 3.3 shows that over the long period, Jemena is ranked 9th out of 13 DNSPs (with an average efficiency score of 0.68), while Figure 3.4 shows that it ranked 11th over the short period (with an average efficiency score of 0.65).

Figure 3.3 Econometric opex efficiency scores and opex MPFP, 2006–23



Source: AER, *2024 Annual Benchmarking Report – Electricity distribution network service providers, November 2024*, p. 35.

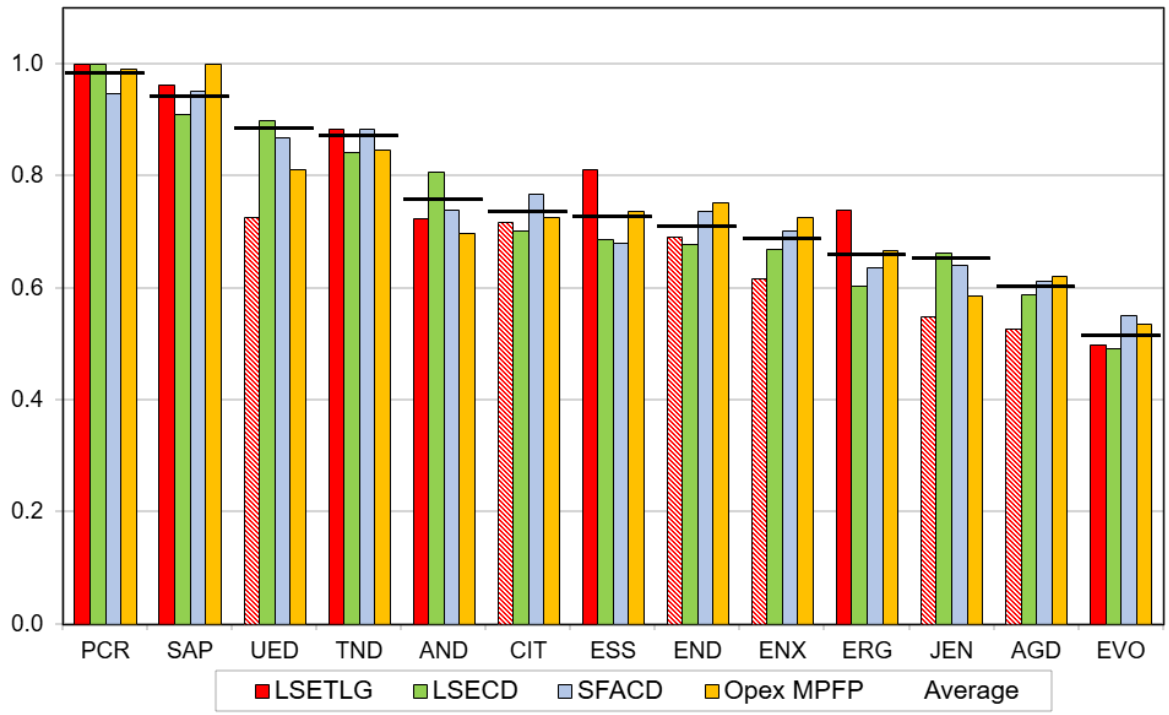
Note: Columns with a hatched pattern represent results that violate the key property that an increase in output is achieved with an increase in cost. These results also do not reflect the impact of a range of material OEFs (see section 7). Opex MPFP scores for each DNSP are displayed for comparison and are not

21 OEFs are factors beyond a DNSP's control that can affect its costs and benchmarking performance.

22 AER, *Final Decision, Attachment 6 – Operating expenditure – Ergon Energy – 2025–30 Distribution determination revenue proposal,* April 2025, pp. 17–23.

included in the calculation of the average efficiency score, which also excludes any results affected by monotonicity violations.

Figure 3.4 Econometric opex efficiency scores and opex MPFP, 2012–23



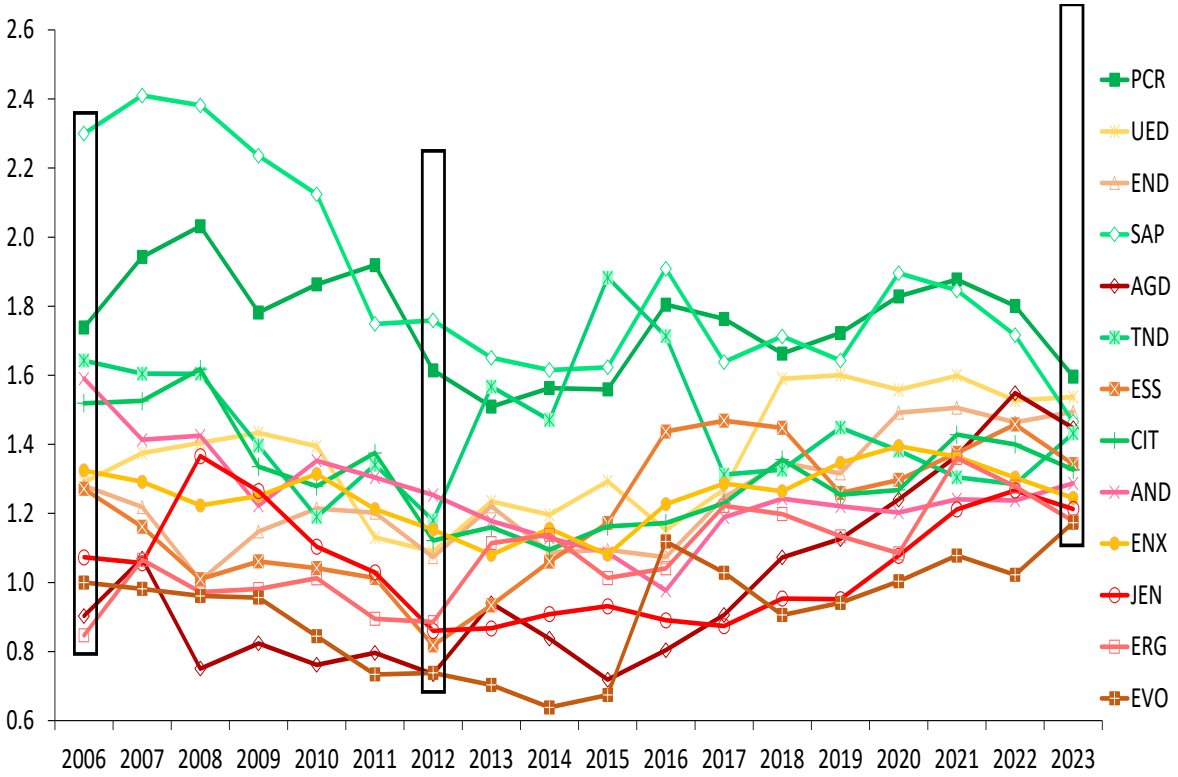
Source: AER, *2024 Annual Benchmarking Report – Electricity distribution network service providers, November 2024*, p. 35.

Note: Columns with a hatched pattern represent results that violate the key property that an increase in output is achieved with an increase in cost. These results also do not reflect the impact of a range of material OEFs. Opex MPFP scores for each DNSP are displayed for comparison and are not included in the calculation of the average efficiency score, which also excludes any results affected by monotonicity violations.

In addition to the econometric opex cost function models, we also use productivity index number techniques to enable comparisons of productivity levels over time and between DNSPs. The multilateral total factor productivity (MTFP) index measures the total factor productivity of each business over time, whereas the opex and capital multilateral partial factor productivity (MPFP) indexes measure the productivity of opex or capital inputs respectively. Our opex MPFP efficiency results are also not adjusted for material OEFs.

The results from our opex MPFP analysis can be seen in Figure 3.5 (where a higher index score means more efficient). Jemena has typically ranked among the lowest performing distribution businesses in terms of opex MPFP. Jemena's performance remained fairly constant between 2012 and 2019, leading to its ranking falling slightly as some other distribution businesses improved their performance. In 2017, Jemena became the lowest performing distribution business as measured by opex MPFP. Since then, its performance has gradually improved, returning to a ranking of 11th in 2022 and 2023.

Figure 3.5 Individual DNSP opex MPFP indexes, 2006–23



Source: Q AER, *2024* Annual Benchmarking Report – Electricity distribution network service providers, November 2024, p. 28.

Partial performance indicators

We have also examined the relative opex performance of Jemena over the 5-year period (2019–23) using partial performance indicators (PPIs). This simple ratio method relates one input to one output. PPIs provide some information about the total and category specific opex performance of a business, and may help as cross-checks and in understanding potential drivers of relative efficiency or inefficiency. Performance on PPIs may be affected by factors outside the control of the DNSP (as for our other benchmarking techniques) and must be analysed with caution, with comparisons also generally limited to businesses with similar characteristics (e.g. customer density).

Across the different PPI cost categories, Jemena tends to perform well on per customer metrics, but relatively less well on per circuit length metrics.[23] Largely urban businesses such as Jemena have denser distribution networks and tend to perform better on per customer metrics than their more rural counterparts. In addition, care must be taken drawing conclusions from PPI analysis. For Jemena, this is particularly the case given its situation is relatively unique in terms of its customer density.[24]

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23 AER, *2024 Partial Performance Indicators for distribution*, November 2024.

24 Jemena's customer density (76.5 customers per km of route length) is different to its closest peers in terms of customer density, who are United Energy (103.4 customers per km of route length) and Evoenergy (49.5 customers per km of route length). AER analysis.

This pattern of Jemena's better performance on per customer than on per circuit length is repeated for the main opex cost categories, with the analysis indicating that Jemena has relatively low maintenance, vegetation management and emergency response opex per customer, but that these cost categories are relatively higher on a per circuit length basis. The exception to this is total overhead costs (opex and capitalised corporate and network overhead costs), where Jemena does not perform particularly well on either customer or circuit length measures.

