Jemena Electricity Networks (Vic) Ltd

2026-31 Electricity Distribution Price Review
Revised Regulatory Proposal

Attachment 06-01

Response to the AER's draft decision - Operating expenditure

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Glossary

current regulatory period	The regulatory control period covering 1 Jul 2021 to 30 Jun 2026
next regulatory period	The regulatory control period covering 1 Jul 2026 to 30 Jun 2031
previous regulatory period	The regulatory control period covering 1 Jan 2016 to 31 Dec 2020

Abbreviations

A&O	Administration and overheads
ABS	Australian Bureau of Statistics
ACS	Alternative Control Services
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulatory
BISOE, BIS	BIS Oxford Economics
bppa	Basis Points Per Annum
CAM	Cost Allocation Methodology
CCP	Customer Challenge Panel
CEG	Competition Economics Group
CY	Calendar Year
DMIA	Demand Management Innovation Allowance
DNSP	Distribution Network Service Provider
DRC	Debt Raising Costs
ECA	Energy Consumers Australia
EBSS	Efficiency Benefit Sharing Scheme
EDPR	Electricity Distribution Price Review
ESC	Essential Services Commission of Victoria
ESV	Energy Safe Victoria
FTA	Flexible Trading Arrangement reforms
FY	Financial Year
GIS	Geographical Information System
GSL	Guaranteed Service Level
ICT	Information and Communication Technology
IFRIC	International Financial Reporting Standards Interpretation Committee
IFRS	International Financial Reporting Standards
JEN	Jemena Energy Networks (Vic) Ltd
MITE	Market Interface Technology Enhancements initiatives
MPFP	Multilateral Partial Factor Productivity
MTFP	Multilateral Total Factor Productivity
NER	National Electricity Rules
O&M	Operating & Maintenance
OEF	Operating Environment Factors
OH&S	Occupational Health and Safety
PPI	Partial Performance Indicators

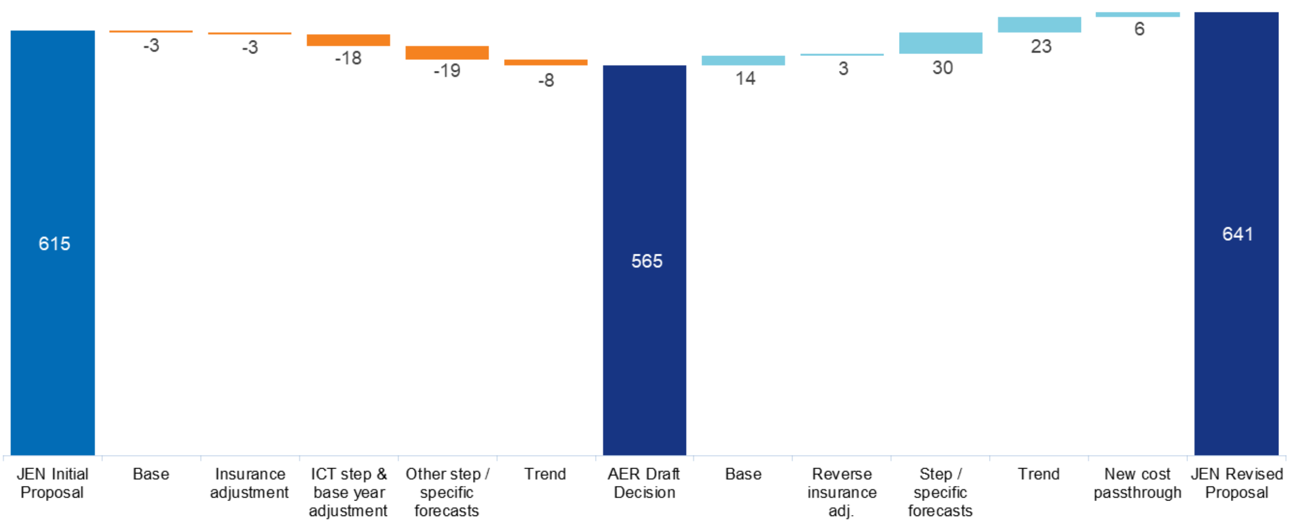
PTRM	Post Tax Revenue Model
RAB	Regulatory Asset Base
REFCL	Rapid Earth Fault Current Limiter
RIN	Regulatory Information Notice
SaaS	Software as a Service
SCS	Standard Control Services
SFA	Stochastic Frontier Analysis
SGC	Superannuation Guarantee Charge
SGSPAA	SGSP (Australia) Assets Pty Ltd
STPIS	Service Target Performance Incentive Scheme
VEBM	Victorian Government’s Emergency Backstop Mechanism
WPI	Wage Price Index

Overview

In this chapter, of Jemena Electricity Networks (Vic) Ltd's (**JEN**) 2026-31 revised regulatory proposal, we set out the forecast operating expenditure requirements for Standard Control Services (**SCS**) for the 2026-31 regulatory control period (**next regulatory period**). The purpose of this document is to provide additional information on forecast operating expenditure requirements in response to the AER's draft decision.

