Jemena Electricity Networks (Vic) Ltd

2026-31 Electricity Distribution Price Review - Revised Regulatory Proposal

Attachment 05-01A

Response to the AER's draft decision - ICT

Table of contents

List of appendices

Glossary

Current regulatory period	The regulatory control period commencing 1 July 2021 and concluding 30 June 2026
Jemena	Jemena is the corporate group entity that owns Jemena Electricity Networks (Vic) Ltd.
JEN	Jemena Electricity Networks (Vic) Ltd.
Next regulatory period	The regulatory period commencing 1 Jul 2026 to 30 Jun 2031
Initial regulatory proposal	Our proposal dated 31 January 2025 submitted to the AER to review electricity distribution prices for the next regulatory period.
Revised regulatory proposal	JEN's regulatory proposal as submitted to the AER on 1 December 2025.

Abbreviations

ACIF	Australian Construction Industry Forum
AER	Australian Energy Regulator
AMI	Advanced Metering Infrastructure
AIO	Annual Information Order
CCP17	Consumer Challenge Panel - Sub-panel 17
COO	Coolaroo zone substation
CPI	Consumer Price Inflation
CRM	Customer Relationship Management
CSIRO	Commonwealth Scientific and Industrial Research Organisation
DELWP	Department of Energy, Land, Water and Planning
ERP	Enterprise Resource Platform
ESC	Essential Services Commission of Victoria
ESV	Energy Safe Victoria
FY	Financial Year[1]
GVE	Greenvale zone substation
HBRA	Hazardous Bushfire Risk Area
HIA	Housing Industry Association
HV	High Voltage
ICT	Information & Communications Technology
IFRS	International Financial Reporting Standards
IS-U	Industry Specific – Utility
JEN	Jemena Electricity Networks (Vic) Ltd
JGN	Jemena Gas Networks (NSW) Ltd
KLO	Kalkallo Zone Substation
LBRA	Low Bushfire Risk Area
LV	Low Voltage
MEC	Major Electricity Company
NER	National Electricity Rules
NSP	Network Service Provider
REFCL	Rapid Earth Fault Current Limiter
RIN	Regulatory Information Notice
WPI	Wage Price Inflation

[1] When expressing the financial year, we follow the initials with a two year digit code. The two digits represent the latest year that straddled the annual period. For example, the financial year 1 July 2021 to 30 Jun 2022 is represented as FY22.

1. Overview

This attachment of Jemena Electricity Networks (Vic) Ltd's (**JEN's**) revised regulatory proposal provides additional information on ICT expenditure in response to the AER's draft decision.

1.1 Our revised ICT forecast

For context, we outline the key elements of our initial regulatory proposal, the AER's draft decision, and our revised regulatory proposal across capital expenditure and operating expenditure items.

Unless stated otherwise, all dollar amounts are on a real FY26 dollar basis.

For the next regulatory period, we propose a revised forecast ICT capital expenditure of $133M which is $20M lower than our forecast of $153M in our initial regulatory proposal (Table 1–1).

Table 1–1: Revised forecast ICT capital expenditure (5 years, $2026M)

	2026-27	2027-28	2028-29	2029-30	2030-31	Total
ICT capital expenditure						
Recurrent	6.4	6.5	6.6	6.8	6.9	33.1
Non-recurrent	32.2	14.6	20.9	19.2	13.0	100.0
Total ICT capital expenditure	**38.6**	**21.1**	**27.5**	**26.0**	**19.9**	**133.1**

For the next regulatory, we propose a revised forecast ICT operating expenditure step change of $34.1M which is $26M higher than our forecast of $21.6M in our initial regulatory proposal. Increased ICT step changes mainly result from new Energy Reform obligations ($13.6M over the next regulatory period) and Jemena Group enterprise projects of $8.6M not approved in the draft decision but approved by the AER in the Jemena Gas Networks 2025-30 Access Arrangement review. The increased step changes result from new regulatory obligations and / or capital to operating expenditure trade-off.

Table 1–2 shows our forecast next ICT step change over each year of the next regulatory period.

Table 1–2: Revised forecast ICT step change (5 years, $2026M)

	2026-27	2027-28	2028-29	2029-30	2030-31	Total
ICT step change						
Project implementation costs	7.6	10.1	9.9	4.5	1.4	33.5
Ongoing operating expenditure	2.8	4.1	4.7	6.0	6.8	24.5
Less base year project implementation costs and trend	-4.3	-4.5	-4.7	-5.0	-5.3	-23.8
Total ICT step change	**6.0**	**9.7**	**9.9**	**5.5**	**2.9**	**34.1**

To address the AER's concerns, we have undertaken further assessments of our forecast capital and operating expenditure and provided further supporting information to justify this expenditure. The following sections provide an overview of the basis of our revised forecast ICT expenditure.

Table 1–3 compares the AER's draft decision on our non-recurrent ICT capital expenditure against our initial regulatory proposal, and our revised regulatory proposal.

Table 1–3: ICT non-recurrent capital expenditure, initial regulatory proposal, draft decision and revised regulatory proposal comparison (5 years, $2026M)

ICT initiative	Initial regulatory proposal	Draft decision	Revised regulatory proposal
Customer education	4.8	0	0
Cyber program	N/A	N/A	6.5
Outage preparedness and response	2.2	2.2	0
Customer systems	3.0	3.0	5.0
GIS lifecycle upgrade	4.1	4.1	4.1
End user computing	3.0	0	3.0
Network Operations Geospatial enhancements	3.0	3.0	3.0
Digitising network switching	12.8	12.8	12.8
Emergency Backstop Lifecycle	6.9	6.9	6.9
FN - Foundational Distributed UFLS Capabilities	2.1	2.1	2.1
FN - Flexible exports	15.2	9.1	14.5
FN - Flexible imports	10.8	0	0
FN – VVC rollout	0.1	0	0
FN - Strategic Network Analytics Platform (SNAP) - Data Hub	1.5	1.5	1.5
FN – Network Analytics Program	9.1	0	0
Reform - VEBM 2	N/A	N/A	0.3
FN - 3D Digital Twin	5.8	5.8	5.8
MSI replacement	1.6	1.6	0
Dynamic Network planning with automation	11.2	11.2	11.2
Reform - MITE - IDX/IDAM/Portal Consolidation	17.5	12.5	14.2
Reform - Unlocking CER benefits - Flexible Trading arrangements	4.4	0	8.9
Total non-recurrent Capital expenditure	**119.1**	**75.8**	**100.0**

Totals may not add due to rounding

Table 1–4 compares the AER's draft decision on our ICT project implementation operating expenditure against our initial regulatory proposal, and our revised regulatory proposal.

Table 1–4: ICT project implementation operating expenditure forecast, initial regulatory proposal, draft decision and revised regulatory proposal comparison (5 years, $2026M)

ICT initiative	Initial regulatory proposal	Draft decision	Revised regulatory proposal
Customer education	2.3	0	0
Enterprise Content Management re-platforming (JEN portion)	4.0	0	4.0
Cyber program (JEN portion)	6.0	6.0	6.0
Contract lifecycle management (JEN portion)	0.8	0	0.8
Data foundations and governance (JEN portion)	1.9	0	1.8
SAP Migration (JEN portion)	12.9	12.9	12.8
Outage Preparedness and Response	0.8	0.8	0

ICT initiative	Initial regulatory proposal	Draft decision	Revised regulatory proposal
Customer systems	1.0	1.0	0.9
Network Operations Geospatial enhancements	0.4	0.4	0.4
Digitising network switching	3.9	3.9	3.9
FN - Strategic Network Analytics Platform (SNAP) - Data Hub	0.3	0.3	0.3
FN - Network Analytics Program	0.6	0.6	0
Dynamic Network planning with automation	1.8	1.8	1.8
Reform - MITE - IDX/IDAM/Portal Consolidation	0.3	0	0.2
Reform - Unlocking CER benefits - Flexible Trading arrangements	1.1	0	0.4
Total project implementation operating expenditure	**38.2**	**28.0**	**33.5**

Totals may not add due to rounding

Table 1–5 compares the AER's draft decision on our ICT step operating expenditure against our initial regulatory proposal, and our revised regulatory proposal.

Table 1–5: ICT step operating expenditure forecast, initial regulatory proposal, draft decision and revised regulatory proposal comparison (5 years, $2026M)

ICT initiative	Initial regulatory proposal	Draft decision	Revised regulatory proposal
Customer education	0.8	0	0
Enterprise Content Management re-platforming (JEN portion)	0.6	0	0.7
Cyber program (JEN portion)	2.3	2.3	2.4
Capacity growth	2.7	2.7	2.7
Contract lifecycle management (JEN portion)	0.8	0	0.7
Data foundations and governance (JEN portion)	0.3	0	0.4
Outage Preparedness and Response	0.7	0	0
Customer systems	0.4	0	0
Network Operations Geospatial enhancements	0.2	0	0
Digitising network switching	0.5	0	0.5
FN - Flexible exports	3.0	3.0	2.4
FN – VVC rollout	3.2	0	0
FN - Strategic Network Analytics Platform (SNAP) - Data Hub	1.3	0	1.4
Reform – VEBM 2	NA	NA	9.2
FN - 3D Digital Twin	0.2	0	0
Dynamic Network planning with automation	0.4	0	0.4
Reform - MITE - IDX/IDAM/Portal Consolidation	NA	NA	2.7
Reform - Unlocking CER benefits - Flexible Trading arrangements	4.3	0	1.1
Total step operating expenditure	**21.6**	**8.1**	**24.5**

Totals may not add due to rounding

1.2 Summary of our ICT response

Table 1–6 summarises the AER's draft decision findings for ICT and our revised regulatory proposal response to each item.