Figure 3.6 Total opex per kilometre of circuit length against customer density (2019–23 average)

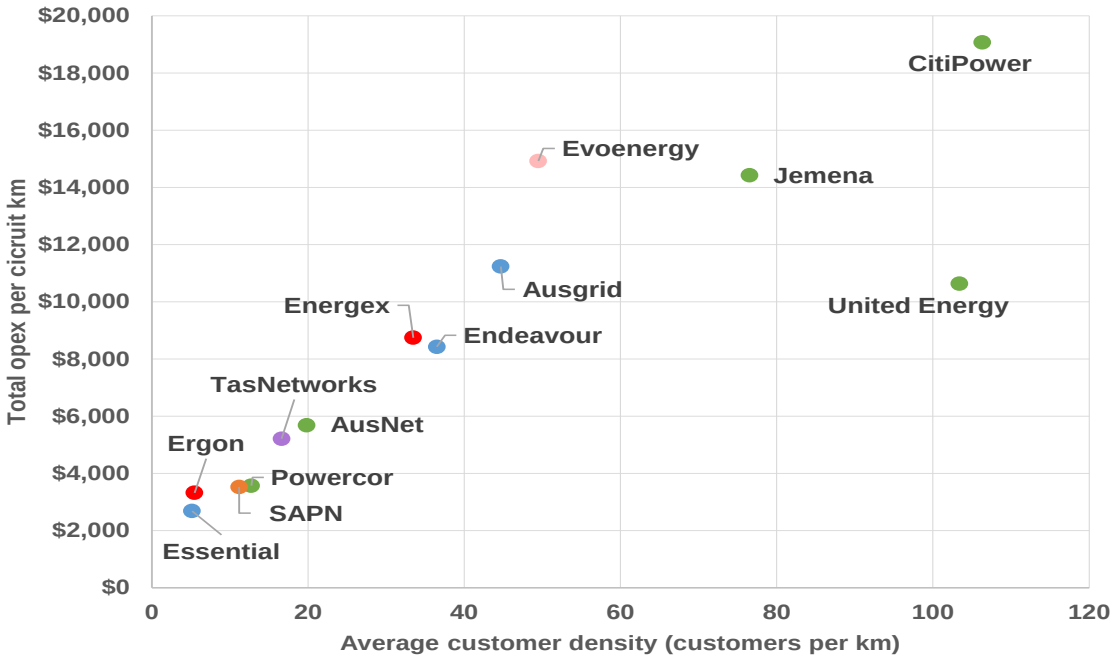
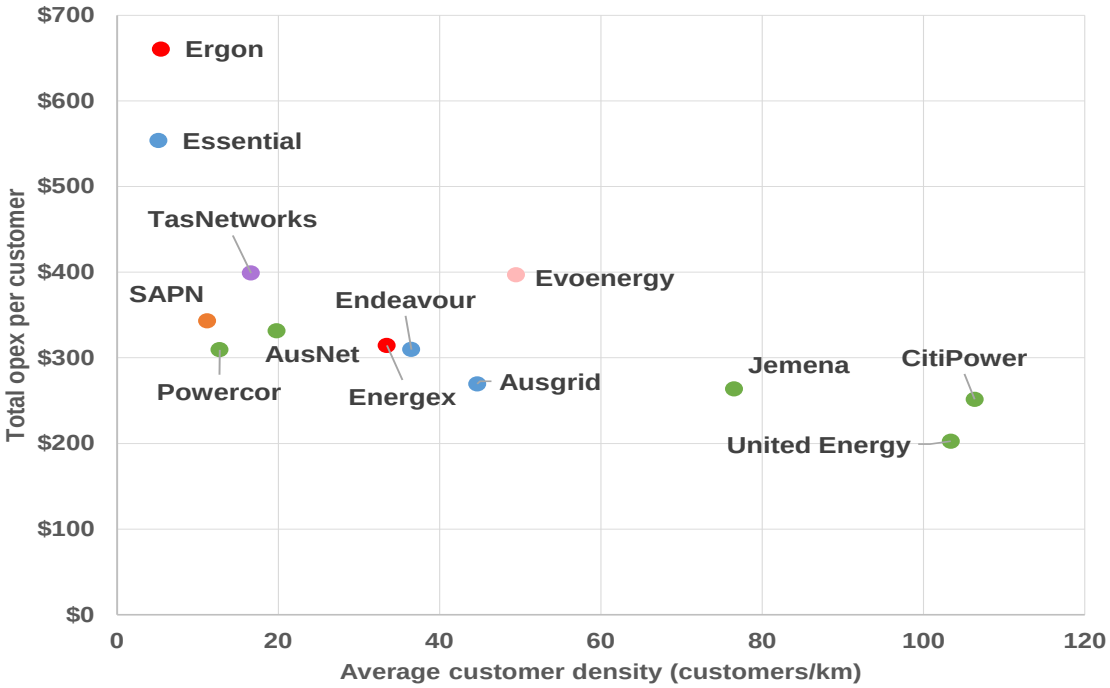


Figure 3.7 Total opex per customer against customer density (2019–23 average)



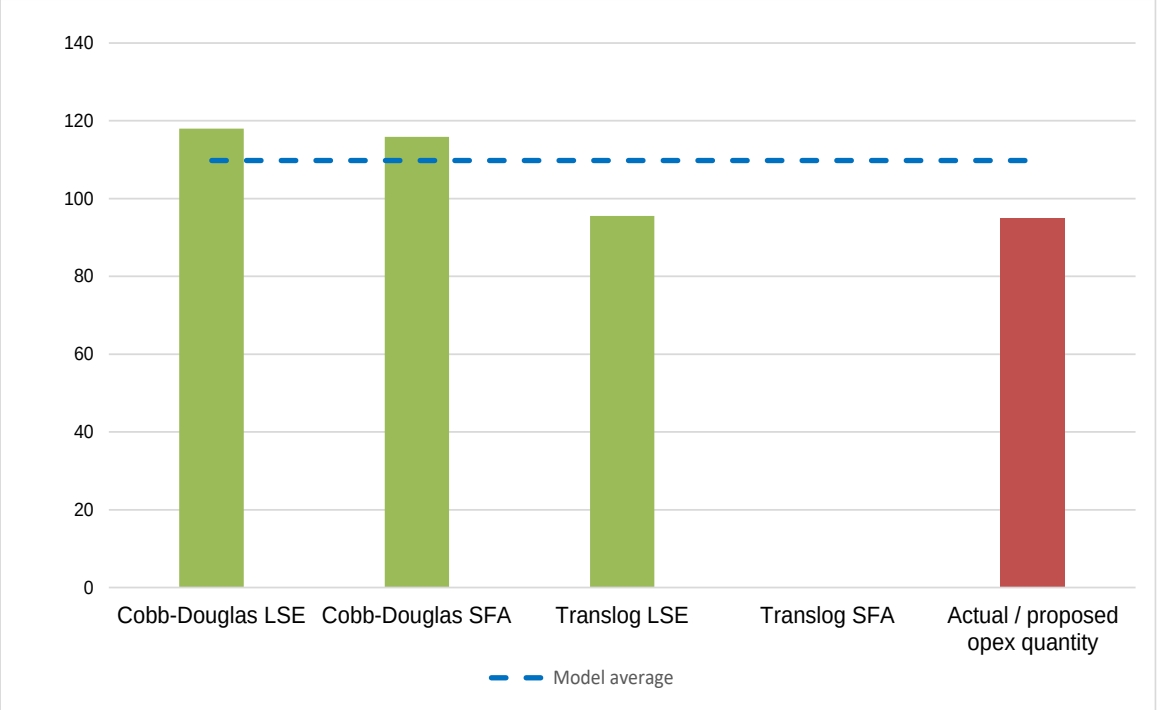
Source: AER, *2024 Annual Benchmarking Report – electricity distribution network service providers*, November 2024; AER analysis. (applies to Figure 3.6 and Figure 3.7)

Benchmarking the efficiency of Jemena's base year opex

Given the evidence outlined above about the possible inefficiency of Jemena's opex over the 2006–23 period, and the more recent 2012–23 period, we have undertaken further analysis. Consistent with past decisions, this involves the application of our economic benchmarking roll-forward-model, which includes adjusting for OEFs to test the efficiency of the 2024–25 base year opex more directly. We use the results from our econometric opex cost function benchmarking and our benchmarking roll-forward models to derive an estimate of efficient base year opex, and compare this efficiency opex estimate to Jemena's 2024–25 base year opex. We then determine whether there is an efficiency 'gap', and if so, the magnitude of this 'gap'. We have outlined our approach in further detail in past decisions.[25] The results of using our benchmarking roll-forward model (as discussed above) to derive estimated efficient base year opex plus capitalised corporate overheads (blue dashed line), and compare it to base year actual opex plus capitalised corporate overheads (in green), are set out in Figure 3.8 for the long period and Figure 3.9 for the short period.

These figures show that Jemena's estimated 2024–25 base year opex is below our estimated efficient base year opex across the long and short periods.

Figure 3.8 Estimates of efficient network services opex using data over the 2006–23 period



Source: AER, *2024 Annual Benchmarking Report – electricity distribution network service providers*, November 2024; AER analysis.

[25] AER, *Final Decision, Jemena distribution determination 2021–26 – Attachment 6 – Operating expenditure*, April 2021, pp. 14–36.

Figure 3.9 Estimates of efficient network services opex using data over the 2012–23 period

Source: AER, *2024 Annual Benchmarking Report – electricity distribution network service providers*, November 2024; AER analysis.

Taking the above benchmarking analysis into account, we consider that Jemena's base year opex is not materially inefficient. Given this, we have relied on Jemena's revealed costs and used its estimated 2024–25 opex as the basis of our alternative estimate of total opex.

3.3.2 Adjustments to base year opex

Jemena proposed adjustments to its base year opex of $2.6 million, or $12.9 million over the regulatory control period.[26] These were for incremental ICT project costs ($4.0 million) and adding the reclassification of software as a service (SaaS) costs ($8.9 million). These adjustments are in addition to the standard adjustments for final year increment, movement in provisions, demand management innovation allowance (DMIA) and category specific forecasts.