Our revised regulatory proposal operating expenditure forecast for our SCS over the next regulatory period, compared with our initial regulatory proposal and the AER's draft decision, is shown in Figure OV–1. The forecast operating expenditure model is provided in *JEN - RP - Att 06-03M SCS opex model – 2025120*.

Figure OV–1: Forecast SCS operating expenditure for 2026–31 period ($2026, million)

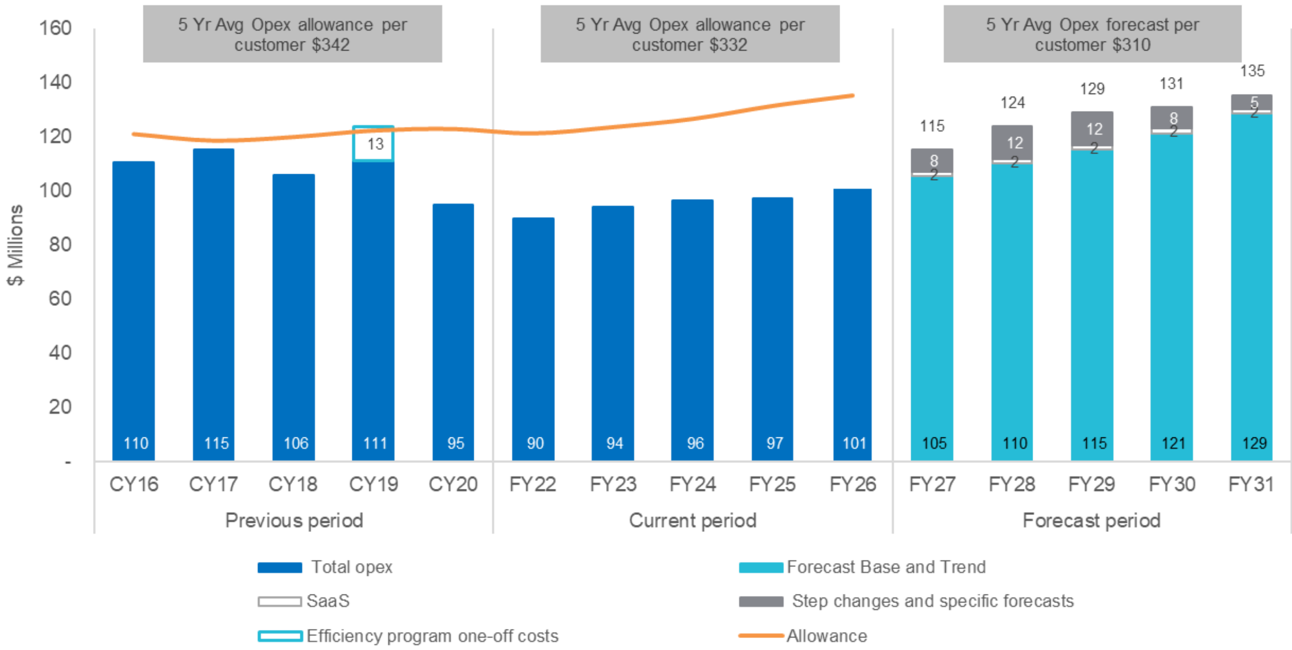


In its draft decision, the AER approved $565M in operating expenditure for the next regulatory period, 8.2% or $50M lower than our initial regulatory proposal of $615M. Our revised regulatory proposal is $76M or 13.5% higher than the draft decision, largely due to:

- updated base year operating expenditure costs, which are $3M higher than the initial regulatory proposal and draft decision. Refer to section 2.1 for more details
- inclusion of new cost passthrough applications which increases our operating expenditure by $6M over the next regulatory period. Refer to section 2.2 for more details
- a higher trend as a result of updated demand forecasts to align with the latest Australian Energy Market Operator (**AEMO**) projections and increased data centre activity. Refer to section 3.1 for more details
- higher ICT step change of $26M to reflect revised cost estimates. Refer to section 4.3 for more details
- the removal of the AER's draft decision adjustment for bushfire insurance underspend, including both the non-recurrent efficiency gain in the base year and the associated negative step change. Refer to section 2.3 for more details.