Table 1–6: Summary of JEN's revised regulatory proposal for ICT

ICT Component	AER draft decision[23]	JEN response
Recurrent ICT capital expenditure	Did not approve JEN's forecast and include an alternative forecast of $29.7M. EMCa considers taking the average of the previous 5 years to be a reasonable approach. However, EMCa notes JEN's 5-year average includes the estimate years 2024-25 and 2025-26.	We accept the AER's draft decision's methodology We have now assessed the 5-year average, including actuals only, resulting in a recurrent capital expenditure of $33.1M
Recurrent cyber security capital expenditure	We acknowledge that JEN is not generally required to itemise recurrent expenditure. However, for transparency for our assessment of cybersecurity capital expenditure for future regulatory periods, we seek for JEN to disclose to the AER any cybersecurity recurrent ICT capital expenditure in its revised regulatory proposal.	Provided. Refer to section 5.2.1
Cloud Capacity growth	Approve our operating expenditure step change	We accept the AER's draft decision
SAP migration	Approved project implementation operating expenditure	We accept the AER's draft decision
Foundational Distributed UFLS Capabilities	Approved our capital expenditure	We accept the AER's draft decision
GIS lifecycle upgrade	Approved our capital expenditure	We accept the AER's draft decision
Emergency backstop lifecycle	Approved our capital expenditure	We accept the AER's draft decision
Cybersecurity - operating expenditure	Approved project implementation operating expenditure Approved step operating expenditure	We accept the AER's draft decision
Cybersecurity – non-recurrent capital expenditure	NA – not in initial regulatory proposal	JEN is forecasting an additional $6.5M capital expenditure for OT-related cyber investments. This is a result of recommendations from a Red Team exercise conducted in July 2025 (post initial regulatory proposal). Refer to section 5.3
Flexible exports	Partial capital expenditure approval - draft decision is not to accept Jemena's capital expenditure forecast and to include an alternative estimate. Approved step operating expenditure	Included, the amount has been revised based on alternate solution. Refer to section 9

2 AER, Draft decision, Jemena electricity distribution determination, 1 July 2026-30 June 2031, Attachment 2 – Capital expenditure, September 2025

3 AER, Draft decision, Jemena electricity distribution determination, 1 July 2026-30 June 2031, Attachment 3 – Operating expenditure, September 2025

ICT Component	AER draft decision[23]	JEN response
Flexible Imports	Did not approve our capital expenditure	We accept the AER's draft decision – withdrawn; focus is on flexible exports
Network analytics program	Did not approve our capital expenditure but did approve our project implementation operating expenditure	We accept the AER's draft decision – withdrawn
VVC rollout	Did not approve our capital expenditure or step operating expenditure	We accept the AER's draft decision – withdrawn
Customer education	Did not approve our capital expenditure and project implementation operating expenditure Did not approve our operating expenditure step change for the ongoing support	We accept the AER's draft decision – withdrawn
End user computing	Did not approve our capital expenditure	We do not agree with the AER and have included $3.0M capital expenditure. Refer to section 8.3 for further explanation
MSI replacement	Approved our capital expenditure	Withdrawn – included in the MITE project
Enterprise Content Management re-platforming (JEN portion)	Did not approve our capital expenditure and project implementation operating expenditure Did not approve our operating expenditure step change for the ongoing support	We do not agree with the AER and have included $4.0M project implementation operating expenditure and $0.7M operating expenditure step change for the ongoing support. This is an Enterprise project that was approved by the AER in the Jemena Gas Networks 2025-30 Access Arrangement review. Refer to section 4.3
Contract lifecycle management (JEN portion)	Did not approve our capital expenditure and project implementation operating expenditure Did not approve our operating expenditure step change for the ongoing support	We do not agree with the AER and have included $0.8M project implementation operating expenditure and $0.7M operating expenditure step change for the ongoing support. This is an Enterprise project that was approved by the AER in the Jemena Gas Networks 2025-30 Access Arrangement review. Refer to section 4.3
Data foundations and governance (JEN portion)	Did not approve our capital expenditure and project implementation operating expenditure Did not approve our operating expenditure step change for the ongoing support	We do not agree with the AER and have included $1.8M project implementation operating expenditure and $0.4M operating expenditure step change for the ongoing support. This is an Enterprise project that was approved by the AER in the Jemena Gas Networks 2025-30 Access Arrangement review. Refer to section 4.3
Outage preparedness and response	Approved our capital expenditure and project implementation operating expenditure Did not approve our operating expenditure step change	Withdrawn. Refer to section 6.2 Costs associated with system upgrades have been included in "Customer systems". Refer to section 7.3

ICT Component	AER draft decision[23]	JEN response
Customer systems lifecycle	Approved our capital expenditure and project implementation operating expenditure Did not approve our operating expenditure step change for the ongoing support	We accept the AER's draft decision and have also included customer system upgrades component from "outage preparedness and response". Refer section to 7.3 We accept the AER's draft decision and have not included the operating expenditure step change
Digitising network switching	Approved our capital expenditure and project implementation operating expenditure Did not approve our operating expenditure step change	We accept the AER's draft decision and have included capital expenditure and implementation operating expenditure We do not agree with the AER and have included our operating expenditure step change. In the supporting business case and CBA model,[4] we have provided a breakdown of costs that demonstrate this is not "business as usual" activity; we will implement new systems and require new licences that are not in the base year operating expenditure; this means step change operating expenditure is needed.
Strategic Network Analytics Platform (SNAP) Data Hub	Approved our capital expenditure and project implementation operating expenditure Did not approve our operating expenditure step change for the ongoing support	We accept the AER's draft decision and have included capital expenditure and implementation operating expenditure We do not agree with the AER and have included our operating expenditure step change. In the supporting business case and CBA model, we have provided a breakdown of costs that demonstrate this is not "business as usual" activity; we will implement new systems and require new licences that are not in the base year operating expenditure; this means step change operating expenditure is needed
Dynamic network planning with automation	Approved our capital expenditure and project implementation operating expenditure Did not approve our operating expenditure step change for ongoing support	We accept the AER's draft decision and have included capital expenditure and implementation operating expenditure We do not agree with the AER and have included our operating expenditure step change. In the supporting business case and CBA model,[5] we have provided a breakdown of costs that demonstrate this is not "business as usual" activity; we will implement new systems and require new licences that are not in base year operating expenditure; this means step operating expenditure is required

4 JEN - RIN - Support - Digitising Network Switching - CBA Model - 20250415.

5 JEN - RIN - Support – Dynamic Network Planning with Automation - CBA Model - 20250415

ICT Component	AER draft decision[23]	JEN response
Network operations geospatial enhancement	Approved our capital expenditure and project implementation operating expenditure Did not approve our operating expenditure step change for the ongoing support	We accept the AER's draft decision
3D digital twin	Approved our capital expenditure. Did not approve our operating expenditure step change	We accept the AER's draft decision
FTA	Partial capital expenditure approval - it remains uncertain whether this expenditure should be classified as standard control services (SCS) or alternative control services (ACS). Did not approve our project implementation operating expenditure. Did not approve our operating expenditure step change for the ongoing support	Included, the amount has been revised based on new information since developing our initial regulatory proposal. SCS versus ACS costs have been addressed. Refer to section 10.2 We do not agree with the AER and have included step operating expenditure. In the supporting business case and CBA model, we have provided a breakdown of costs that demonstrate this is not "business as usual" activity; we will implement new systems and require new licences that are not in the base year operating expenditure; this means step change operating expenditure is required. We recently submitted pass through application for FTA costs to be incurred in the current regulatory period and have included the revised forecasts in the application for the next regulatory period in the revised regulatory proposal.
MITE	Partial capital expenditure approval - draft decision is not to accept JEN's capital expenditure forecast and to include an alternative estimate. Did not approve our project implementation operating expenditure.	Included, the amount has been revised based on new information since developing our initial regulatory proposal. Refer to section 10.3 We recently submitted pass through application for MITE costs to be incurred in the current regulatory period and have included revised forecasts in the application for the next regulatory period in the revised regulatory proposal.
VEBM2	NA – not in initial proposal	New Victorian Emergency Backstop Mechanism No. 2 (VEBM2) obligation

These are discussed in more detail in the following sections.

1.3 Supporting material

Additional information provided in support of this Technology attachment is listed below. File names containing "RIN" and suffixed with "20250415" indicate the material was submitted as a part of AER information request IR#009. File names containing "RP" indicate this is new or updated material submitted as part of this revised proposal.

- *JEN – RP – Support – ICT step change calculations – 20251201*
- *JEN - RIN - Support - Digitising Network Switching - CBA Model - 20250415*

- *JEN - RIN - Support - Dynamic Network Planning with Automation - CBA Model - 20250415*
- *JEN - RIN - Support - Contract Lifecycle Management - CBA Model - 20250415*
- *JEN - RIN - Support - Data Governance – CBA Model - 20250415*
- *JEN - RIN - Support – Enterprise Content Management - CBA Model - 20250415*
- *JEN - RIN - Support - End User Computing - CBA Model - 20250415*
- [redacted]
- *JEN - RP - Support – Cybersecurity Program - CBA Model - 20251201*
- *JEN - RP - Support - Customer Systems Lifecycle - CBA Model - 20251201*
- *JEN – RP - Support - Flexible exports - CBA Model - 20251201*
- *JEN - RP - Support - FTA pass through application – 20251104*
- *JEN - RP - Support - FTA Appendix B pass through expenditure model - 20251104*
- *JEN - RP - Support - MITE pass through application – 20251030*
- *JEN - RP - Support - MITE Attachment A pass through expenditure model - 20251030*
- *JEN - RP - Support - VEBM2 pass through application – 20251105*
- *JEN - RP - Support - VEBM2 Appendix C pass through expenditure model - 20251105*

2. Recurrent ICT capital expenditure

2.1 AER draft decision

The draft decision is not to accept JEN's forecast and include an alternative forecast of $29.7M based on the past 4.5 years of actual data.