We have considered these proposed adjustments, and have adjusted our alternative estimate base year opex to:

- add $2.6 million for the increase in forecast opex between base year 2024–25 and the final year 2025–26 (final year increment). This increases our alternative estimate by $12.9 million over the 2026–31 period. We discuss this adjustment in section 3.3.2.1
- remove $0.1 million for the removal of opex categories forecast separately. This decreases our alternative estimate by $0.5 million over the 5 years. We discuss this adjustment in section 3.3.2.2

[26] Jemena, *Att 06-03M SCS Opex model*, *31* January 2025.

- add $1.8 million for the reclassification of SaaS costs. This increases our alternative estimate by $8.9 million over the 5 years. We discuss this adjustment in 3.3.2.3
- remove $0.4 million for Victorian Emergency Services Commission license fees. These costs will be recovered as a jurisdictional scheme from 2025–26. This decreases our alternative estimate by $2.2 million over the 5 years. We discuss this adjustment in 3.3.2.4.
- adding $4.9 million for non-recurrent efficiency gain for forecast opex to satisfy the opex criteria, and to share the significant insurance premium underspends with network users (EBSS). This increases our alternative estimate by $24.5 million over the 5 years of the 2026–31 regulatory control period. We explain discuss this adjustment further in 3.3.4.10

We have not included the proposed base adjustment of $0.8 million ($4.0 million over the 2026–31 period) for incremental ICT project opex. We discuss the reason for this in section 3.3.2.5.

3.3.2.1 Final year increment

Our standard practice to calculate final year opex is to add the estimated change in forecast opex between the base year (2024–25) and the final year (2025–26) of the current regulatory control period to the base year opex amount.[27]

We have added $2.6 million for the final year increment in our alternative estimate, increasing our alternative estimate by $12.9 million over the 2026–31 period. This is the same as Jemena's proposal.

3.3.2.2 Removal of category specific forecasts

We have removed $0.1 million ($0.5 million over the 2026–31 period) of Guaranteed Service Level (GSL) payments in our alternative estimate, which are forecast separately (refer section 3.3.5.2).

3.3.2.3 Reclassification of SaaS costs

We have added $1.8 million ($8.9 million over the 2026–31 period) as a placeholder for the change in accounting treatment for SaaS costs from capex to opex, as specified by the International Financial Reporting Standards. This is the same as proposed by Jemena's proposal, [28] and reflects that these represent a reclassification of previously capex costs to now be included as opex. Consistent with our past approach, we will include these costs in our alternative estimate. However, we will update this amount for the final decision to reflect Jemena's 2024–25 base year actual expenditure, once it is known.

3.3.2.4 Victorian Essential Services Commission license fees

We have removed $0.4 million ($2.2 million over the 2026–31 period) for the Essential Services Commission licence fees transitioning to be recovered via a jurisdictional scheme.

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27 AER, Final decision, Expenditure forecast assessment guideline – electricity distribution, October 2024, pp. *22–23*.

28 Jemena, *Att 06–01 – Operating expenditure*, January 2025, p. 15.

The ESC license fee is used to fund the ESC activities related to regulating the Victorian Distribution businesses. Until 30 June 2025, these fees were recovered via the B-factor alongside Distribution use of system under/overs.[29] On 19 July 2024, we made a determination that the licence-fee scheme established under 21(a) of the *Electricity Industry Act 2000 (Vic)* meets the definition of a jurisdictional scheme in cl 6.18 7A of the National Electricity Rules[30]. From July 1, 2025, all Victorian DNSPs, including Jemena, will recover these costs as jurisdictional scheme through network tariffs. That is, they will no longer be recovered from revenues relating to the opex building block. Jemena's 2025–26 pricing proposal reflects this change.[31] Removing the base year expenditure ensures customers are not charged twice.

3.3.2.5 Incremental ICT project opex

We have not included the proposed base adjustment for incremental ICT project opex. We consider the incremental ICT base adjustment to not be prudent, and risks double counting costs already provided through our base-trend-step opex forecasting approach.

Jemena proposed $4.0 million (0.7% of forecast total opex) incremental project opex to reflect an expected uplift in ICT-related project management activities. Specifically, Jemena deducted the base year project management opex from the forecast estimated average annual project management opex to arrive at the proposed amount.[32]

We consider these costs to be business-as-usual, and therefore captured in base expenditure. Through our base-trend-step opex forecasting approach, we further provide for an uplift in opex through the trend factor. Including this cost adjustment would therefore risk double counting these costs.

As part of our consultants' technical assessment on Jemena's ICT program, EMCa also identified that were it to apply Jemena's approach to forecasting project management opex, the adjustment amount would be negative, or a reduction of costs in the forecast period. This is because based on the forecast project management information Jemena provided, the forecast average annual project management opex is lower than the base year expenditure.[33]

For the reason set out above, we have not included this adjustment in our alternative estimate of forecast opex.

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29 AER, *Final decision, Jemena distribution determination 2021–2026 – Attachment 14 – Control mechanisms,* April 2021, p. 15.

30 AER, *Jurisdictional scheme determination - License fees payable under the Electricity Industry Act 2000 (Vic)*, July 2024.

31 Jemena, *Statement of compliance – Annual pricing proposal*, 2 May *2025,* p. 8.

32 Jemena, *Att 06–01 – Operating expenditure,* January 2025, p.15–16.

33 EMCa, *Jemena 2026 – 2031 Regulatory Proposal – Review of proposed expenditure on ICT and CER,* August 2025, p. 96.

3.3.3 Rate of change

Having determined an efficient starting point, or base opex, we trend it forward to account for the forecast growth in prices, output and productivity. We refer to this as the rate of change.[34]

Jemena largely applied our standard approach to forecast the rate of change, including:

- **Price growth:** adopting our standard input price weightings of 59.2% labour and 40.8% non-labour. It forecast labour price growth using an average of forecasts of the growth in the wage price index (WPI) from BIS Oxford Economics (its consultant) and Deloitte (our consultant, as a placeholder).
- **Output growth:** applying the weights from our 4 econometric models, consistent with our standard approach. It forecast growth in its customer numbers and circuit length based on historic growth rates.
- **Productivity growth:** using our 0.5% per year productivity growth forecast.

The rate of change proposed by Jemena contributed $60.1 million (9.8% of forecast total opex) to Jemena's total opex forecast of $615.2 million. This equates to an average opex increase of 3.9% each year. We have included a rate of change that contributes $52.1 million (9.2%) to our alternative estimate of total forecast opex of $564.7 million. This equates to an average opex increase of 3.3% each year in our alternative estimate.

Table 3.2 Forecast annual rate of change in opex (%)

	2026–27	2027–28	2028–29	2029–30	2030–31
Jemena's proposal					
Price growth	0.6	0.5	0.6	0.7	0.7
Output growth	2.8	5.0	3.7	3.3	4.1
Productivity growth	0.5	0.5	0.5	0.5	0.5
Rate of change	**2.9**	**5.0**	**3.8**	**3.6**	**4.3**
AER alternative estimate					
Price growth	0.5	0.6	0.7	0.7	0.7
Output growth	2.1	4.2	3.3	3.0	3.4
Productivity growth	0.5	0.5	0.5	0.5	0.5
Rate of change	**2.1**	**4.3**	**3.5**	**3.2**	**3.5**
Difference	**–0.8**	**–0.7**	**–0.3**	**–0.4**	**–0.7**

Source: Jemena, *Att 06-03M – SCS Opex Model*, January 2025; AER analysis.
Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '–0.0' represent small nonzero amounts and '–' represents zero.

[34] AER, *Final decision, Expenditure forecast assessment guideline – electricity distribution*, October 2024, pp. 23–24.

3.3.3.1 Forecast price growth

Jemena proposed average annual price growth of 0.6%, which increased its total opex forecast by $8.8 million. We have used real average annual price growth of 0.6% in our alternative estimate of total opex. This increases our total opex alternative estimate by $9.6 million.

Both we and Jemena forecast price growth as a weighted average of forecast labour price growth and non-labour price growth (real price growth rate of zero), of 59.2% and 40.8% respectively.

Consequently, the key difference between our real price growth forecasts and Jemena's is that we have updated our labour price growth forecast to include the more recent forecasts from our consultant Deloitte Access Economics.

Table 3.3 compares our forecast labour price growth with Jemena's proposal.

Table 3.3 Forecast labour price growth (%)

	2026–27	2027–28	2028–29	2029–30	2030–31
Jemena's proposal					
Deloitte Access Economics	0.7	0.7	0.8	1.1	1.1
BIS Oxford Economics	1.2	1.0	1.3	1.3	1.2
Average	**0.9**	**0.8**	**1.0**	**1.2**	**1.1**
AER's alternative estimate					
Deloitte Access Economics	0.7	0.9	1.1	1.1	1.0
BIS Oxford Economics	1.2	1.0	1.3	1.3	1.2
Average	**0.9**	**0.9**	**1.2**	**1.2**	**1.1**
Overall difference	**-0.0**	**0.1**	**0.1**	**-0.0**	**-0.0**

Source: Jemena, *Att 06-03M – SCS Opex Model*, January 2025; Deloitte Access Economics, *Labour price growth forecasts*, 20 August 2024, p. 10; AER analysis.
Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

We will receive updated WPI forecasts prior to our final decision. We will use these to update our labour price growth forecasts in the final decision.

3.3.3.2 Forecast output growth

Jemena proposed average annual output growth of 3.8%, which increased its proposed opex forecast for the 2026–31 period by $58.8 million. We have forecast average annual output growth of 3.2%. This increases our alternative estimate of total opex by $50.4 million, which is $8.4 million lower than Jemena's.

Forecast growth of the individual output measures

We are satisfied that Jemena's forecast of the growth in customer numbers and circuit length, as set out in Table 3.4, reflect a realistic expectation. They are largely consistent with forecast trends from historical growth rates consistent with our standard approach.

However, we are not satisfied that Jemena's forecast growth rates for ratcheted maximum demand reflect a realistic expectation. We discuss our position on ratcheted maximum demand below.