Our revised regulatory proposal total operating expenditure forecast of $641M for the next regulatory period (including debt-raising costs) is 34% higher than our operating expenditure in the current regulatory period and -0.4% lower than the current regulatory period allowance. Figure OV–2 shows our total operating expenditure for SCS over the previous, current and next regulatory periods, along with the total operating expenditure allowance for the previous and current regulatory periods. Through deliberate action, we reduced our operating expenditure below the regulatory allowance for the current regulatory period. Our proposed allowance for the next regulatory period builds on this success and contributes to delivering price reductions to our customers.

Figure OV–2: Total operating expenditure, previous, current and forecast period ($2026, million, excl. debt raising costs)



Note: HY21 (Jan to Jun 2021) is not included for visualisation purposes. It does not impact the operating expenditure forecast.

The key drivers of the increase in SCS operating expenditure over the next regulatory period are:

- The transition to cloud-based and other ICT services ($34M), including $13.6M for energy reform initiatives and inclusion of Jemena Group enterprise projects of $8.6M
- Management of rapid earth fault current limiters (**REFCLs**) ($5M)
- Investment in safety measures ($3M)
- Trend allowance ($75M).

Structure of this attachment

This attachment is focused on JEN's SCS operating expenditure and is structured as follows:

- Section 1 presents and explains JEN's SCS operating expenditure forecast,
- Section 2 discusses our actual FY25 base year operating expenditure and our benchmarking performance for 2024-25 actual operating expenditure,
- Section 3 discusses the trending of base year operating expenditure,
- Section 4 provides our updated SCS step changes, and
- Section 5 shows our estimates of the specific cost forecasts for the AER's draft decision.

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

List of operating expenditure attachments

Table OV-1: List of operating expenditure attachments

Attachment	Name	Author
03-02	Innovation Fund	JEN
05-01A	Technology expenditure addendum - 20251201	JEN
05-07	Real cost escalation report - 20251929	Oxford Economics
06-01	Operating expenditure (this document)	JEN
06-01A	Operating expenditure addendum - REFCL costs - Confidential	JEN
06-02	REFCL annual verification test - cost report - 20251201	JEN
06-03M	SCS Opex Model - 20251201	JEN
Support	ICT step change calculation - 20251201	JEN
06-04M	Operating expenditure benchmarking roll-forward model - 20251201	JEN
06-05	Insurance operating expenditure	JEN
06-06	John Middleton Legal Opinion for Victorian DNSP Insurance Opex	DLA Piper
06-07	Victorian DNSP insurance premiums	HoustonKemp
06-08	Insurance premium forecast for 2026-31 and retrospective forecast for 2021-26	Lockton
07-01	Incentive mechanisms	JEN
08-03	Pass through events - 20251201 – FTA pass through application – 20251104 – FTA Appendix B pass through expenditure model – 20251104 – MITE pass through application – 20251030 – MITE Attachment A pass through expenditure model – 20251030 – VEBM2 pass through application – 20251105 – VEBM2 Appendix C pass through expenditure model - 20251105	JEN

1. Our operating expenditure forecast for SCS

Operating expenditure is a major component of our building block costs, accounting for approximately 34% of JEN's total cost of service over the next regulatory period. Table 1–1 details our forecast operating expenditure over the next regulatory period for our SCS. The forecast operating expenditure model is provided in *JEN - RP - Att 06-03M SCS opex model - 2025120*.

Table 1–1: Forecast SCS operating expenditure for 2026–31 period ($2026, million)

Category	Description	Initial regulatory proposal	AER draft decision	Revised regulatory proposal
Establish an efficient base year	Our proposed base year is 2024-25. The audited base year operating expenditure before adding SaaS costs is $97M.	479	475	486
Adjust the base year operating expenditure	We have adjusted the base year operating expenditure in our revised regulatory proposal to: • remove category specific forecasts in the base year (GSL payments and any debt raising costs) • re-allocate SaaS costs (ICT project costs) from capital expenditure to operating expenditure in line with the AER's guidance reflecting the accounting treatment at the time of setting the allowance[1] • remove costs funded by the Demand Management Innovation Allowance (**DMIA**) • remove movements in provisions • account for the increment from base year to final year in the model, including the uplift from new cost passthrough applications.	23	22	28
	The AER also made the following adjustments to our base year: • removal of the Essential Services (ESC) licence fee • addition of non-recurrent insurance efficiency gain For the revised regulatory proposal, we have removed the adjustments for: • ESC licence fee, as it has not been included in the actual base year operating expenditure • the non-recurrent efficiency gains in the base year, as our underspend reflects a genuine and ongoing efficiency improvement, and therefore recurrent in nature.	-	22	-