2.2 Response

We consider it reasonable to use observed actual capital expenditure when forecasting future recurrent ICT requirements rather than estimates. Recurrent capital expenditure, by its nature, is capital expenditure that is repeated over time and should be based on past performance, rather than future estimates. We have proposed an alternative forecast of $33,138,533 based on average actual past performance for RY21-25 as reported in our Regulatory Information Notice (RIN) responses, and as finalised for RY25 in our Annual Information Order (AIO) response submitted to the AER on 28 November 2025.

3. ICT Operating expenditure

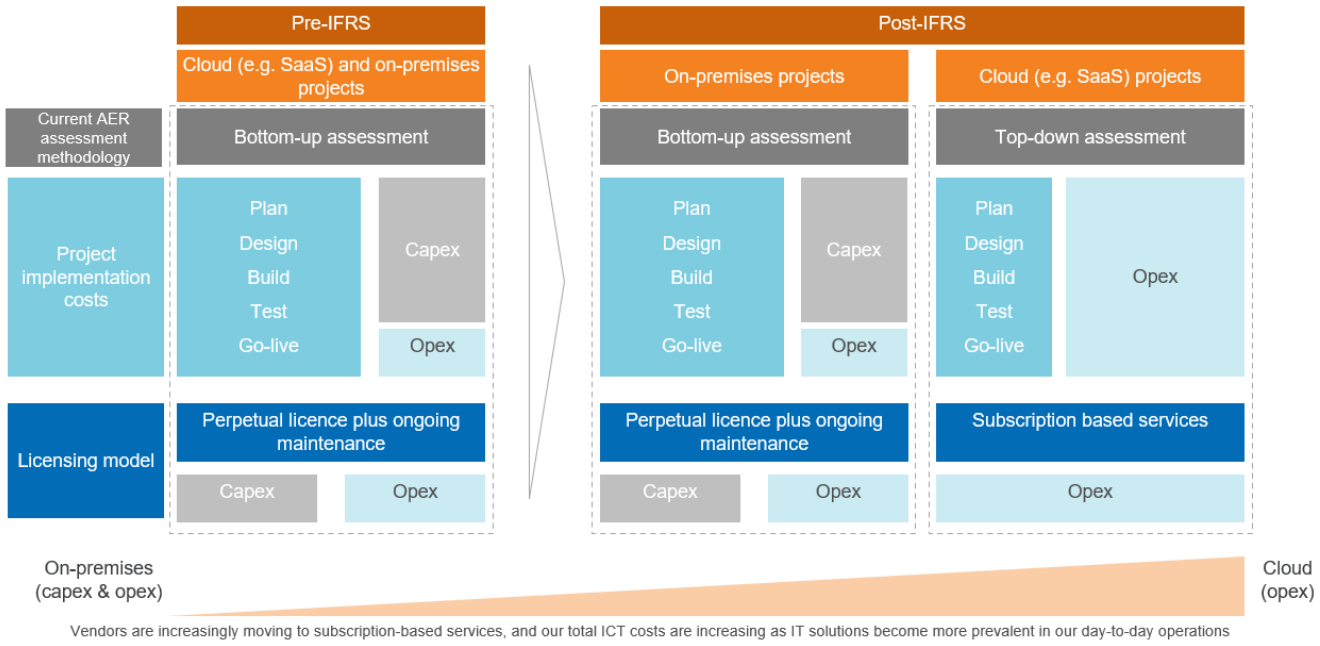
3.1 Factors impacting ICT operating expenditure

When considering ICT operating expenditure, there are two fundamental types, namely recurrent operating expenditure and project (non-recurrent) implementation operating expenditure:

- Recurrent operating expenditure: licensing, salaries, etc.
- Non-recurrent operating expenditure: project implementation costs (these costs vary year by year according to what projects we implement).

During the current regulatory period, several significant changes have been made to the way we capture and record ICT-related expenditures. Namely, the move to subscription based cloud services driven by vendors and also the accounting treatment of costs associated with these services as a result of International Financial Reporting Standards (IFRS). Together, this has resulted in a large portion of our ICT costs (recurrent and non-recurrent) reported as operating expenditure rather than capital expenditure, as would have taken place in the previous regulatory period. In addition, our total ICT spend within JEN is increasing as a proportion of total expenditure, as we rely more on ICT systems to deliver our services. Whilst EMCa assessed each of our ICT business cases for prudency and efficiency, the AER's top-down assessment does not take these changes into account. Figure 3–1 below summarises this and is described in further detail in the following sections.

Figure 3–1: Overview of expenditure in the context of vendor-driven and IFRS changes



3.2 AER draft decision – operating expenditure step changes

In its draft decision, the AER rejected several of our proposed ICT operating expenditure step changes on the basis that the step changes 'double counts costs provided through the trend component of our base-step-trend forecasting approach.'[6]

We do not agree with this position and discuss this in section 3.3.

[6] AER, Attachment 3 – Operating expenditure | Draft decision – Jemena distribution determination 2026-31, sections 3.3.4.1 ICT services (various ICT step changes)

3.3 Vendors are driving up ICT recurrent operating expenditure

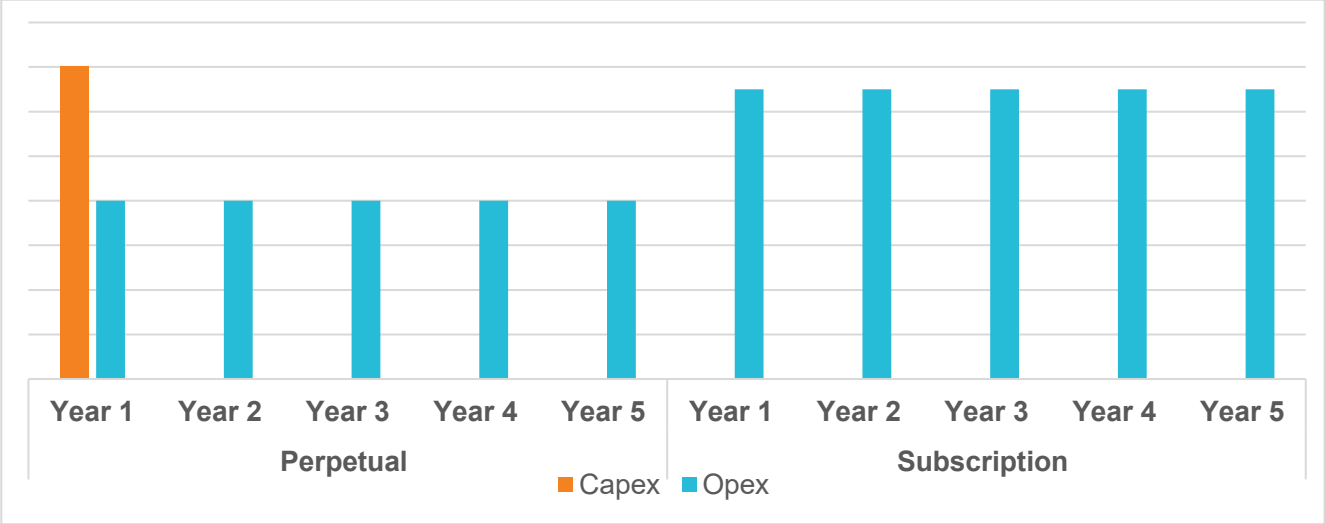
ICT vendors are increasingly moving away from traditional perpetual licence plus maintenance models and transitioning towards recurring subscription services that are cloud-based (for example Software as a Service, SaaS). As a result, the industry-wide move towards SaaS is reshaping our ICT expenditure profile (although on-premises systems are still part of the ICT landscape). This shift entails a transition from capital to operating expenditure as we embrace pay-as-you-go models. The shift is further described in the table below.

Table 3–1: Comparison of changes in licensing models

	Perpetual licence plus ongoing maintenance	Transitioning to a subscription model (e.g. SaaS)
Cost structure	Large upfront payment for the license (capital expenditure), plus ongoing maintenance and support fees (operating expenditure).	Regular recurring payments (monthly or annually) are classified as operating expenditure.
Accounting	License cost is capitalised and amortised over several years. Maintenance is expensed annually.	No asset capitalisation; all costs are expensed as incurred as required by section 2.1.2 of the IFRS accounting standards.
Operating expenditure impact	Lower recurring costs compared to subscription. Maintenance fees typically range from 15–25% of the license cost annually.	Significant increase in operating expenditure because the entire cost of the subscription is expensed as incurred.
Budget certainty	Predictable maintenance costs, but high initial investment.	Easier to scale up/down based on usage. Predictable recurring costs but can grow quickly with user count or added features.

By way of example, using simulated data, Figure 3–2 compares the impact on operating expenditure and capital expenditure over time. Over time, the subscription model total expenditure is more than the perpetual licence model.

Figure 3–2: Operating and capital expenditure comparison



3.3.1 Implications for JEN – step operating expenditure

In its draft decision the AER did not include most of our proposed step operating expenditure, stating "not included: double counting by base/trend".