Table 3.4 Forecast growth in individual output measures, %

	2026–27	2027–28	2028–29	2029–30	2030–31
Jemena's proposal					
Customer numbers	1.7	1.8	1.8	1.7	1.7
Circuit length	1.8	1.6	1.4	1.4	1.3
Ratcheted maximum demand	4.4	9.6	6.6	5.8	7.7
AER's alternative estimate					
Customer numbers	1.7	1.8	1.8	1.7	1.7
Circuit length	1.8	1.6	1.4	1.4	1.3
Ratcheted maximum demand	2.5	7.8	5.7	5.0	5.9
Differences					
Customer numbers	–	–	–	–	–
Circuit length	–	–	–	–	–
Ratcheted maximum demand	–1.8	–1.8	–0.9	–0.9	–1.8

Source: Jemena, *Att 06-03M – SCS Opex Model*, January 2025; AER, *Jemena 2026–31 – Distribution – Draft decision – Opex model*, September 2025; AER analysis

Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

Output weights

Both we and Jemena used the output weights set out in Table 3.5, as derived from the results of the 4 econometric models in our *2024 Annual benchmarking report*.[35]

[35] Quantonomics, *Benchmarking results for the AER*, *Distribution*, November 2024, pp. 165–167.

Table 3.5 Output weights, %

	Cobb Douglas SFA	Cobb Douglas LSE	Translog LSE	Translog SFA	Average
Customer numbers	29.1	55.7	37.3	34.3	39.1
Circuit length	13.4	23.7	24.9	17.9	20.0
Ratcheted maximum demand	57.5	20.7	37.8	47.8	40.9

Source: Jemena, *Att 06-03M – SCS Opex Model*, January 2025; Quantonomics, *Benchmarking results for the AER*, *Distribution*, November 2024, pp. 144–147; AER analysis.
Note: Amounts of '0.0' and '–0.0' represent small non-zero values and '–' represents zero.

We will publish our *2025 Annual benchmarking report* in November 2025. In our final decision, we will update the output growth forecast in our alternative estimate to reflect the output weights derived using the results from this report.[36]

Ratcheted maximum demand

We are not satisfied that Jemena's forecast growth rates for ratcheted maximum demand reflect a realistic expectation. We have instead used the ratcheted maximum demand forecast in Table 3.6.

Table 3.6 Forecast growth in ratcheted maximum demand, %

	2026–27	2027–28	2028–29	2029–30	2030–31
Jemena proposal	4.4	9.6	6.6	5.8	7.7
AER alternative estimate	2.5	7.8	5.7	5.0	5.9
Difference	–1.8	–1.8	–0.9	–0.9	–1.8

Source: Jemena, *Att 06-03M – SCS Opex Model*, January 2025; AER analysis.
Note: Numbers may not add up to totals due to rounding.

The maximum demand forecasts that Jemena used in its opex model were different to those that Jemena included in its reset Regulatory information notice (RIN).[37] We asked Jemena why it did not use the demand forecast in its reset RIN, and it stated that the difference was due to future major customer and data centre loads.[38]

We engaged Baringa consultants to review Jemena's maximum demand forecasts. Overall, Baringa considered that Jemena's maximum demand forecast is likely to be overstated.[39] It

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36 Further detail on our approach to forecasting output growth is set out in our opex model, which is available on our website.

37 Jemena, *JEN – RIN 5 – Workbook 1 – Forecast*, 31 January 2025.

38 Jemena, *Response to information request IR#015*, 6 May 2025, p. 4.

39 Baringa, *Distribution demand forecast assessment – review of Jemena's 2026–31 regulatory proposal*, July 2025, p. 6.

considered that Jemena's approach to forecasting block loads including data centres was subjective and lacked strong reasoning, and advised that data centres that are yet to be contracted should be excluded from the forecasts.[40] Baringa noted similar concerns regarding Jemena's approach to non-data centre block loads, noting a lack of clarity regarding the rationale for the speculative weighted average method used in calculating demand.[41] We also have concerns with how Jemena included non-data centre block loads, which we consider double counts loads captured in the trend and other components of the demand modelling. Baringa further raised concerns regarding the approaches to block loads at the spatial level compared to the system level, and how they reconcile to each other, being unclear.[42]

Considering the above, we agree with Baringa's assessment that that Jemena's maximum demand forecast is likely overstated, and so to calculate the ratcheted maximum demand used in our alternative estimate of total opex, we have taken Jemena's reset RIN maximum demand numbers and adjusted block load forecasts to reflect Baringa's estimate of the overall Victorian market.[43]

3.3.3.3 Forecast productivity growth

Jemena proposed a productivity growth forecast of 0.5% per year, which decreased its total opex by $7.6 million. We have forecast the same productivity growth rate, which reflects our standard approach.[44] This decreases our alternative opex estimate by $7.9 million over the 2026–31 period.

3.3.4 Step changes

In developing our alternative estimate for the draft decision, we include prudent and efficient step changes for cost drivers such as new regulatory obligations or efficient capex / opex trade-offs. As we explain in the AER's *Expenditure Forecast Assessment Guideline* and *Better Resets Handbook*, we will generally include a step change if the efficient base opex and the rate of change in opex of an efficient service provider does not already account for the proposed cost for such items, and they are required to meet the opex criteria.[45]

Jemena's proposal included 9 step changes totalling $41.4 million (6.7% of its proposed forecast total opex).[46] These are shown in Table 3.7, along with our alternative estimate for the draft decision, which is to include step changes totalling –$14.3 million. This is $55.7 million lower than Jemena's proposal. We consider the majority of these step changes do not

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40 Baringa, *Distribution demand forecast assessment – review of Jemena's 2026–31 regulatory proposal*, July 2025, p. 6.

41 Baringa, *Distribution demand forecast assessment – review of Jemena's 2026–31 regulatory proposal*, July 2025, p. 29.

42 Baringa, *Distribution demand forecast assessment – review of Jemena's 2026–31 regulatory proposal*, July 2025, p. 9.

43 Baringa, *Email to AER - Re: Questions application of advice on Victorian demand forecasts*, 16 August 2025.

44 AER, *Opex productivity growth review 2018 – Final decision*, 8 March 2019.

45 AER, *Final decision,* Expenditure forecast assessment guideline – electricity distribution*, October 2024, pp. 26–27;* AER*,* Better Resets Handbook*, July 2024, p. 26.*

46 Jemena, Att 06-03M – SCS Opex Model*,* January 2025.

meet the requirements of our step change criteria, and we have not included these in our alternative estimate.[47] We discuss each step change below.

Table 3.7 Jemena's proposed step changes and our alternative estimate ($million, 2025–26)

Step change	Jemena's proposal	AERs alternative estimate	Difference
ICT services	21.6	8.1	–13.6
CER integration – grid stability	0.5	–	–0.5
CER integration – voltage and PQ management	1.1	–	–1.1
CER integration – data visibility and analytics	1.5	–	–1.5
New REFCL obligations	4.9	4.9	–
Resilience – outage preparation and response	4.5	–	–4.5
Safety – LBRA hazard trees management program	2.6	–	–2.6
Resilience – deploying mobile response vehicle	0.4	–	–0.4
Customer systems and education	4.3	–	–4.3
Insurance	–	–27.2	–27.2
Total step changes	**41.4**	**–14.3**	**–55.7**

Source: Jemena, *Att 06-03M – SCS Opex Model*, January 2025; AER analysis.
Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

3.3.4.1 ICT services

Jemena proposed $21.6 million (3.5% of forecast total opex) for 16 ICT projects related to capex (Table 3.9). Jemena submitted these projects are driven by external impacts arising from the energy transition, including NEM reforms, transition to cloud-based services, and capability uplift required to manage an increasing volume of consumer energy resources (CER).[48]

Our alternative estimate for the draft decision includes a placeholder forecast of $8.1 million for the ICT services step change. This is based on our view that Jemena has not sufficiently justified some projects. Other projects have not been included because we consider that while they may be justified, the relatively small increase in costs either double counts costs

[47] *AER, Final decision,* Expenditure forecast assessment guideline – electricity distribution*, October 2024, pp. 26–27; AER,* Better Resets Handbook*, July 2024, p. 26.*

[48] Jemena, *Att 06–04 Operating expenditure step changes*, 31 January 2025, pp. 7–8.

provided through the trend component of our base-step-trend forecasting approach, or can be met through efficiencies not fully accounted for in the step change cost build up.

Table 3.8 Summary ICT services step change ($million, 2025–26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Jemena's proposal	1.5	3.7	5.3	6.0	5.1	21.6
AER alternative estimate	0.5	0.8	2.3	2.6	1.8	8.1
Difference	**–0.9**	**–2.9**	**–3.0**	**–3.5**	**–3.3**	**–13.6**

Source: Jemena, *Att 06-03M – SCS Opex Model*, January 2025; AER analysis.
Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

We engaged EMCa to undertake a technical review of the proposed ICT opex and capex, and have jointly assessed this proposal with capex, including through the information provided in the respective business cases and models, the responses to our information requests, and information obtained through an onsite workshop. Table 3.9 maps the opex components to the associated capex.

We consider the cyber program, cloud capacity growth and CER integration – flexible exports components of the step change are prudent and efficient, and have include $8.1 million for these in our alternative estimate. This was supported by EMCa's advice, which considered these expenditures to be justified,[49] and is consistent with capex who have also included the flexible services proposal.

We have also considered, and agree with, EMCa's advice that 5 of the component projects for this step change are likely self-funding through efficiencies or opex savings related to project implementation, which have not been otherwise accounted for in the cost build up of the step change.[50] For this reason, we have not included the proposed amounts for network operations and geospatial enhancements, digitising network switching, contract lifecycle management dynamic network planning and automation, and 3D digital twin.

For the NEM reform – flexible trading arrangements project, we consider this to be part of Alternative Control Services (ACS), and have therefore not included this in our alternative estimate. We request that Jemena provide in its revised proposal further justification for why these costs should remain in SCS, or consider reproposing these as ACS.