[1] In April 2021, the International Financial Reporting Standards (**IFRS**) Interpretations Committee released a guidance note requiring SaaS implementation costs treated as operating expenditure. When the 2020-25 allowances were determined for JEN in April 2021, these costs were classified as capital expenditure. To ensure our reported actuals and allowances are comparable based on consistent accounting treatments, the AER provided guidance for us to continue applying the old accounting treatment (i.e. capitalising SaaS implementation costs) for the current regulatory period 2021–26 and apply the new accounting treatment from the 2026–31 period. We have adjusted our operating expenditure and capital expenditure accordingly in line with the AER's guidance for both the 2021–26 and 2026–31 periods.

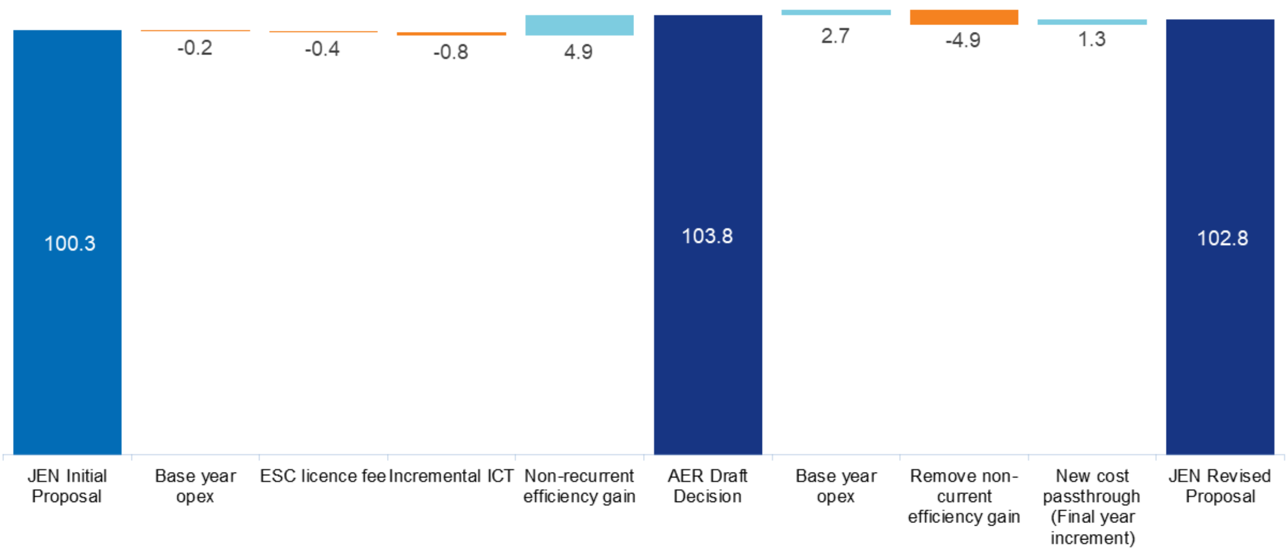
Category	Description	Initial regulatory proposal	AER draft decision	Revised regulatory proposal
Estimate trend	We have trended the efficient base forward by applying the rate of change. In our revised regulatory proposal, this includes: • Output growth (customer number, circuit length and ratcheted maximum demand) of $74M • Price growth (labour) of $9M • Ongoing productivity improvements of 0.50 per cent per annum, which equates to a reduction of $8M over 5 years	60	52	75
Develop category specific forecasts	We have developed specific forecasts in our revised regulatory proposal for items where base year costs are not representative of the costs we expect to incur. This includes: • Innovation Fund $2M • GSL payments $1M • Debt raising costs $7M	12	8	10
Forecast step changes	We have proposed the following step changes in our revised regulatory proposal: • ICT services (project implementation costs and incremental ongoing operating expenditure) $34M • REFCL testing $5M • Safety initiative for LBRA hazard trees $3M	41	13	42
	The AER also made a negative insurance step change in its draft decision. We have removed this in our revised regulatory proposal	-	-27	-
Total		**615**	**565**	**641**

2. Base operating expenditure

In its draft decision, the AER concluded that our estimate of base year 2024-25 operating expenditure is not materially inefficient. It therefore relied on our estimated 2024–25 operating expenditure as the basis of its total operating expenditure forecast.[2] The AER will assess the efficiency of our actual costs for 2024-25 to be used as the basis for forecasting in its final decision.