The ICT step operating expenditure we have included in our revised regulatory proposal is not covered in the base year as these costs did not exist in the base year; we will implement new systems and will need to pay for new subscription services that are not in the base year operating expenditure and this means step change operating expenditure is needed.

Trend does not cover this – we understand that the intent of the trend component is to provide regulated network businesses an increase in their operating expenditure allowance resulting from increased customer numbers, energy demand and circuit length. The increase in our ICT operating expenditure over the current regulatory period has been much greater than the trend allowance provided by the AER as a consequence of ICT vendors moving to the subscription delivery model. We expect that this trend will continue into the next regulatory period as the ICT industry continues to transition to subscription delivery models. See section 4.3.1 of JEN - RP - Att 06-01 Operating expenditure – 20251201 for more discussion on why the trend allowance should not be the basis of the AER rejecting our proposed step changes.

The increase in our operating expenditure that we proposed as a step change in our initial regulatory proposal (and revised regulatory proposal) is driven by the ongoing expected trend of vendors who give us no choice but to move to subscription-based services.

3.4 AER draft decision – ICT incremental project operating expenditure

In its draft decision for incremental project operating expenditure, the AER stated, "*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."* We address this in the operating expenditure attachment[7].

In its draft decision for incremental project operating expenditure, the AER assumed incremental project operating expenditure reflects "…an expected uplift in ICT-related project management activities." This is an incorrect interpretation of project operating expenditure, and we address this below in section 3.4.

Also, in its draft decision, the AER stated that it considers "…these costs to be business-as-usual and therefore captured in base expenditure." We address this in the operating expenditure attachment and also describe below

[7] JEN – RP – Att06-01 Operating expenditure – 20251201.docx

in more detail why these are project related (not business-as-usual) costs determined by the move to subscription services driven by vendors; refer to section 3.4.

Following a meeting and subsequent email dated 21st November 2025[8], the AER stated that it "…did not assess the components of the propex base adjustment individually" and that it "…forecast operating expenditure on a top-down methodology." We describe in section 3.4 why this approach is not valid for ICT project-related expenditure.

3.5 Subscription services are driving up project implementation operating expenditure

The AER stated in its draft decision that our project implementation operating expenditure is "project management" related; this is incorrect.

Historically, expenses related to software development activities that enhance, modify, or add capability to existing on-premises (not cloud-based subscription services) systems were treated as capital expenditure. Changes in accounting standards, such as those introduced by the IFRS Interpretation Committee in April 2021, are altering the recognition of assets in ICT projects. These changes restrict the scope of project expenditure eligible for capitalisation. We have always expensed small elements of an ICT project, such as change management and training; however, under the new IFRS guidelines, costs associated with configuring or customising SaaS and other cloud-based platforms are now classified as operating expenditure when they were previously classified as capital expenditure. This means that where we once capitalised most project-related costs, we are increasingly expensing project-related costs.

These changes directly impact how we account for ICT-related costs. Specifically, this has led to a significant increase in operating expenditure during the current regulatory period, as SaaS implementation costs were approved as capital expenditure allowances by the AER.

We also note that in its draft decision, the AER has, in some instances, accepted project capital expenditure but not project related operating expenditure, and assessed the latter using a top-down methodology. Given that the delineation is based on accounting treatments out of our control, it does not make sense to accept or reject expenditure on accounting basis.

We consider that the AER should assess projects over the next regulatory period that previously would have had implementation costs capitalised, as a capital to operating expenditure trade-off. That is, the total ICT expenditure for new projects (non-recurrent capital expenditure, non-recurrent operating expenditure, and step operating expenditure) should be assessed for each project as a capital to operating expenditure trade-off, and the AER should not make different decisions on each component expenditure.

3.5.1 Implications for JEN – project implementation operating expenditure

The AER's draft decision did not approve the project implementation operating expenditure requested in our initial regulatory proposal, stating that the adjustment to our base year for project operating expenditure was not prudent, and risks double-counting costs already provided through the base-trend-step forecasting approach.[9] As noted above, we consider that the trend allowance is insufficient to cover additional expenditure arising from the growth of our network and the significant increase in operating expenditure we expect from the transition to subscription-based ICT delivery models.

Furthermore, we note that the AER relied on advice from EMCa on our project implementation costs, which assessed our proposed ICT projects over the next regulatory period and proposed an alternative project implementation costs forecast of $28M. This was after excluding project implementation costs for customer education, Reform FTA, Reform MITE, Enterprise contract management uplift, data foundation and governance,

8 DeMamiel, Helen "AER - JEN meeting re ICT/Digital - re items taken on notice", 21st November 2025

9 AER draft decision, Jemena electricity distribution determination 1 July 2026 – 30 June 2031, Attachment 3 – operating expenditure, September 2025, section 3.3.2.5.

and contract lifecycle management. EMCa also identified that if we applied our approach to forecasting project implementation costs, the adjustment amount would be negative, or a reduction of costs in the forecast period.

We consider that if EMCa had concluded a higher value for our project implementation costs, and if the AER had considered the significant industry structural and accounting reporting changes impacting our ICT forecast for the next regulatory period, the AER would have made a different draft decision on our project implementation costs.

We set out in *JEN – RP – Support – ICT step change calculations – 20251201* the step changes for each ICT project identifying the implementation and ongoing operating expenditure. Our step changes are net of our base year project implementation expenditure reported in our AIO and the associated trend allowance over the next regulatory period.

As noted above, we consider that, under the AER's framework for operating step changes, where an item of expenditure is required to be reclassified from capital to operating expenditure due to changes in accounting treatment, such changes are best assessed as capital/operating expenditure trade-offs. Providing that our proposed expenditure is prudent and efficient, we expect that our operating expenditure allowance would be increased for the capital expenditure substituted.

We recommend that the AER update the ICT guidance note for changes in ICT accounting classification.

4. Enterprise Projects

4.1 AER draft decision

The following is a summary of enterprise projects depicting the AER's final decision on JGN's 2025-30 Access Arrangement compared with JEN's draft decision.

Table 4–1: Enterprise project summary

Enterprise project	JGN AA final decision	JEN EDPR draft decision
Cloud capacity growth	Approved	Approved
Cyber program	Approved	Approved
SAP migration	Approved	Approved
Contract lifecycle management	Approved	Not approved
Data foundations and governance	Approved	Not approved
Enterprise content management uplift	Approved	Not approved

In its review, EMCa accepted the basis of the project cost allocation methodology to JEN for these enterprise projects:

> *"We are satisfied with Jemena's explanation and in our assessments, we do not further consider cost allocation"*[10].

For the three projects (all are 100% operating expenditure) that were not accepted, EMCa provided the following feedback:

- Evidence of a management need does not justify a regulatory operating expenditure step increase
- There is a lack of evidence of shared cost allocation.

4.2 Response

Our revised regulatory proposal assumes the same non-recurrent operating expenditure and step operating expenditure as per our initial regulatory proposal and the AER's draft decision, which is the same expenditure approved by AER in JGN's 2025-30 Access Arrangement final decision. In addition, given the changed accounting requirements, they also reflect the capital to operating expenditure trade-off.

We address EMCa's feedback below.

Table 4–2: Enterprise project revised regulatory proposal summary ($2026M)

$2026	Initial regulatory proposal	Revised regulatory proposal
Contract lifecycle management		
Non-recurrent operating expenditure	0.8	0.8
Recurrent step operating expenditure	0.8	0.7
Data foundations and governance		
Non-recurrent operating expenditure	1.9	1.8
Recurrent step operating expenditure	0.3	0.4
Enterprise content management uplift		

[10] EMCa, *Report to AER on Jemena ICT and CER 2026–31 RP*, August 2025, p. 15.

$2026	Initial regulatory proposal	Revised regulatory proposal
Non-recurrent operating expenditure	4.0	4.0
Recurrent step operating expenditure	0.6	0.7

4.3 Management need justifies a regulatory operating expenditure step increase

EMCa suggested that "...these changes are best characterised as part of the general evolution…" and "…do not go beyond these general expectations"[11]. Furthermore, the AER considers that the proposed ICT step changes are double-counted or adequately provided for in the trend allowance in the base, step, trend approach.

As shown below, the total operating expenditure of $23.4M ($2024) required to implement the capability across these three projects is significant; the JEN component is $8.2M ($2024).

Table 4–3: Enterprise project JGN final decision v JEN draft decision ($2024M)

$2024	Enterprise totex[12] ($M)	JGN ($M)	JEN ($M)
Contract lifecycle management	4.1	1.7 (Accepted)	1.4 (Not accepted)
Data foundations and governance	7.1	3.2 (Accepted)	2.5 (Not accepted)
Enterprise content management uplift	12.2	5.5 (Accepted)	4.3 (Not accepted)
Total	**23.4**	**10.2 (Accepted)**	**8.2 (Not accepted)**

We note that there has been no change to the scope of the above projects, or our cost estimates since approval by the AER of them in JGN's 2025-30 Access Arrangement.

In each of the supporting business cases and CBA models we have provided a breakdown of costs that demonstrate this is not "business as usual" activity; all three will implement new systems and require new licences that are not in the base year operating expenditure as set out below; this means step operating expenditure is required.

Table 4–4: Enterprise projects cost components

	Cost components
Contract lifecycle management	• Design, implementation and testing of new **enterprise contract lifecycle management system** • System integrator costs • New licenses required (informed by EOI)
Data foundations and governance	• Design, implementation and testing of new **data governance SaaS solution** • New licenses required (quote provided)
Enterprise content management uplift	• Design, implementation and testing of **new enterprise content management platform** • System integrator costs • New licenses required (quote provided)

We resubmit these three CBA models by way of evidence. Refer to section 4.5.