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49 EMCa, *Jemena 2026 – 2031 Regulatory Proposal – Review of proposed expenditure on cyber security* – August 2025, p. 21; EMCa, *Jemena 2026 – 2031 Regulatory Proposal – Review of proposed expenditure on ICT and CER*, August 2025, p. 48.

50 EMCa, *Jemena 2026 - 2031 Regulatory Proposal – Review of proposed expenditure on ICT and CER*, August 2025, pp. 22, 31, 36, 39 and 51.

We have not included the remaining components of the ICT step change. We note that although EMCa considered some of these components to be justified,[51] we consider including these amounts would double count costs already provided for through the base and trend components of our opex forecasting approach. These components include the expenditure for customer systems, enterprise content uplift, data foundations governance, outage preparation and response, customer education, and the CER-related data hub and VVC rollout.

Overall, based on our review and the advice received from EMCa, we have included a placeholder amount of $8.1 million for the ICT services step change.

Table 3.9 below shows the components of the ICT step change with the associated capex, and our assessment. Further details of the assessment of related ICT expenditures can be found in Attachment 2 of this draft decision.

Table 3.9 Components of ICT services step change ($million, 2025–26)

Step change components	Jemena proposal	Related capex	Our Alternative Estimate	Difference	Assessment
Customer systems	0.4	3.0	–	–0.4	Not included: double counting by base / trend
Network operations geospatial enhancements	0.2	3.0	–	–0.2	Not included: covered by efficiencies
Cyber program	2.3	–	2.3	–	Included
Digitising network switching	0.5	12.8	–	–0.5	Not included: covered by efficiencies
Cloud capacity growth	2.7	–	2.7	–	Included
Enterprise content uplift	0.6	–	–	–0.6	Not included: double counting base / trend
Data foundations governance	0.3	–	–	–0.3	Not included: double counting base / trend
NEM reform – flexible trading arrangements	4.3	4.4	–	–4.3	Not included: subject to further information

[51] EMCa, *Jemena 2026 - 2031 Regulatory Proposal – Review of proposed expenditure on ICT and CER*, August 2025, pp. 19, 33, 50, 66, 85, 90.

Step change components	Jemena proposal	Related capex	Our Alternative Estimate	Difference	Assessment
Outage preparation and response*	0.7	2.2	–	–0.7	Not included: double counting base / trend - refer section 6.3.4.6.
Contract lifecycle management	0.8	–	–	–0.8	Not included: covered by efficiencies
Customer education**	0.8	4.8	–	–0.8	Not included: double counting base / trend - refer section 3.3.4.9
Dynamic network planning and automation	0.4	11.2	–	–0.4	Not included: covered by efficiencies
3D digital twin	0.2	5.8	–	–0.2	Not included: covered by efficiencies
CER integration – flexible exports	3.0	28.0	3.0	–	Included: refer attachment 2.
CER integration – strategic network analytics platform – data hub***	1.3	10.7	–	–1.3	Not included: double counting trend - refer section 3.3.4.4
CER integration – VVC rollout***	3.2	0.1	–	–3.2	Not included: double counting trend - refer section 3.3.4.3
Total	**21.6**	**86.0**	**8.1**	**–13.6**	

Source: Jemena, *Att 06–04 Operating expenditure step changes*, January 2025, p.11; EMCa, *Jemena 2026 - 2031 Regulatory Proposal – Review of proposed expenditure on ICT and CER*, August 2025, p.8; AER analysis.

Note: *Related to the outage preparation and response step change. **Related to customer systems and education step change. ***Related to the CER-related to the Data visibility and analytics, and the voltage and power quality management step changes. Numbers may not add up to totals due to rounding. Values of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

3.3.4.2 CER integration – grid stability and flexible services

We have not included the $0.5 million Grid stability and flexible services step change in our alternative estimate of total forecast opex for the draft decision. This reflects that we are not satisfied that these costs represent prudent and efficient expenditure, including that the proposed step change amount would double count costs that will be provided through the trend component of our opex forecasting approach.

Table 3.10 CER integration – grid stability and flexible services step change ($million, 2025–26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Jemena's proposal	–	–	0.1	0.2	0.2	0.5
AER alternative estimate	–	–	–	–	–	–
Difference	**–**	**–**	**–0.1**	**–0.2**	**–0.2**	**–0.5**

Source: Jemena, *Attachment 06–03M – SCS Opex Model*, January 2025; AER analysis.
Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

Jemena proposed $0.5 million (0.1% of forecast total opex) to develop Distributed Solar PV Backstop Capability and a Distributed Under-Frequency Load Shedding Scheme to continue to effectively manage its network in a safe and reliable manner while continuing to integrate a growing volume of CER.[52] Jemena further submitted that these initiatives were initially flagged by AEMO in 2021, through a directive to identify and implement measures to manage the increased volumes of distributed generation. Jemena further noted that a new regulatory obligation requires Victorian networks to have the capability, from 1 January 2024, to curtail or interrupt distributed generators, as instructed by AEMO.[53]

We assessed Jemena's Grid stability and flexible services step change, including the respective business cases and NPV model, responses received to our information requests, and information obtained through an onsite workshop. EMCa provided technical advice on the proposed expenditure.

We consider it prudent for Jemena to expand its capabilities to meet all new regulatory obligations. We are also satisfied that improving these capabilities will result in continued effective management of the network to meet the evolving requirements necessary to manage the changes and challenges brought by the evolving energy transition.

However, we consider that the proposed amount risks double counting costs already provided through our base-step-trend forecasting approach. That is, this relatively small step up in costs will be provided for through the base and trend components of our opex forecasting approach. Specifically, forecast opex is established on a top-down basis, and thus any rate of change uplift is inherently also based on a top-down rather than a bottom-up category level activity. That is, this uplift is not solely for base activities, but for continued growth and adaptation of the business over time. As noted in the Expenditure Forecast Assessment Guideline and the Better Resets Handbook,[54] step changes should not double count costs provided through other components of forecast opex, such as base opex and rate of change.

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52 Jemena, *Att 06–04 Operating expenditure step changes, January 2025*, pp. 15–16.

53 Jemena, *Att 06–04 Operating expenditure step changes, 31 January 2025*, p. 16.

54 AER, Final decision, *Expenditure forecast assessment guideline – electricity distribution*, October 2024, p. 26.

For the reasons set out above, we have not included the Grid stability & flexible services step change in our alternative estimate of total forecast opex.

3.3.4.3 CER integration – Voltage and Power Quality management

We have not included the $1.1 million Voltage and PQ step change in our alternative estimate of total forecast opex for the draft decision. This reflects that we are not satisfied these costs represent prudent and efficient expenditure, including that the corresponding capital expenditure program (capex) has not been approved, and that the proposed amount would double count costs that would be provided for through the base and trend components of our opex forecasting approach.

Table 3.11 CER integration – voltage and PQ management step change ($million, 2025–26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Jemena's proposal	0.2	0.2	0.2	0.2	0.2	1.1
AER alternative estimate	–	–	–	–	–	–
Difference	**–0.2**	**–0.2**	**–0.2**	**–0.2**	**–0.2**	**–1.1**

Source: Jemena, *Attachment 06–03M – SCS Opex Model*, January 2025; AER analysis.
Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

Jemena proposed $1.1 million (0.2% of forecast total opex) to respond to network voltage and quality of supply concerns, that it submitted are arising from increased CER, and the electrification of transport and gas.[55] Jemena submitted there are a number of factors driving the need for this investment, including, amongst other things, a changing energy landscape, non-compliant voltage performance for some of its customers, and proactive management of issues coupled with a continued growth of CER uptake.[56] We note this step change also relates to investments in Jemena's capex proposal, including a Dynamic Voltage Management (DVM) system.[57] Further details of this program can be found in Attachment 2 of this draft decision. The discussion below focuses on the proposed opex step change component of these costs.

We assessed Jemena's proposed step change, including through the information provided in the respective business case and model, the responses received to our information requests, and information obtained through an onsite workshop. We also engaged EMCa to provide technical advice on the prudency and efficiency of the proposed expenditure for both opex and capex.

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55 Jemena, *RIN – Support – Voltage and PQ Management Program – Investment Brief*, 31 January 2025, p. 5.

56 Jemena, *RIN – Support – Voltage and PQ Management Program – Investment Brief*, 31 January 2025, pp. 5–6.

57 Jemena, *RIN – Support – Voltage and PQ Management Program – Investment Brief*, 31 January 2025, p. 5.

A submission from the Victorian Government also highlighted that Jemena had previously received expenditure to implement a DVM, and sought for us to be satisfied that this program would not double count costs.[58]

We consider it prudent for Jemena to address voltage and PQ concerns within its network, and to ensure continued compliance with the respective obligations. However, we are not satisfied the proposed amount will not double count costs provided through the base and trend components of our opex forecasting approach, which provides for an opex uplift through the rate of change factor (see Section 3.3.4.2). Additionally, the corresponding capex program was not approved in our capex draft decision, limiting the need for this expenditure.

For our alternative estimate of total forecast opex for the draft decision, and for the reasons set out above, we have therefore not included the Voltage and PQ management step change.

3.3.4.4 CER integration – data visibility and analytics

We have not included the $1.5 million Data visibility and analytics step change in our alternative estimate of total forecast opex for the draft decision. This reflects that we are not satisfied these costs represent prudent and efficient expenditure, including because these costs are already in Jemena's opex, and double count costs that will be provided for through the base and trend in our opex forecasting approach.