Figure 2–1 shows the progression of base operating expenditure from JEN's initial regulatory proposal, through the AER's draft decision, to this revised regulatory proposal.

Figure 2–1: JEN's base operating expenditure between the initial regulatory proposal, the AER's draft decision and revised regulatory proposal ($2026, million)



Adjustments made by the AER in its draft decision

The AER applied some adjustments to *the base year operating expenditure,* which included*:*

- Updated inflation forecast to convert nominal to real 2026 amount, thereby reducing base operating expenditure by $0.2M
- Removal of ESC licence fee of $0.4M as it is now recovered as a jurisdictional scheme and no longer part of the operating expenditure building block
- Removal of the incremental ICT project implementation costs
- A non-recurrent efficiency gain in the base year for JEN's bushfire insurance underspend.

Updates made in JEN's revised regulatory proposal

We have made the following updates to the *base year operating expenditure:*

- Used audited actual costs for the 2024-25 base year, which is approximately $2M higher than the draft decision estimate
- Removed the non-recurrent efficiency gain, as the underspend reflects a genuine and ongoing efficiency improvement, and therefore recurrent in nature

2 AER draft decision, Jemena electricity distribution determination 1 July 2026 – 30 June 2031, Attachment 3 – operating expenditure, September 2025, p13.

- Updated the current period allowance to account for four new cost passthrough applications,[3] impacting the final year increment.

Consistent with the AER's preferred approach, we have now included our project implementation costs with our ICT service step changes and discuss them further in section 4.

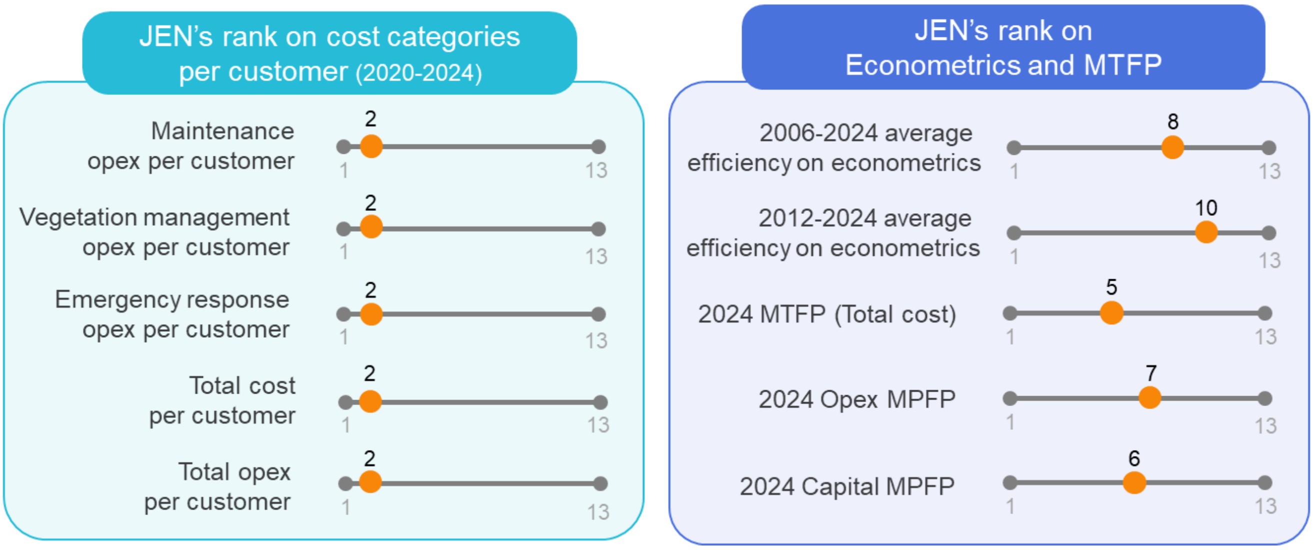
2.1 Base operating expenditure efficiency

The AER's draft decision accepted the efficiency of JEN's proposed base year, using an estimated 2024–25 operating expenditure of $95.8M. Since then, two key updates have occurred:

- Our audited actual operating expenditure for 2024–25 is marginally higher than our estimate in our initial regulatory proposal.
- The AER's draft 2025 benchmarking results have become available.[4] The AER has updated the output weights used in the multilateral total factor productivity (**MTFP**) approach to reflect more recent data and revised treatment of capitalised corporate overheads.[5]

After accounting for these updates, JEN continues to perform strongly across the various benchmarking measures as shown in Figure 2–2 indicating JEN continues to remain efficient.