We further address this in section 4.3.1 of JEN - RP - Att 06-01 Operating expenditure - 20251201.

11 EMCa, *Report to AER on Jemena ICT and CER 2026–31 RP*, August 2025, p. 50.

12 Part of the Jemena Enterprise projects are also allocated to other Jemena Group businesses.

4.4 JEN has provided sufficient evidence of shared cost allocation

EMCa suggested there was insufficient evidence of shared cost allocation among the three projects. This is despite submitting cost-benefit analysis (CBA) models to EMCa as part of the information request process. Within each model, we show how we derived the JEN component in our forecast, using the cost allocation methodology accepted by EMCa (as set out above).

We resubmit these three CBA models by way of evidence. Refer to section 4.5.

4.5 Attachments – enterprise projects

JEN - RIN - Support - Contract Lifecycle Management - CBA Model - 20250415

JEN - RIN - Support - Data Governance – CBA Model - 20250415

JEN - RIN - Support – Enterprise Content Management - CBA Model - 20250415

5. Cyber security

5.1 AER draft decision

Capital expenditure: The AER seeks JEN to disclose cybersecurity recurrent capital expenditure for the next regulatory period in our revised regulatory proposal

Project (non-recurrent) operating expenditure: Accept

Step operating expenditure: Accept

5.2 Response

We have provided the requested capital expenditure; refer to section 5.2.1.

Our revised regulatory proposal assumes the same non-recurrent operating expenditure and step operating expenditure as per our initial regulatory proposal and approved by the AER in its draft decision.

We have also included an additional $6.5M capital expenditure in our revised regulatory proposal to address recently identified risks that were unknown at the time of the initial regulatory proposal. Refer to section 5.3 for more information.

Table 5–1: Cyber program revised regulatory proposal summary ($2026M)

Cyber $2026	Initial regulatory proposal	Revised regulatory proposal
Non-recurrent capital expenditure	0	6.5
Non-recurrent operating expenditure	6.0	6.0
Recurrent step operating expenditure	2.3	2.4

5.2.1 Recurrent capital expenditure - cyber

The cyber security program commenced in RY20. Non-recurrent (on-off) capital expenditure has been incurred to implement the Operational Technology (OT) security program (foundational capability) in the current regulatory period, that is, these costs are associated with new capability, not lifecycle and upgrade costs.

In RY25 we started life cycling and upgrading these systems (recurrent capital expenditure). We anticipate recurrent capital expenditure to maintain these new systems in the next regulatory period. Our total ICT forecast recurrent capital expenditure and cyber-related recurrent ICT capital expenditure are shown in the table below.

Table 5–2: Forecast cyber-related recurrent capital expenditure

	2026-27	2027-28	2028-29	2029-30	2030-31	Total
Recurrent capital expenditure (JEN non-cyber-related)	6.0	6.2	6.3	6.4	6.7	31.6
Recurrent capital expenditure (JEN cyber-related)	0.4	0.3	0.3	0.4	0.2	1.6
Total recurrent ICT capital expenditure (total JEN ICT)	**6.4**	**6.5**	**6.6**	**6.8**	**6.9**	33.1

5.3 Additional non-recurrent capital expenditure – Cyber revised regulatory proposal

5.3.1 Background

[redacted]

5.3.2 How this investment differs from the investment in our initial regulatory proposal

[redacted]

5.3.3 The OT asset security program

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

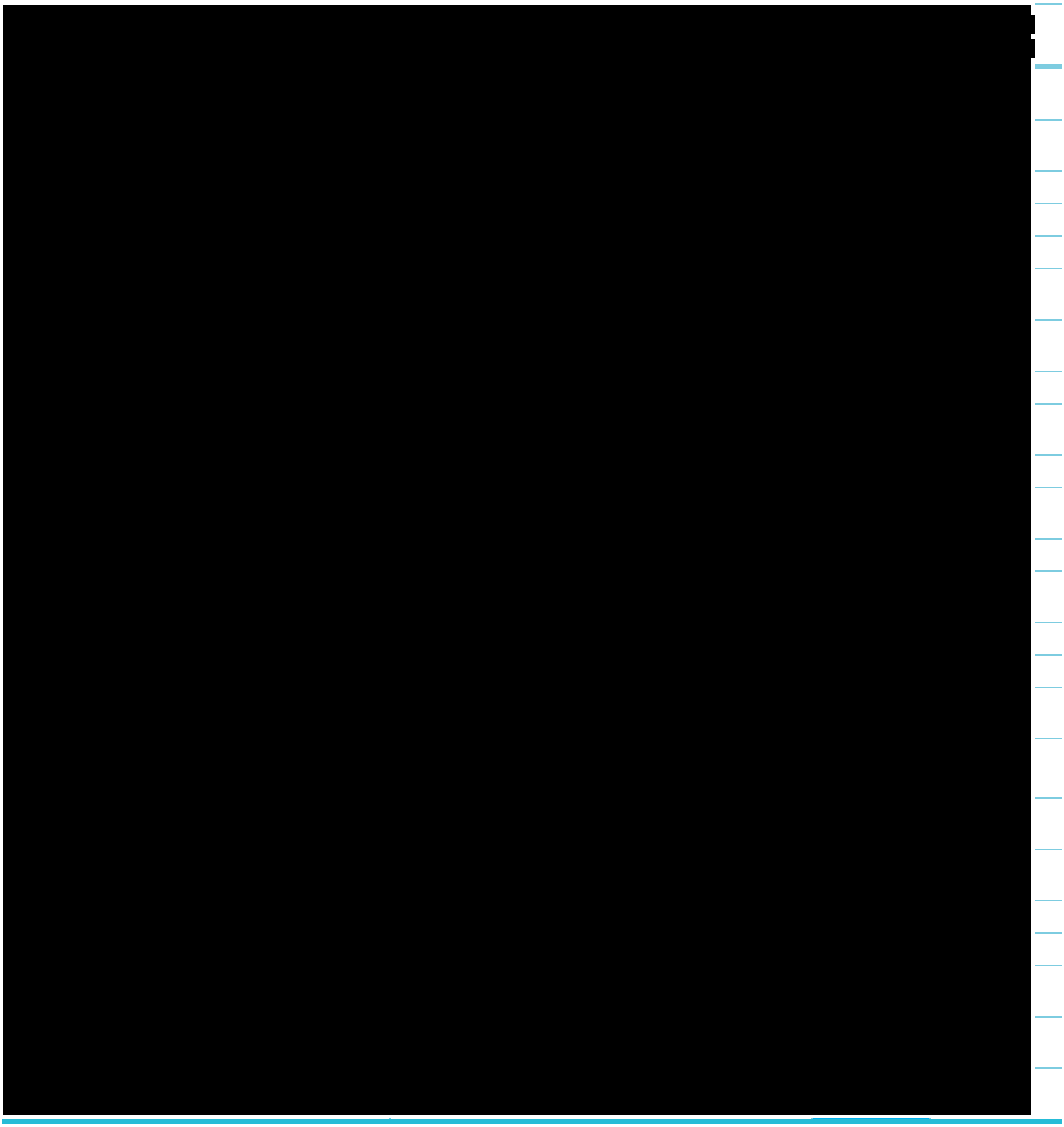
[redacted]

[16] Refer cyber.gov.au

[redacted]

[17] For more, refer to the Director-General's Annual Threat Assessment 2025 at asio.gov.au.

[redacted]



[redacted]

5.3.6 Benefits

[redacted]

We have quantified the value of avoided risk as $2.89M per year. Overall, the business case has a positive NPV. The CBA model captures this in more detail (refer to section 5.4).

5.3.7 Costs

Costs have been derived from a combination of labour estimates for implementation and known software and hardware costs and licensing that will be incurred over the 5-year program. More detail is provided in *JEN - RP - Support – Cybersecurity Program - CBA Model - 20251201*.

The proposed OT program requires additional capital expenditure of $6.5M ($2026M) over the next regulatory period, reflecting the expanded scope and depth of controls needed to address the newly identified risks.

This is in addition to the non-recurrent operating expenditure and recurrent step operating expenditure that has been approved by the AER in its draft decision.

A summary of JEN cyber security costs over the next regulatory period are below.

Table 5–5: Cyber 5-year revised regulatory proposal ($2026M)

$2026	RY27	RY28	RY29	RY30	RY31
Total capital expenditure Revised regulatory proposal (per above)	1.7	1.2	1.3	1.5	0.8
Non-recurrent operating expenditure – per our initial regulatory proposal	0.9	1.8	1.3	1.6	0.6
Recurrent-step operating expenditure – per our initial regulatory proposal	0	0.2	0.6	0.7	0.9
Totex – revised regulatory proposal	**2.6**	**3.2**	**3.2**	**3.8**	**2.3**

5.4 Attachments - cyber

[redacted]

JEN - RP - Support – Cybersecurity Program - CBA Model - 20251201

6. Outage preparedness and response

6.1 AER draft decision

Capital expenditure: Accept

Project (non-recurrent) operating expenditure: Accept

Step operating expenditure: Not accepted

6.2 Response

This business case included funding to maintain JEN's outage notification systems and perform upgrades to associated customer systems to meet the requirements of the *Improving life support processes* rule change request, as recommended by The Network Outage Review, commissioned by the Victorian Government.[18,19] Since lodging our initial regulatory proposal, the timeline for this rule change has been extended, with a draft decision not expected until February 2026. Given the lack of detail around this rule change currently, we are proposing to retract this business case. However, we will consider lodging a cost pass through application once the requirements of the rule change have been finalised.