Table 3.12 CER integration – data visibility and analytics step change ($million, 2025–26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Jemena's proposal	–	0.4	0.4	0.4	0.4	1.5
AER alternative estimate	–	–	–	–	–	–
Difference	**–**	**–0.4**	**–0.4**	**–0.4**	**–0.4**	**–1.5**

Source: Jemena, *Att 06-03M – SCS Opex Model,* January 2025; AER analysis.
Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

Jemena proposed $1.5 million (0.2% of forecast total opex) to uplift its data analytics capabilities, including to implement a Strategic Network Analytics Platform (SNAP). Jemena submitted this would replace its existing network analytics prototype platform, and implement network analytics applications that would deliver operational efficiencies and enhance its infrastructure to process near real-time smart meter data for 90% of its meter population. [59] It considered the need for this investment to include improved enablement of CER management capabilities, ongoing compliance with evolving requirements, and operational and safety improvements. [60] Further details of this program can be found in Attachment 2 of

58 Hon Lily D'Ambrosio MP, *Submission – Victorian electricity distribution proposals 2026–31*, June 2025, p. 6.

59 Jemena, *RIN – Support – Data Visibility and Analytics Program – Investment brief,* 31 January 2025, pp. 4 and 9.

60 Jemena, *RIN – Support – Data Visibility and Analytics Program,* 31 January 2025, p. 12.

this draft decision. The discussion below focuses on the proposed opex step change component of these costs.

We assessed Jemena's proposed step change, including through the information provided in the respective business case and model, the responses received to our information requests, and information obtained through an onsite workshop. We also engaged EMCa to provide technical advice on the prudency and efficiency of the proposed expenditure for both opex and capex.

We are not satisfied that the proposed amounts do not double count amounts already provided through our opex forecasting approach. That is, and as noted in Section 3.3.4.2, our opex base-step-trend forecasting approach provides for an opex uplift through the trend rate of change factor. In this regard, we also note that Jemena commenced the SNAP program in early 2022–23, and is projected to complete this by mid-2026–27.[61] Our opex forecasting approach trends opex forward, including the relevant SNAP and/or its existing platform expenditure, and additionally provides for an uplift in costs. Including this step change would therefore risk double counting forecast opex.

Additionally, we consider that some of the stated benefits arising from this program, including safety concerns related to neutral integrity, are overstated. This is supported by EMCa, who considered that the main benefits that Jemena attributes to its Data Visibility and Analytics program were not valid. EMCa particularly raised concerns regarding Jemena's Neutral Supply Tests, and noted that given the available smart meter population and data in Victoria, it is inappropriate to assume a counterfactual of reverting back to manual 10-year cycle tests.[62] EMCa overall found that Jemena's cost-benefit modelling does not demonstrate a positive economic value for this project.[63]

For the reasons set out above, we have not included the Data visibility and analytics step change in our alternative estimate of total forecast opex.

3.3.4.5 New REFCL obligations

Jemena proposed a step change of $4.9 million (0.8% of forecast total opex) over the 2026–31 period to meet new regulatory obligations for annual validation testing of its new rapid earth fault current limiters (REFCL) at Coolaroo, Sydenham and Footscray West.[64] We consider the proposed step change to be prudent and have included the proposed amount as a placeholder, subject to our review of actual costs incurred by Jemena in preparation for the 2025–26 bushfire season.

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61 Jemena, *RIN – Support – Data Visibility and Analytics Program,* 31 January 2025, p. 9.

62 EMCa, *Jemena 2026–31 Regulatory Proposal – Review of proposed expenditure on ICT and CER*, August 2025, p. 64.

63 EMCa, *Jemena 2026–31 Regulatory Proposal – Review of proposed expenditure on ICT and CER*, August 2025, pp. 64–65.

64 Jemena, *Att 06-04 Operating expenditure step changes*, January 2025, p. 21.

Table 3.13 New REFCL obligations step change ($million, 2025–26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Jemena's proposal	1.0	1.0	1.0	1.0	1.0	4.9
AER alternative estimate	1.0	1.0	1.0	1.0	1.0	4.9
Difference	–	–	–	–	–	–

Source: Jemena, *Att 06–03M – SCS Opex Model*, January 2025; AER analysis.
Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

During the current period, Jemena has installed REFCL functionality at Coolaroo, Sydenham and Footscray West, which are aimed at reducing the risk of electrical assets igniting bushfires. The proposed step change costs are based on a combination of estimated time and rates for internal labour, and quoted amounts for external suppliers.[65]

We agree that a step up in expenditure for these activities is prudent. Jemena's electricity safety management schemes and bushfire mitigation plans become regulatory obligations once accepted by Energy Safe Victoria (ESV). As the annual testing of REFCL installations is included in Jemena's Bushfire Mitigation Plan 2024–2029, the activity is a regulatory obligation and must be carried out.

We have included the proposed step change amount as a placeholder for the draft decision, and seek that Jemena provide additional information in its revised proposal regarding all the activities and associated costs relating to Jemena's annual validation testing in preparation for the 2025–26 bush fire season. We understand that this work was programmed to be undertaken in August–September 2025. We encourage Jemena to this provide information in support of proposed step change costs, including invoices from external parties, and project management documents showing units / quantities, and rates for internal resources utilised. This information, reflecting actual costs, will inform our final decision on the efficiency of the proposed amount.

3.3.4.6 Resilience – outage preparation and response

Jemena proposed a step change of $4.5 million (0.7% of forecast total opex) to expand its existing emergency preparedness and response capacities.[66] Our draft decision is to not include an amount for this step change, as the proposed activities represent an expansion of existing network activities and responsibilities, and we consider the relatively minor incremental costs can be managed within the allowance provided under the base and trend components (i.e. output growth) of the opex forecasting framework.

[65] Jemena, *Att 06-04 Operating expenditure step changes*, January 2025, p. 21.

[66] Jemena, *Att 06-04 Operating expenditure step changes*, January 2025, p. 27.

Table 3.14 Resilience – outage preparation and response step change ($million, 2025–26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Jemena's proposal	0.9	0.9	0.9	0.9	0.9	4.5
AER alternative estimate	–	–	–	–	–	–
Difference	**–0.9**	**–0.9**	**–0.9**	**–0.9**	**–0.9**	**–4.5**

Source: Jemena, *Att 06-03M – SCS Opex Model*, January 2025; AER analysis.
Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

Jemena proposed the step change to:[67]

- employ 3 staff to expand Jemena's operational capability relating to stakeholder and customer engagement, increasing the frequency of its engagement cycles with stakeholders ($0.6 million per annum)
- conduct 76 meetings and planning events (priced at $2,000 per meeting) with relevant agencies, government and customers to improve emergency management ($0.2 million per annum)
- provide additional staff training on emergency management to increase internal capability and capacity to provide on-the-ground support to communities during emergencies, and on mutual aid to assist other distributors, with costs recovered from the other network ($0.1 million per annum).

Jemena stated that the step change is required to address recommendations from the Victorian Government's 202 network outage review, which have set out recommendations to strengthen network resilience.[68] Specifically, Jemena noted these activities relate to addressing recommendations 2 and 16 of the 2024 network outage review,[69] which focus on:[70]

- formalising mutual aid arrangements between other DNSPs before outages occur to facilitate quicker responses and reconnections during emergencies
- increasing engagement and connections with affected communities during outages.

Jemena stated that its customers and related representative groups have strongly endorsed improved network resilience and support for the community during significant events, and that its proposed resilience program has been informed by these customer expectations and preferences.[71] Customers, including local councils, underscored the importance of investing

67 Jemena, *Response to information request IR#024*, June 2025.
68 Jemena, *Att 06–04 Operating expenditure step changes*, January 2025, p. 27.
69 Jemena, *Att 06–04 Operating expenditure step changes*, January 2025, p. 27.
70 Jemena, *Att 06–01 Operating expenditure*, January 2025, p. 27.
71 Jemena, *Att 06–04 Operating expenditure step changes*, January 2025, p. 26.

in resilience to withstand extreme weather events, calling for measures to ensure rapid recovery and minimal impact.[72]

A submission from the Consumer Challenge Panel noted that as extreme weather events are considered a major external factor outside the networks' control, the network resilience step changes likely meet the drivers set out in the Better Resets Handbook.[73]

We encourage and support the customer engagement Jemena has undertaken to inform the development of this proposed step change, and we agree that the resilience-related activities proposed by Jemena are likely prudent and beneficial. However, we consider that the proposed actions represent an expansion of existing activities already undertaken by Jemena, and that it has not been demonstrated that the relatively small step up in associated costs cannot be otherwise managed under the growth in forecast opex provided for through the base and trend components of the opex forecasting methodology. Considering this, we have not included this step change in our alternative estimate of total opex.

3.3.4.7 Safety – LBRA hazard trees management program

Jemena proposed a step change of $2.6 million (0.4% of forecast total opex) for the expansion of their hazard tree management program to Low bushfire risk areas (LBRA).[74] The program aims to enhance network operational safety against weather events by ensuring trees have adequate clearance from power lines.[75] We have not included the proposed step change in our alternative estimate as we do not have sufficient information to demonstrate prudency and efficiency. We also consider the relatively small cost to expand an existing business operation will be accounted for by the base and trend component of our total opex forecast.

Table 3.15 Safety – LBRA hazard trees management program step change ($million, 2025–26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Jemena's proposal	0.5	0.5	0.5	0.5	0.5	2.6
AER alternative estimate	–	–	–	–	–	–
Difference	**–0.5**	**–0.5**	**–0.5**	**–0.5**	**–0.5**	**–2.6**

Source: Jemena, *Att 06–03M – SCS Opex Model*, January 2025; AER analysis.
Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

Jemena submitted that the hazard trees management program involves moving from its current 'reactive management approach' for managing hazard trees in its low bushfire risk areas (based on notification through ad-hoc vegetation assessors and public reporting) to a more proactive approach that would include hiring a dedicated arborist to develop a proactive assessment cycle, and cutting or removing identified hazard trees. Jemena submitted that

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72 Jemena, *2026-31 Proposal*, January 2025, p. 25.