Figure 2–2: JEN's benchmark position against our peers



Source: Quantonomics Economic Benchmarking Results for the AER's 2025 DNSP Annual Benchmarking Report (draft) – August 2025.

2.1.1 MTFP and MPFP

Since submitting JEN's initial regulatory proposal, the AER's consultant Quantonomics has updated the output weights used in its MTFP and multilateral partial factor productivity (**MPFP**) measures. Previously these measures were based on output weights derived from data up to 2018 and data using the 2014 cost allocation method (**CAM**).

3 JEN – RP – Support – FTA pass through application – 20251104, JEN – RP – Support – MITE pass through application – 20251030, JEN – RP – Support – VEBM2 pass through application – 20251105, JEN – RP – Support – ASMR pass through application – 20251113. Our revised proposal assumes that these cost pass-through applications are approved.

4 Quantonomics, Economic Benchmarking Results for the AER's 2025 DNSP Annual Benchmarking Report (draft), August 2025

5 Quantonomics, Memorandum – Non-reliability Output Index Weights ABR25, June 2025

The new output weights incorporate data up to 2024 and apply AER's preferred approach of expensing all capitalised corporate overheads for benchmarking purposes. This ensures consistency between the output weights and the underlying data, improving the robustness and comparability of results.

Under the updated output weights, JEN's:

- MTFP ranking improved to 5th out of 13 businesses, reflecting stronger performance on total cost productivity (operating expenditure and capex)
- Operating expenditure MPFP ranking improved to 7th
- Capital MPFP ranking improved to 6th.

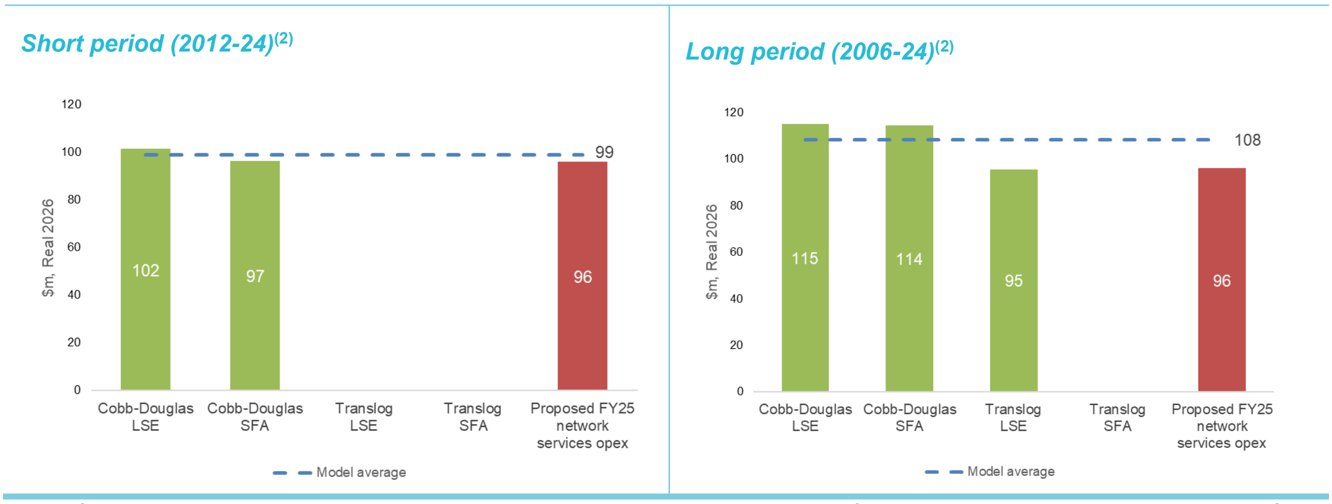
These results demonstrate JEN's strong efficiency in delivering SCS to our customers. The improved rankings reflect JEN's ability to manage both operating and capital costs effectively, as well as our continued focus on efficiency improvements.

2.1.2 Econometric models

In its draft decision, the AER estimated an efficient level of operating expenditure using econometric cost functions and compared it with JEN's estimated base-year operating expenditure for 2024–25.[6] JEN's operating expenditure was lower than the target efficient level estimated from the econometric analysis, indicating JEN's 2024-25 actual costs provides an efficient basis for forecasting operating expenditure over the next regulatory period.