Despite this, JEN's critical outage notification system will still require $2M of upgrades to maintain its current functionality. These maintenance activities cannot be delayed while we wait for additional details on the rule change. The costs associated with these upgrades have been included in "Customer systems". Refer to section 7.

Table 6–1: Outage preparedness and response revised regulatory proposal summary ($2026M)

Outage preparedness and response $2026	Initial regulatory proposal	Revised regulatory proposal
Non-recurrent capital expenditure	2.2	0
Non-recurrent operating expenditure	0.8	0
Recurrent step operating expenditure	0.7	0

[18] The Australian Energy Market Commission, Improving life support processes

[19] Network-outage-review-report.pdf

7. Customer systems

7.1 AER draft decision

Capital expenditure: Accept

Project (non-recurrent) operating expenditure: Accept

Step operating expenditure: Not accepted

7.2 Response

Our revised regulatory proposal assumes the same non-recurrent operating expenditure approved by the AER in its draft decision, but we have removed the step operating expenditure not approved by the AER.

As described above in section 6, we included an additional $2M capital expenditure to address the customer system lifecycle costs included in Outage Preparedness and Response forecast. We describe this in more detail below.

Table 7–1: Customer systems revised regulatory proposal summary ($2026M)

Customer systems $2026	Initial regulatory proposal	Revised regulatory proposal
Non-recurrent capital expenditure	3.0	5.0
Non-recurrent operating expenditure	1.0	0.9
Recurrent step operating expenditure	0.4	0

7.3 Critical outage notification systems

Per 'JEN – RIN – Support – ICT Investment Brief - Outage Preparedness and Response – 20250131 – Public.docx', page 9, there are critical outage notification system upgrades that still need to be undertaken and have been included in "Customer systems". The following is an excerpt.

The following ICT systems provide the critical outage notification capabilities and were implemented in the previous regulatory period (primarily in 2019 and 2020). Through prudent asset management, lifecycle upgrades of these systems were avoided in the current regulatory period (2021 – 2026). Some of these systems have recently started experiencing service degradation and whilst continued prudent management will ensure they will continue to meet obligations; they will require lifecycle upgrades to prevent service degradation in the next regulatory period:

- *Outages and Emergency Page: An application used by JEN Control Room to provide real-time data on outages across the JEN's network, including information on the number of life support customers impacted by each unplanned or planned outage.*
- *Planned Outage Carding Management System (POCM): JEN's carding task and evidence platform for planned outages.*
- *Broadcaster: An application that is used to manage a wide range of aspects of unplanned and planned electronic notifications, including:*
    - *Scheduling and processing of planned outage notifications*
    - *Processing unplanned outage notifications*
    - *Template content creation and updates*
    - *Contact management for large customers*

    - *Preference management for planned outage notifications all customers, including for hard copy notification*
- *Whispir: A third-party service provider which sends electronic notifications to inform customers of planned and unplanned outages.*
- *Emergency Vic: JEN provides real-time outage information through an Application Programming Interface (API) to Emergency Victoria.*
- *Power Outages Website: A public facing webpage which provides customers with the status of planned and unplanned outages across the JEN network. This webpage is automatically updated during and after an outage.*
- *Preference management portal: A customer facing self-serve portal which gives customers the ability to nominate their preferences on receiving information on customer outages. A customer can express a different notification preference for planned and unplanned outages.*

These critical outage notification systems must have lifecycle upgrades.

7.4 How costs were estimated

Costs for each system upgrade previously included in the Outage Preparedness and Response business case were based on an estimate of size in terms of complexity, scope and duration based on other projects where similar systems, integrations, and stakeholders are impacted.

Table 7–2: Estimated capital expenditure based on complexity ($2026M)

Size	Estimated capital expenditure
Small (S)	0.1
Medium (M)	0.2
Large (L)	0.2
Very Large (VL)	0.3

A summary of the capital expenditure costs for each system upgrade is shown in the table below.

Table 7–3: Outage customer systems lifecycle costs ($2026M) – capital expenditure only

System	Size	FY27 (capital expenditure)	FY28 (capital expenditure)	RY29	RY30	RY31
Outages and Emergency Page application upgrade	S	0.1				
POCM upgrade	S	0.1				
Broadcaster upgrade	M	0.2				
Whispr upgrade	S	0.1				
Emergency VIC API upgrade	L	0.3				
Power outages website upgrade	VL	0.3	0.3			
Preference management portal upgrade	VL	0.3	0.3			
Total		**1.4**	**0.6**			

7.5 Costs

Our revised regulatory proposal forecast costs are outlined in the table below.

Table 7–4: Customer systems 5-year revised regulatory proposal ($2026M)

$2026	FY27	FY28	FY29	FY30	FY31
Total capital expenditure – initial regulatory proposal	0	0	0	0	0
Total capital expenditure – revised regulatory proposal (per above)	2.1	0.5	1.0	1.0	0.3
Non-recurrent operating expenditure	0.2		0.3	0.3	0.1
Recurrent-step operating expenditure					
Totex – revised regulatory proposal	**2.2**	**0.5**	**1.3**	**1.3**	**0.4**

7.6 Attachments – customer systems lifecycle

JEN - RP - Support - Customer Systems Lifecycle - CBA Model - 20251201

8. End User Computing

8.1 AER draft decision

Capital expenditure: Not accepted

Project (non-recurrent) operating expenditure: Not applicable

Step operating expenditure: Not applicable

8.2 Response

In its draft decision, the AER had regard to EMCa's advice, particularly:

- JEN's **case for non-recurrent capital expenditure allowance** for these hardware replacements is not compelling. While it is reasonable that JEN would need to replace the specified hardware, it is unclear why this would not be included in JEN's recurrent ICT capital expenditure.
- JEN only considers one option other than "do nothing". An **options analysis** should ideally evaluate multiple valid approaches to a problem.
- Further, its **cost estimates** are not sufficiently justified.

We have addressed each of the AER's concerns in the following sections, and our forecast for the revised regulatory proposal remains the same.

Table 8–1: End user computing revised regulatory proposal summary ($2026M)

End user computing $2026	Initial regulatory proposal	Revised regulatory proposal
Non-recurrent capital expenditure	3.0	3.0
Non-recurrent operating expenditure	0	0
Recurrent step operating expenditure	0	0

8.3 Case for non-recurrent capital expenditure allowance

The AER guidance note stipulates recurrent capital expenditure comprises "expenditures (that) occur on varying cycles (2, 3, 4, 5 years)."[20]

JEN has not developed a bottom-up model for the many hundreds of systems, processes and activities that make up recurrent capital expenditure, instead relying on the AER's Guidance Note approach to establish an efficient cost forecast.

The recurrent capital expenditure forecast is determined by taking the five-year average capital expenditure for FY21-FY25. The forecasting approach aligns with the AER's Guidance Note and assumes this type of expenditure occurs on a cyclical (recurrent) basis, with cycles lasting between one and five years.

[20] AER, ICT guidance note, p. 10.

As outlined in section 2.2, actual capital expenditure has been used, and we have proposed an alternative recurrent capital expenditure forecast of $33,138,533 based on average actual past performance for RY21-25 as reported in RIN responses and the AIO.

The proposed forecasted capital expenditure was not included in the five-year average that informed our forecast of recurrent capital expenditure. This is explained further below.

8.3.1 Field mobility devices

The AER guidance note stipulates recurrent capital expenditure comprises "*expenditures (that) occur on varying cycles (2, 3, 4, 5 years).*"[21]

We have deployed 278 tablets this current regulatory period, and this has been captured as "non-recurrent" capital expenditure, one-off costs, as it is not a cyclical occurrence as defined by the AER above. This is because the existing core business applications have remained unchanged during this current regulatory period. We are now seeing an increased demand for computational power required as new field operations applications are deployed, e.g. Mobile Enterprise, and will need to replace these in the next regulatory period.

We have provided an inventory of tablets, when they were deployed and our assumptions for the next regulatory period to replace them. Refer to the cost-benefit analysis model (section 8.6) and Appendix A for inventory that demonstrates we have not replaced these in the current regulatory period, that these were 'one-off costs', and they are therefore not in the 5-year historical average that has informed our forecast recurrent capital expenditure. Hence, we seek non-recurrent capital expenditure for the replacement of these tablets.

8.3.2 Meeting room collaboration technology

The table below shows that no costs were incurred this current regulatory period for the meeting room collaboration technology; therefore, there are no associated costs in the 5-year historical average that has informed our forecast recurrent capital expenditure. Hence, we seek non-recurrent capital expenditure for the replacement of this meeting room technology.

Table 8–2: Meeting room upgrades

Meeting room	Last upgraded
Collins St 14.10	2015
Collins St 15.24	2015
Colins St 17.16	2015
Colins Boardroom 16.22	2015
Collins 16.27	2015
Broadmeadows Town Hall	2017
Broadmeadows 1.01	2017
Tullamarine Steel Creek, Butlers Diary, Kitchen	2018

8.4 Options analysis

We have provided two options:

1. Do not deploy new tablets and collaboration technology,
2. Deploy new tablets and meeting room technology and then replace tablets in 3 years.

[21] AER *Guidance Note - Non-network ICT capex assessment approach for electricity distributors* - 28 November 2019, Pg 10.

An alternate option we had considered was to deploy new tablets and meeting room technology and not replace the tablets in 3 years. This would be a $0.65M reduction in capital expenditure.