73 CCCP32, *Submission – Jemena electricity distribution proposal 2026-31*, May 2025, p. 20.

74 Jemena, *Att 06-04 Operating expenditure step changes, January 2025*, pp.30 & 33.

75 Jemena, *Att 06-04 Operating expenditure step changes, January 2025*, p. 31.

the program would reduce the number of events from hazard trees contacting electrical assets by 70%, resulting in a significant reduction in public safety and fire starts risk.[76] Jemena further stated that the hazard tree program received support from its customers during engagement on its initial proposal,[77] while also noting that some concerns were raised about the potential impact on amenity resulting from reduced urban tree coverage.[78]

EMCa undertook a technical assessment of the proposed step up in expenditure, including assessing Jemena's initial proposal documents and additional information provided through information requests. EMCa noted that Jemena submitted that its preferred option supporting the step change offered a high NPV, but that Jemena had been unable to provide the quantitative analysis demonstrating this. EMCa advised that based on a review of the available information, it did not consider the proposed expenditure could be justified.[79]

Considering EMCa's advice and the information provided by Jemena, we have not included the step change in our alternative estimate. While the actions proposed may be prudent, we consider insufficient information is available to demonstrate prudency and efficiency of the proposed step up in expenditure. More generally, we consider that including the relatively small step up in existing hazard tree related expenditure in our alternative estimate of total opex, would risk double counting costs already provided through our opex forecasting approach.

3.3.4.8 Resilience – deploying mobile response vehicle

Jemena proposed a step change of $0.4 million (0.1% of forecast total opex) for the operational costs associated with the deployment of an additional mobile response vehicle, that would provide on-the-ground support to communities during emergency events.[80] Our draft decision is to not include an amount for this step change as we consider the relatively small increase in expenditure risks double counting costs already provided though the base and trend component of our opex forecasting approach.

Table 3.16 Resilience – deploying mobile response vehicle step change ($million, 2025–26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Jemena's proposal	0.2	0.2	–	–	–	0.4
AER alternative estimate	–	–	–	–	–	–
Difference	**–0.2**	**–0.2**	**–**	**–**	**–**	**–0.4**

Source: Jemena, *Att 06-03M – SCS Opex Model*, January 2025; AER analysis.
Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

Jemena submitted that the driver of this step change related to the implementation of findings from the 2022 Electricity Distribution Network Resilience Review, including its

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76 Jemena, *RIN – Support – LBRA Hazard Tree Management Program – Business Case*, January 2025, p. 18.

77 Jemena, *Att 06-04 Operating expenditure step changes*, January 2025, p. v.

78 Jemena, *Att 06-04 Operating expenditure step changes*, January 2025, p. 30.

79 EMCa, *Jemena 2026–31 Regulatory Proposal – Review of aspects of proposed network related expenditures*, August 2025, pp. 81–82.

80 Jemena, *Att 06–01 Operating expenditure*, January 2025, p. 27

recommendation to strengthen community resilience in the face of prolonged power outages.[81] Jemena further noted this was consistent with recommendations of the review to introduce 'community hub' type locations that serves the communities during lengthy outages.[82] In support of this proposal, Jemena noted that its resilience program was informed by customer expectations and preferences,[83] with stakeholders underscoring the importance of investing in resilience to withstand extreme weather events and minimise their impacts.[84]

Similar to Jemena's preparedness and response step change, we acknowledge the customer engagement Jemena's has undertaken to inform the development of this step change, and agree that the provision of an additional MERV will likely provide benefits to customers. However, we consider that the proposed expenditure represents a relatively small expansion of existing network activities that can readily be managed through the growth in forecast opex provided for by tending forward base opex. Considering this, we have not included this step change in our alternative estimate of total opex.

3.3.4.9 Customer systems and education

Linked to a broader package of proposed ICT-related expenditures, Jemena proposed an opex step change for 'customer systems and education' activities of $4.3 million (0.7% of forecast total opex) to maintain and enhance existing customer communications through upgrades to its ICT systems and customer education material. While we recognise a level of customer support for this type of expenditure, we have not included the proposed step change as Jemena has not demonstrated that the step up in expenditure is justified against our step change criteria.[85]

Table 3.17 Customer systems and education step change ($million, 2025–26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Jemena's proposal	0.9	0.8	0.9	0.9	0.8	4.3
AER alternative estimate	–	–	–	–	–	–
Difference	**–0.9**	**–0.8**	**–0.9**	**–0.9**	**–0.8**	**–4.3**

Source: Jemena, *Att 06–03M – SCS Opex Model*, January 2025; AER analysis.
Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

Jemena's 'Customer Systems and Education' step change includes:[86]

81 Jemena, *Att 06-04 Operating expenditure step changes*, January 2025, p. 27.

82 Jemena, *Att 06-04 Operating expenditure step changes*, January 2025, p. 27.

83 Jemena, *Att 06–04 Operating expenditure step changes*, January 2025, p. 26.

84 Jemena, *2026–31 Proposal*, January 2025, p. 25.

85 These criteria include that the proposed step change should represent a material increase in expenditure driven by a new regulatory obligation, a capex to opex trade off, or an external factor outside the control of the business, not otherwise accounted for through base opex and trend. AER, *Better Resets Handbook*, July 2024, p. 26.

86 Jemena, *Att 6.04 – Operating Expenditure step changes*, pp. 4–5.

- $1.4 million to maintain and enhance its existing ICT customer systems, including fault reporting tools, contact management systems, and connection and application services
- $2.8 million to develop improved ICT content, including customer education programs that aim to:
  - expand customer awareness on CER to enable customers to make informed decisions on sustainability and decarbonisation
  - simplify and streamline processes for customers to participate in the energy transition
  - improve the customer experience and accessibility of information on Jemena's electricity service.

Jemena submitted that the proposed expenditure is consistent with good industry practice, its customers' needs, and is necessary to meet the opex objective and opex criteria.[87]

Jemena provided 2 investment ICT briefs in support of the step change, [88] and submitted that the proposed activities were designed to address customer priorities identified during consultation on its initial proposal, including those to:[89]

- reduce customer barriers to accessing information, for example, by adopting Artificial Intelligence to better identify the information customers want, and expanding 'in language' information on its website
- build customer capability and energy literacy, for example by proving educational information on the energy transition, how to access CER and manage their energy usage, and how to better understand their bills.

EMCa undertook a technical assessment of the step change, including the 2 supporting ICT briefs and additional information provide in response to its information requests. For the $1.4 million component of the step change to update existing digital content, EMCa found that Jemena had not provided sufficient information on related costs already in its base year, or sufficient explanation for why the step up in opex was required above the base year amount. On this basis, EMCa did not consider that it was reasonable to include this opex.[90]

For the $2.8 million component of the step change to improve Jemena's ICT content, EMCa advised that the supporting Customer Education ICT project business case was not justified.[91] In particular, EMCa questioned whether DNSP provision of information on the retail electricity market could be justified as a regulated investment, and noted that the NPV estimate for the proposed project was only marginally positive and became negative under stress testing of assumptions.

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87 Jemena, *Att 6.04 – Operating Expenditure step changes*, p. 5.

88 Jemena, *RIN – Support – ICT Investment Brief – Customer systems,* 31 January 2025; *RIN – Support – ICT Investment Brief – Customer education*, 31 January 2025.

89 Jemena, *At 6.04 – Operating Expenditure step changes*, January 2025, p. 3.

90 EMCa, *Jemena 2026 - 2031 Regulatory Proposal, Review of Proposed Expenditure on ICT and CER,* August 2025, p. 34.

91 Jenema, *RIN – Support - ICT Investment Brief – Customer education, 31 January 2025*.

A submission from CCP32 also noted that they did not consider the proposed step change was justified against the AER's criteria set out in the Better Resets Handbook. CCP32 submitted that they viewed the step change as a modest extension of current programs and an opportunity to provide items that add value to customers, and for which customers are willing to pay more. However, they noted that it may be possible that the proposed costs will be accounted for through the output growth component of the opex forecast, and Jemena may be able to absorb the increase in costs without a step change.[92]

CCP32 further noted that while Jemena developed the step change in response to recommendations from the People's Panel Final Report, it observed some customers questioned the need for the expenditure, and whether some of the proposed educational material would duplicate information already available elsewhere.[93] CCP32 concluded that while it is apparent customers are seeking the type of information Jemena is proposing to offer, it is not clear that DNSPs are the best source for providing it.[94]

We encourage and support Jemena's engagement with its customers in preparing its regulatory proposal. While we recognise the proposed activities received some customer support and may be beneficial, we note that customer engagement should support and complement step changes that can be reasonably justified against our guidance in the Better Resets Handbook and the opex criteria.[95] Customer support, while an important factor in our assessment, is not by itself sufficient to justify a step change.

Considering the above, we have not included this step change in our alternative estimate of total opex. This is because customer communication systems and education are existing activities already undertaken by Jemena, and it has not demonstrated that the proposed increase in these types of expenditure is required against the step change criteria – that there is a material increase in expenditure required by a new regulatory obligation, a capex to opex trade off, or external factor outside the control of the network. Jemena has also not demonstrated that the relatively small increase in this type of expenditure cannot otherwise be managed under the growth in forecast opex that will result from the application of trend under our framework.

3.3.4.10 Insurance step change

Our final decision for Jemena's 2021–26 opex distribution determination included a $28.2 million ($2020–21) step change for forecast increases in insurance premiums in our alternative estimate.[96] We considered that these forecast increases qualified as a step change under our framework as they were driven by a major external factor outside of the control of the business and were not captured in base opex or trend.[97]

Under our framework, when we approve a step change it is assumed the expenditure is required in perpetuity. Our standard approach to forecast total opex applies a final year increment to roll over any additional expenditure required from the final year approved allowance to base year approved allowance. This results in Jemena's proposed final year increment including the difference between the approved insurance premiums allowance in

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92 CCP32, *Submission - Jemena electricity distribution proposal 2026-31,* May 2025, p. 17.

93 CCP32, *Submission - Jemena electricity distribution proposal 2026-31*, May 2025, p. 19.

94 CCP32, *Submission - Jemena electricity distribution proposal 2026-31*, May 2025, p. 20.

95 AER*, Final decision,* Expenditure forecast assessment guideline – electricity distribution*, October 2024, pp. 26–27;* AER*,* Better Resets Handbook*, July 2024, p. 26.*

96 AER, *Final decision, Jemena distribution determination 2021–26 – Attachment 6 – Operating expenditure,* April 2021, p. 48.