Figure 2–3 below shows JEN's actual audited 2024-25 SCS network services operating expenditure[7] remains below the AER's efficient estimate under both the long (2006–2024) and the short (2012–2024) sample periods. This analysis confirms that JEN's base year operating expenditure is efficient and does not require any adjustment. It supports our use of 2024–25 as the base year for forecasting operating expenditure for the next regulatory period.

Figure 2–3: JEN's base year network services operating expenditure efficiency in econometric models (2026$M)



Note: Consistent with the AER's past practice, certain Translog models are excluded from the charts above as they do not satisfy the monotonicity requirement or do not converge. Monotonicity is a key economic property that requires that an increase in output can only be achieved with an increase in inputs (operating expenditure), holding other things constant.

6 This involves using the results from econometric operating expenditure cost function benchmarking and the AER's benchmarking roll-forward models to derive an estimate of efficient base year operating expenditure and compare this efficient estimate to JEN's 2024–25 actual operating expenditure. The AER then determine whether there is an efficiency gap, and if so, the magnitude of this gap.

7 Network services operating expenditure ($96M) represents the amount related to shared network costs, which is slightly lower than JEN's total SCS operating expenditure.

2.2 Adjustments to our base year costs

To ensure our base operating expenditure represents the recurrent expenditure for the next regulatory period and aligns with the AER's standard practice, we have adjusted our base year operating expenditure. These adjustments remove costs not forecasted using a single-year revealed cost approach, and include changes in cost classification, such as the SaaS implementation costs, which will move from capital expenditure to operating expenditure in the next regulatory period. Table 2–1 sets out the adjustments made to our base year operating expenditure in our initial regulatory proposal, AER's draft decision and our revised regulatory proposal.

Table 2–1: Derivation of revised regulatory proposal base operating expenditure before trending ($2026, million)

Operating expenditure category	Initial regulatory proposal	AER draft decision	Revised regulatory proposal
Estimated 2024-25 operating expenditure for our SCS (including SaaS)	487.7	484.1	495.5
Adjust to remove SaaS costs	8.9	8.9	9.1
Estimated 2024-25 operating expenditure for our SCS (excluding SaaS)	478.9	475.2	486.4
Base year adjustments:			
Add back SaaS costs	8.9	8.9	9.1
Adjust for ICT project implementation costs	4.0	-	-
Remove movements in provisions	-	-	-
Remove costs funded for by DMIA	-	-	-
ESC licence fee	-	-2.2	-
Non-recurrent efficiency gain	-	24.5	-
Remove category specific forecasts	-3.2	-0.5	-0.4
Increment from base year (2024-25) to final year (2025-26)	13.0	12.9	19.2
Net adjustment to base year operating expenditure	**22.7**	**43.6**	**27.8**
Base operating expenditure before trending	**501.5**	**518.8**	**514.2**

We have adjusted our base year costs in our revised regulatory proposal to:

- remove SaaS implementation costs, which are currently treated as capital expenditure for regulatory purposes for consistency with the AER's treatment of them in the CESS and EBSS. SaaS costs will be treated as operating expenditure in the next regulatory period and therefore, we add them back to base operating expenditure, resulting in a net zero impact
- remove movement in provisions
- remove costs funded for by the DMIA, and
- remove costs that we develop category specific forecasts for.

Consistent with the AER's preferred approach, we have now included our project implementation costs with our ICT service step changes and discuss them further in section 4.

We note that license fees are already recovered as a jurisdictional scheme and part of our tariff variation in 2024-25. Therefore, licence fees are not included in our 2024-25 costs and no adjustment to our base year operating expenditure is required.[8]

2.3 Non-Recurrent efficiency gain

In its draft decision, the AER proposed three adjustments relating to our insurance premiums:

- a non-recurrent efficiency gain is included in base year operating expenditure, which increases our operating expenditure allowance in each year of the next regulatory period in an amount equal to our underspend on insurance premiums in the base year (i.e. the premium allowance in the base year less the actual insurance premiums);
- a negative step change adjustment, calculated as the difference between the premium allowance and actual premium in the final year, that decreases our operating expenditure allowance in each year of the next regulatory period; and
- an adjustment to the calculation of the EBSS carryover amounts arising from the application of the EBSS during the 2021–2026 regulatory period to reflect the non-recurrent efficiency gain adjustment made to base operating expenditure.

Our revised proposal does not accept the AER's draft decision on insurance premiums. Rather, we retain the approach to determining forecast operating expenditure in our initial regulatory proposal, using a standard base-step-trend approach, and remove the adjustment for non-recurrent efficiency gains from both operating expenditure and EBSS.