As outlined in our cyber security business case, cyber threats are increasing and posing significant risks for operational technology (refer to section 5.3). Failing to refresh tablets every three years introduces significant operational and security risks. Older devices often stop receiving critical operating system and security updates, leaving them vulnerable to malware, data breaches, and unauthorised access. Outdated hardware can also struggle to support modern encryption standards and enterprise applications, reducing compliance with regulatory requirements and exposing sensitive company and customer data. Additionally, aging tablets are more prone to hardware failures, which can disrupt workflows and increase field downtime. Regular lifecycle management ensures devices remain secure, performant, and aligned with evolving security protocols.

For these reasons, our preferred option underpins our forecast non-recurrent capital expenditure.

8.5 Costs

Refer to the CBA model (section 8.6) which provides a breakdown of costs associated with tablets and meeting room technology.

8.6 Attachments – end user computing

JEN - RIN - Support - End User Computing - CBA Model - 20250415

9. Flexible exports

9.1 AER draft decision

Capital expenditure: Partial acceptance - JEN's flexible services program could be justified at a much lower cost. In place of its proposed $25.6M, we substitute $9.1M as a placeholder, in line with the similarly sized CitiPower.

Project (non-recurrent) operating expenditure: Not applicable

Step operating expenditure: ICT – Accept; non-ICT – Not Accepted

9.2 Response

We have provided an alternate solution option for flexible exports that is lower than the previously proposed option in our initial regulatory proposal. We have removed all non-ICT step operating expenditure and have reduced the ICT step operating expenditure to align with the revised solution option.

Table 9–1: Flexible exports revised regulatory proposal summary ($2026M)

Flexible exports $2026	Initial regulatory proposal	Revised regulatory proposal
Non-recurrent capital expenditure	15.2	14.5
Non-recurrent operating expenditure	0	0
Recurrent step operating expenditure - ICT	3.0	2.4

We have outlined why the use of benchmarking and substitution is not appropriate in section 9.3 below. Whilst the alternate option we are proposing is more than the suggested $9.1M, sections 9.4 and 9.5 describes the scope of capability we believe is required for flexible exports and the associated benefits.

9.3 Why the AER's cost benchmarking is inappropriate

We note that EMCa, engaged by the AER to support its assessment of Victorian DNSPs' regulatory proposals, assessed the efficiency of our flexible exports-related expenditure using benchmarking based on customer numbers and recommended a placeholder of $9.1M capital expenditure.[22] The AER subsequently relied on EMCa's benchmarking analysis in its draft decision.[23] We consider that this is an erroneous approach to evaluating ICT expenditure and should not be relied upon solely for determining expenditure efficiency.

Firstly, it is not valid to compare DNSPs' ICT expenditure on a like-for-like basis in this context, as their ICT environments may differ significantly in terms of system maturity, automation, and adaptability– stemming from different investment decisions and levels of expenditure in the past. Each DNSP's approach to implementing flexible export capabilities will vary depending on their existing system configurations and applications.

In particular, DNSPs may have varying levels of legacy system entrenchment. Some may require significant investment to modernise outdated infrastructure, while others may already have more adaptable platforms. These differences can substantially affect cost and implementation complexity. Only if the proposed expenditure is normalised for differences in ICT architectures across DNSPs can comparisons be used efficiently.

22 EMCa, *Report to AER on Jemena ICT and CER 2026–31 RP*, August 2025, p. 75.

23 AER, Draft decision – Jemena distribution determination 2026–31, Attachment 2 – Capital expenditure, September 2025, p.50.

Secondly, as shown in JEN's expenditure forecast model, the cost estimate for the flexible exports project is not driven by customer numbers, as EMCa relied on in its benchmarking analysis. Instead, the primary cost drivers for the project include the technical complexity and the number and nature of system interfaces that must be reconfigured and tested. These factors directly influence the scope of system integration, the level of customisation required, and the type and duration of specialised resources needed to implement the changes. These activities are necessary irrespective of the customer base.

The AER, in its draft decision, compared JEN's proposed expenditure with CitiPower's on the basis of their sizes (i.e. customer numbers), while acknowledging that CitiPower benefits from synergies with United Energy and Powercor. As demonstrated above, provided that CitiPower, Powercor and United Energy utilise the same ICT systems for their market interfaces and operational functions, the economies of scale and cost efficiencies shared by these three entities are likely to be significantly greater than what JEN will benefit from. Therefore, the AER should not use CitiPower's ICT expenditure estimate as a benchmark for assessing the efficiency of JEN's proposed expenditure without accounting for differences in system architecture, legacy constraints, and synergies.

The National Electricity Rules (NER) require that when considering the prudency and efficiency of expenditure, the AER must have regard to "the need to provide a reasonable opportunity for the **relevant Distribution Network Service Provider** to recover the efficient costs of complying with all applicable regulatory obligations or requirements associated with the provision of standard control services."[24] (emphasis added) This requires considering the efficient costs JEN (the relevant DNSP) faces, not necessarily those of other DNSPs.

JEN also notes that taking a simple observation from a singular input from another DNSP is not an assessment of expenditure efficiency, and certainly not in the context of the JEN business operations. We appreciate that benchmarking and data comparisons play a role in the AER's efficiency assessment,[25] however, these are "first pass assessments"[26] and only "to determine relative efficiency and target areas for **further review**"[27] (emphasis added). In the current context, we recognise that the costs between JEN and other DNSPs are different and therefore, per the AER's Expenditure Assessment Guideline, require further investigation. However, in the draft decision, no further investigation appears to have been conducted, and only a direct substitution was made (albeit on a per customer basis). To remain consistent with its Expenditure Assessment Guideline, JEN considers that the AER should undertake a more comprehensive review of expenditure in the context of the overall architecture and efficiencies, including consideration of JEN's overall ICT benchmarking performance.

9.4 Alternate recommended option

The solution proposed in our initial regulatory proposal was predominantly based on LV DERMS. However, we have assessed an alternative option for flexible exports, predominantly leveraging our Strategic Networks Analytics Platform (the 'Datahub') and LV DERMS. We have considered the following capabilities that are required for flexible exports when designing the proposed solution.

- **Customer CER Management & Engagement**: Facilitates compliant integration and flexible export of renewable energy assets, enabling aggregator participation, performance monitoring, and collaboration with customers and stakeholders to ensure transparency, regulatory alignment, and improved grid efficiency.
- **Network Visibility and Operational Forecasting**: Provides a unified, real-time view of network conditions and enables assessment of hosting capacity and constraints at feeder and substation levels. Monitors device behaviour and network performance to ensure DOE compliance and detect anomalies, while analysing performance data to refine control algorithms, update hosting models, and strengthen customer engagement strategies.
- **DOE Calculation/Generation**: Leverages advanced analytics and forecasting to model voltage and thermal constraints under different energy usage and generation scenarios. It calculates safe, flexible limits for customers by combining predictive algorithms with live network data.

24 NER, S6.2.2(1)

25 AER, *Expenditure Forecast Assessment Guideline for Electricity Distribution*, October 2024, s. 2.3.

26 AER, *Expenditure Forecast Assessment Guideline for Electricity Distribution*, October 2024, Pg. 10.,

27 AER, *Expenditure Forecast Assessment Guideline for Electricity Distribution*, October 2024, Pg. 10.

- **CER Management and DOE** Publication: Securely publishes DOE signals in near real time to aggregators and compliant CER/DER inverters via CSIP-AUS (IEEE 2030.5) interfaces, with timely updates and clear metadata for accurate interpretation. It will enable large-scale management of distributed energy resources and customer connections.

9.5 Benefits of our recommended option

Given the unknowns surrounding how flexible exports will operate in real-world conditions—particularly the coordination with customers, aggregators, and other market participants—a pragmatic, no-regrets approach is required. Our proposed solution has the benefit of:

- Building on our existing strategic analytics platform to support early-stage orchestration and performance monitoring, thereby reducing delivery risk and enabling data-driven decision-making
- Leveraging our Victorian Emergency Backstop solution to scale CER management with current endorsed patterns
- Progressive scaling of flexible export services to ensure operational stability and to allow for continuous learning and refinement
- Alignment with emerging standards, including the recent introduction of the CSIP-Aus protocol, which provides a foundational framework for interoperability and emergency backstop capabilities
- Maintaining a continuous review of market readiness to align with the progression of market maturity for enterprise-grade solutions.

Unlike our original submission, this proposed solution will not deliver the benefits originally identified (as we are not proposing to implement flexible imports in this period). However, it will provide the emissions reductions, CER enablement and reduced augmentation expenditure[28] identified in our initial regulatory proposal.

[28] This expenditure reduction is reflected in JEN – RIN – Support – Distribution Substation Augmentation Strategy – 20250131 – Public.

This recommended solution approach ensures that we remain agile and responsive to evolving regulatory, technical, and market conditions.

9.6 Why the AER's proposed $9.1M is not sufficient

As outlined in section 9.4, all of the following capability is required to be implemented for flexible export services:

- Customer CER Management & Engagement
- Network Visibility and Operational Forecasting
- DOE Calculation/Generation
- CER Management and DOE.

To reduce costs to the proposed $9.1M we would need to remove one or more of these capabilities. Removing any one of these components would render all the others ineffective, thereby hindering our ability to provide the service.

9.7 How costs were estimated

Costs have been derived based on a combination of labour estimates for implementation, system implementation services, and known software licensing to be incurred throughout the duration of the project. Refer to section 9.9 and the CBA Model, for more granular information.

9.8 Costs

A summary of our revised regulatory proposal forecast for JEN's flexible exports is below.