97 AER, *Better Resets Handbook*, July 2024, p. 26.

the final year (2025–26) and base year (2024–25), which equates to $0.6 million or $2.9 million over the 2026–31 period.

Jemena's response to our information requests indicates that its insurance premium underspend over the current regulatory period represents a significant proportion (3.9%) of its total actual/estimated opex.[98] Forecast insurance premiums, submitted by Jemena as part of its previous regulatory proposal, also provide evidence that the incremental expenditure approved in the 2021–26 step change is not required in perpetuity. We note that we considered for the Insurance step change that the price growth component of trend will capture any increase to insurance premiums from the base year (2024–25).

Under the NER, we must accept or not accept a network's proposed opex forecast.[99] This choice depends on whether we consider the proposed forecast reasonably reflects the opex criteria. The NER criteria provide that the forecast must reasonably reflect the efficient costs that a prudent operator would require to meet expenditure objectives, given a realistic forecast of demand and cost inputs. In making this decision we must have regard to the opex factors. One of the opex factors we must have regard to is whether an opex forecast is consistent with any incentive schemes that apply to a network, such as the EBSS.[100] The NER requires that we must develop and publish an EBSS that provides a fair sharing of efficiency gains and losses between a network business and network users.

We consider that including the insurance premium component of the final year increment ($2.9 million) in our total opex forecast for 2026–31 would assume that insurance premiums will rise significantly higher than required over the next regulatory period. As we now know these increases will not occur, we consider that including the insurance premium component of the final year increment in our alternative estimate of total forecast opex would not be consistent with the opex criteria. That is, forecast opex would be materially higher than that required by a prudent operator.

We also consider including the insurance premium component of the final year increment would not provide a fair sharing of efficiency gains or losses under the EBSS, and that the previously approved 2021–26 insurance step changes are not a recurrent step up in costs required in perpetuity (that is, we consider they are non-recurrent). Including this insurance component of the final year increment would result in network users waiting 6 years before the previously forecast insurance premium increases are no longer reflected in allowed revenues.

To remove the insurance premium component of the final year increment, our alternative estimate for the draft decision includes a combination of a negative insurance step change, and a non-recurrent efficiency gain. This ensures our alternative estimate of total forecast opex meets the opex criteria, and that the EBSS provides a fair sharing of efficiency gains and losses between network businesses and network users.

The negative step change, calculated as the difference between the final year premium allowance and actual/estimated premium, removes the expected over forecasting of

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98 Jemena, *Response to information request IR#011*, May 2025.

99 NER, cll. 6.5.6(c)–(d).

100 NER, cl. 6.5.6(e)(8).

insurance premiums in 2025–26, thus ensuring this over forecasting isn't continued into the 2026–31 period. It then sets the non-recurrent efficiency gain in the base year equal to the insurance underspend in the base year. Together, this results in:

- forecast opex equal to that required by a prudent operator
- Jemena returning the 2021–26 insurance premium underspends through EBSS decrements 6 years later (treating the underspends as non-recurrent efficiency gains).

Table 3.18 sets our alternative estimate for the insurance step change. See section 3.3.2.1 for further information on the non-recurrent efficiency gain.

Table 3.18 Insurance negative step change ($million, 2025–26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Jemena's proposal	–	–	–	–	–	–
AER alternative estimate	–5.4	–5.4	–5.4	–5.4	–5.4	–27.2
Difference	**–5.4**	**–5.4**	**–5.4**	**–5.4**	**–5.4**	**–27.2**

Source: AER analysis.

3.3.5 Category specific forecasts

Jemena's proposal included 3 category specific forecasts, which were not forecast using the base-step-trend approach. These were for Innovation funds ($4.2 million), Guaranteed Service Levy (GSL) payments ($1.3 million), and debt raising costs ($6.7 million).[101]

3.3.5.1 Innovation Fund

We have included $1.0 million for an Innovation fund in our draft decision. This is $3.2 million less than proposed by Jemena, and reflects that we are not satisfied Jemena has provided sufficient information in support of the proposed costs and innovation fund projects.

Table 3.19 Innovation Fund ($million, 2025–26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Jemena's proposal	0.8	0.8	0.8	0.8	0.8	4.2
AER alternative estimate	0.4	0.2	0.2	0.1	0.1	1.0
Difference	**–0.5**	**–0.6**	**–0.6**	**–0.7**	**–0.7**	**–3.2**

Source: Jemena, *Attachment 06–03M – SCS Opex Model*, January 2025; AER analysis.

Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

Jemena proposed $4.2 million in opex with an equivalent amount of capex to explore and support a variety of emerging technologies and activities.[102] The proposed initiatives, which

101 Jemena, *At 06–01 Operating expenditure*, January 2025, p. 23.

102 Jemena, *Att 06–03M – SCS Opex Model*, January 2025.

were developed with input received during Jemena's customer engagement program,[103] focus on:[104]

- **Electrification**, to accelerate and facilitate Electric Vehicles and increase electrification across the network
- **Energy storage,** to support the growth of storage needs and deliver future solutions to unknown challenges.

We jointly assessed the innovation opex and capex, including through the information provided in respective business case and the responses received to our information requests. We provide further information on our assessment and the reasons for our decision in Attachment 2 of this draft decision.

Jemena also proposed a 'use it or lose it arrangement' for its innovation expenditure, whereby it would return any funds not spent during the 2026–31 period to customers via a revenue adjustment.[105] We consider the innovation fund does not satisfy the criteria for a revenue adjustment under the NER (clause 6.4.3.(b)(5)) because it is not listed as an allowable revenue increment application. Therefore, our decision does not include the 'use it or lose it arrangement', where any unspent funds are returned to customers.

3.3.5.2 Guaranteed Service Level payments

We have included Guaranteed Service Level (GSL) payments of $1.1 million in our alternative estimate. This is $0.2 million less than the $1.3 million forecast proposed by Jemena.[106]

Table 3.20 GSL payments ($million, 2025–26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Jemena's proposal	0.3	0.3	0.3	0.3	0.3	1.3
AER alternative estimate	0.2	0.2	0.2	0.2	0.2	1.1
Difference	**–0.0**	**–0.0**	**–0.0**	**–0.0**	**–0.0**	**–0.2**

Source: Jemena, *At 06–03M – SCS Opex Model, January 2025*; AER analysis.
Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

Jemena stated in its proposal that its GSL forecast used the average of GSL payments over the first 4 years of the 2021–26 period, adjusted for inflation. Jemena added that this reflects its view that future GSL payments will align with those paid historically.[107]

We have forecast GSL payments using the methodology proposed by Jemena. The difference between the 2 forecasts is due to double-counting of costs in Jemena's forecast,

103 Jemena, *At 03–02 Innovation Fund Proposal*, 31 January 2025, pp. 5–7.
104 Jemena, *Att 03–02 Innovation Fund Proposal*, 31 January 2025, pp. 3–4.
105 Jemena, *Att 03–02 Innovation Fund Proposal*, 31 January 2025, p 13.
106 Jemena, *Att 06–01 Operating expenditure*, *31* January 2025, p. 23.
107 Jemena, *Att 06–01 Operating expenditure*, *31* January 2025, p. 23.

in which both aggregate and disaggregate cost components were included. The duplication has been corrected in our alternative estimate, slightly lowering our forecast amount.

We note the Essential Services Commission (ESC) of Victoria may undertake a review on the GSL scheme and its associated payment rates, which will affect our GSL forecasts. As there has been no indication on the timing of this review, we have calculated GSL payments based on the current GSL scheme and have not taken into account potential changes arising from the ESC review. Provided the ESC's review is completed by early 2026, we will update the GSL payment forecasts in our final decision to consider the impact of any GSL scheme changes.

3.3.5.3 Debt raising costs

We have included debt raising costs of $5.9 million in our alternative estimate. This is $0.7 million lower than the estimate proposed by Jemena.

Table 3.21 Debt raising costs ($million, 2025–26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Jemena's proposal	1.1	1.2	1.4	1.4	1.5	6.7
AER alternative estimate	1.1	1.2	1.2	1.2	1.2	5.9
Difference	**–0.0**	**–0.1**	**–0.1**	**–0.2**	**–0.3**	**–0.7**

Source: Jemena, *Att 06–03M – SCS Opex Model*, January 2025; AER analysis.
Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

Debt raising costs are transaction costs incurred each time a business raises or refinances debt. Our preferred approach is to forecast debt raising costs using a benchmarking approach rather than a service provider's actual costs in a single year. This provides consistency with the forecast of the cost of debt in the rate of return building block. This is the basis for our alternative estimate Table 3.21.

We used our standard approach to forecast debt raising costs.

Shortened forms

Term	Definition
AER	Australian Energy Regulator
capex	capital expenditure
CER	Consumer energy resources
CCP32	Consumer Challenge Panel, sub-panel 32
CPI	consumer price index
DMIA	demand management innovation allowance
DNSP	distribution network service provider
distributor	distribution network service provider
EBSS	efficiency benefit sharing scheme
ESC	Essential Services Commission
ESV	Energy Safe Victoria
ERG	Jemena Energy Reference Group
Guideline	Expenditure Forecast Assessment Guideline for Electricity Distribution
GSL	guaranteed service levels
LBRA	low bushfire risk area
MTFP	multilateral total factor productivity
MPFP	multilateral partial factor productivity
NEL	national electricity law
NEM	national electricity market
NER or the rules	national electricity rules
NPV	net present value
NSP	network service provider
opex	operating expenditure
PPI	partial performance indicator
PTRM	post-tax revenue model
PQ	power quality
REFCL	rapid earth fault current limiter
RBA	Reserve Bank of Australia
RIN	regulatory information notice

Term	Definition
SaaS	software as a service
SCS	standard control services
SNAP	strategic network analytics platform
SOCI	security of critical infrastructure
WPI	wage price index