Table 9–2: Flexible exports 5-year revised regulatory proposal ($2026M)

$2026	RY27	RY28	RY29	RY30	RY31
Total capital expenditure			7.0	7.6	
Non-recurrent operating expenditure					
Recurrent-step operating expenditure				0.8	1.6
Totex – revised regulatory proposal	**-**	**-**	**7.0**	**8.4**	**1.6**

9.9 Attachments – Flexible exports

JEN – RP - Support - Flexible exports - CBA Model - 20251201

10. Energy reform initiatives

10.1 AER draft decision

In its draft decision, the AER:

- FTA: Suggested that as FTA is essentially to enhance meter data management capability, the costs should therefore be considered as Alternative Control Services (ACS) and that allocation to Standard Control Services (SCS) is questionable and needs to be justified. The forecast capital expenditure, project operating expenditure and step operating expenditure are reasonable.[29]
- MITE: Deemed to be required, however, consider our forecast to be overestimated based on benchmarking based on a per customer basis. The AER included an alternate estimate of $12.5M capital expenditure and did not accept our proposed project operating expenditure.[30]

We discuss these in sections 10.2 and 10.3 below and provide our revised regulatory proposal forecasts based on subsequent rule and procedural changes for the FTA and MITE reforms made since our initial regulatory proposal. We also provide details on our revised regulatory proposal forecasts for the new Victorian Emergency Backstop Mechanism No. 2 (VEBM2) in section 10.4.

We recently submitted pass through applications for FTA, MITE and VEBM2 costs to be incurred in the current regulatory period and have included revised forecasts for the next regulatory period in the revised regulatory proposal.

10.2 Response – FTA

10.2.1 Allocating costs to standard and alternative control services

We noted EMCa's concern about allocating costs to SCS, given the objective of managing new data from new meter types and new metering arrangements. EMCa considered that these costs appeared to be primarily related to our ACS metering services.[31]

While the FTA Reforms primarily focus on introducing new metering arrangements, their implications are broader. This is because those changes affect how we interact with the market and other businesses (through the retail market and B2B procedures) and require our systems to be updated to align with changes to the market structure. Our systems and business processes need to be amended to reflect the existence of secondary settlement points.

We note that most of the modified systems, for example, webMethods Gateway, SAP ERP, SAP HANA, GIS, etc., are systems required to provide standard control services. Specifically, the common distribution service, which includes "establishment and maintenance of National Metering Identifiers (NMIs) in market and/or network billing systems, and other market and regulatory obligations"[32] along with supporting "the planning, design, repair, maintenance, construction, and operation of the distribution network".

The exception is UIQ, which manages meter devices. We consider that this system is part of the administration and management of metering installations and should be defined as an alternative control service.

29 AER, Attachment 3 – Operating expenditure | Draft decision – Jemena distribution determination 2026-31, section 3.3.4.1

30 AER, Attachment 2 – Capital expenditure | Draft decision – Jemena distribution determination 2026-31, Pg 46

31 EMCa 2025, *Review of Proposed expenditure on ICT and CER*, p.46.

32 AER 2025, Draft decision – AusNet Services, Jemena, CitiPower, Powercor and United energy distribution determinations, *Attachment 11 - Service classification,* p. 8

In preparing a more detailed cost estimate, we have identified specific ACS costs as set out in Table 10–1 below. For instance, these costs include the changes required to our UIQ system, which manages our meters and devices.

10.2.2 FTA Revised forecast

This is a new regulatory obligation.

Since we submitted our initial regulatory proposal, we have received more certainty on the impacts of the rule and procedural changes on our systems and business processes and have revised our forecast accordingly. The implementation of the necessary changes associated with these reform initiatives spans the current and next regulatory periods. Consequently, we recently submitted pass through applications for FTA costs to be incurred in the current regulatory period and have included revised forecasts for the next regulatory period in the revised regulatory proposal.

Table 10–1: FTA SCS v ACS costs revised regulatory proposal summary ($2026M)

FTA $2026	Initial regulatory proposal	Revised regulatory proposal
Non-recurrent capital expenditure	4.4 (SCS)	8.9 (SCS) 0.02 (ACS)
Non-recurrent operating expenditure	1.1 (SCS)	0.4 (SCS) 0 (ACS)
Recurrent step operating expenditure	4.3 (SCS)	1.1 (SCS) 0 (ACS)

We set out in JEN - RP - Support - FTA pass through application – 20251104 more details on the FTA obligations and the options we have considered to comply with the new obligations.

10.3 Response – MITE

10.3.1 MITE Revised forecast

This is a new regulatory obligation.

Since we submitted our initial regulatory proposal, we have obtained more certainty on the impacts of the rule and procedural changes on our systems and business processes and have revised our forecast accordingly. The implementation of the necessary changes associated with these reform initiatives spans across the current regulatory period and the next regulatory period. Consequently, we recently submitted pass through applications for MITE costs to be incurred in the current regulatory period and have included revised forecasts for the next regulatory period in the revised regulatory proposal.

Table 10–2: MITE costs revised regulatory proposal summary ($2026M)

MITE $2026	Initial regulatory proposal	Revised regulatory proposal
Non-recurrent capital expenditure	17.5	14.2
Non-recurrent operating expenditure	0.3	0.2
Recurrent step operating expenditure	0	2.7

We set out in JEN - RP - Support - MITE pass through application – 20251030 more details on the MITE obligations and the options we have considered to comply with the new obligations.

10.3.2 Why the AER's cost benchmarking is inappropriate for MITE

We note that EMCa, engaged by the AER to support its assessment of Victorian DNSPs' distribution price reviews, attempted to assess the efficiency of DNSPs' MITE-related expenditure using customer-based benchmarking.[33] The AER subsequently relied on EMCa's benchmarking analysis in its draft decision.[34] As outlined in section 9.3, this approach to evaluate ICT expenditure prudency and efficiency does not meet the NER nor the AER's, *Expenditure Forecast Assessment Guideline for Electricity Distribution* requirements and therefore cannot be relied upon.

In the case of JEN's proposed ICT solution for the MITE initiatives —which includes the potential procurement of a BPA tool—the influence of customer numbers on overall project cost is negligible. Customer numbers may have a modest correlation with transaction volumes, which in turn can affect the variable licensing fee of the BPA tool, but it represents a very small fraction of JEN's total MITE project costs (less than 1%). Customer numbers do not directly correlate with the cost of delivering the MITE project. Cost drivers are primarily linked to system architecture, legacy platform constraints, and the complexity of required modifications—not the size of the customer base.

10.4 VEBM2 reform

This is a new regulatory obligation.

The Victorian Government established the Victorian Emergency Backstop Mechanism in orders made in 2023 and 2024 (**VEBM1**) to ensure that all new and replacement variable distributed photovoltaic (**DPV**) systems connected to Victorian distribution networks can be remotely interrupted or curtailed when the relevant DNSP is directed by the AEMO in a minimum system load event.

The Victorian Government updated the licence conditions to deliver the updated VEBM in October 2025. The key obligations in the updated licence conditions (**VEBM2**) gazetted on 8 October 2025 that drive changes to JEN's systems and capabilities relate to:

- Installer notifications – near real-time testing of the connection between an inverter and our utility server (clause 16(2))
- Customer notifications – customers need to be notified within 24 hours about disconnections that persist outside of the curtailment or network testing period (clauses 13.2(c) and 14.9)
- Reporting obligations – new requirements to provide detailed information about curtailments within 10 business days, which require upgrades to our underlying databases to ensure information can be readily provided in the new reporting window (clause 18)
- Establishing or altering a connection – new requirements to restore the utility server as soon as possible require significant additional redundancy to be built into the systems (clause 16.2(b)).

In addition to the above significant changes, customer procedures are also affected by the updated obligations.

JEN has implemented most of its digital, operational and reporting arrangements for the 2024 VEBM1 commencement, and funded these through a pass through application approved by the AER on 20 September 2024. VEMB2 requires new systems capabilities, operating processes and installer interface arrangements to comply with the service obligations added to our licence conditions to implement the VEBM2 immediately.

Most of the implementation costs for VEBM2 will be incurred in the current regulatory period, but there will be incremental ongoing operating expenditure in the next regulatory period that is not reflected in our base-year operating expenditure.

[33] EMCa, *Report to AER on Jemena ICT and CER 2026–31 RP*, August 2025, pp. 42–44.

[34] AER, Draft decision – Jemena distribution determination 2026–31, Attachment 2 – Capital expenditure, September 2025, p.46.

We recently submitted pass through applications for VEBM2 costs to be incurred in the current regulatory period and have included revised forecasts for the next regulatory period in the revised regulatory proposal.

Table 10–3: VEBM2 costs revised regulatory proposal summary ($2026M)

VEBM2 $2026	Initial regulatory proposal	Revised regulatory proposal
Non-recurrent Capital expenditure	Not Applicable	0.3
Non-recurrent Operating expenditure	Not Applicable	0
Recurrent step operating expenditure	Not Applicable	9.2

We set out in JEN VEBM2 Pass through application – 20251105 more details on the VEBM2 obligations and the options we have considered to comply with the new obligations.

10.5 Attachments – Energy reform

FTA reform

JEN - RP - Support - FTA pass through application – 20251104

JEN - RP - Support - FTA Appendix B pass through expenditure model - 20251104

MITE reform

JEN - RP - Support - MITE pass through application – 20251030

JEN - RP - Support - MITE Attachment A pass through expenditure model - 20251030

VEBM2 reform

JEN - RP - Support - VEBM2 pass through application – 20251105

JEN - RP - Support - VEBM2 Appendix C pass through expenditure model - 20251105

Appendix A
End user computing - tablets inventory

Jemena
bringing energy to life

A1. Tablets inventory