This is because:

1. The legal opinion we received considers that the approach set out in the AER's draft decision is unlawful. We refer to a legal opinion provided by the Hon. John Middleton AM KC, Senior Advisor at DLA Piper and former judge of the Federal Court and President of the Australian Competition Tribunal, in which he concludes that the AER's draft decision is contrary to law, as follows:[9]
    a) The AER's draft decision, which treats our underspend on insurance premiums as a non-recurrent efficiency gain, is not authorised by any statutory provision. In other words, the AER does not have the power to make the adjustments set out in its draft decision.
    b) The AER's draft decision, which effects a clawback of our underspend on insurance premiums in the 2021–2026 regulatory period, is contrary to the scheme of Chapter 6 of the NER.
    c) The AER's draft decision contravenes section 16(1) of the National Electricity Law (**NEL**). The AER is not exercising its economic regulatory function or power in a manner that will or is likely to contribute to the achievement of the National Electricity Objective (**NEO**).
    d) The reasoning of, and rationale for, the AER's draft decisions are unreasonable.
2. The approach set out in the AER's draft decision distorts incentives for Distribution Network Service Providers (**DNSP**) and undermines the objectives and intent of the NEL/NER economic regulatory regime. We refer to an independent report from Brendan Quach, Senior Economist at HoustonKemp, in which he sets out his expert opinion that: [10]
    a) the approach taken in the draft decision undermines the objectives and intent of the total operating expenditure regime, the EBSS and the NEL/NER economic regulatory regime; and

8 Refer 2024-25 RIO template 7.10.1 – Jurisdictional Scheme Payments.

9 DLA Piper, *JEN - RP - Att 06-06 John Middleton Legal Opinion for Victorian DNSP Insurance Opex – 20251128.*

10 HoustonKemp, *JEN - RP - Att 06-07 HoustonKemp Victorian DNSP insurance premiums – 20251128.*

b) aside from the merits and legality of the AER's approach, the revenue outcomes that occur under the AER's draft decision are not consistent with its stated intention in the draft decision.

Our response to the AER's draft decision is discussed in further detail in *JEN – RP - Att 06-05 Insurance operating expenditure*, and includes the attached supporting documents:

3. a report from our insurance broker, Lockton[11];
4. the independent expert report from Brendan Quach of HoustonKemp; and
5. the legal opinion from the Hon. John Middleton AM KC of DLA Piper.

We agree with the expert reports, and consequently, we have removed the non-recurrent efficiency gain and the associated negative step change from our revised operating expenditure proposal.

[11] Lockton, *JEN - RP - Att 06-08 Lockton Insurance premium forecast 2026-31 and retrospective forecast 2021-26 – 20251125.*

3. Forecast trend

In its draft decision, the AER assessed our initial regulatory proposal output and price growth forecasts. The AER formed an alternative that resulted in changes to the trend allowance when developing its alternative operating expenditure forecast.

In this revised regulatory proposal, we have updated the output and price growth forecasts with the latest available information. This update causes our forecast operating expenditure trend to be $23M higher than the AER's forecast in its draft decision. This is largely due to higher expected growth in data centre load over the next regulatory period, partially offset by lower customer number growth and input price growth from updated real labour escalation rates by Oxford Economics.[12]

Table 3–1 sets out our forecast SCS operating expenditure trend in our initial and revised regulatory proposals, compared with the AER's draft decision.

Table 3–1: Forecast SCS operating expenditure trend for 2026–31 period ($2026, million)

Description	Initial regulatory proposal	AER draft decision	Revised regulatory proposal
Output growth	58.8	50.4	73.8
Price growth (labour)	8.8	9.5	9.1
Ongoing productivity improvements	-7.6	-7.8	-7.8
Total	**60.1**	**52.1**	**75.1**

3.1 Output growth

3.1.1 The AER's draft decision

The AER's draft decision forecast an average annual output growth of 3.2% per annum which is lower than our initial regulatory proposal of 3.8% per annum. The AER's alternative estimate for output growth in its draft decision is $8.4M lower than in our initial regulatory proposal.

In making its alternative forecast, the AER:[13]

- was satisfied that our forecast of the growth in customer numbers and circuit length reflects a realistic expectation
- was not satisfied that our forecast growth rates for ratcheted maximum demand reflect a realistic expectation. This was based on advice from its consultant, Baringa, who considered that our maximum demand forecast was likely to be overstated. Baringa considered that our approach to forecasting block loads, including data centres, lacked strong reasoning and advised that data centres yet to be contracted should be excluded from the forecasts. Baringa also noted similar concerns regarding our approach to non-data centre block loads.

3.1.2 JEN's revised regulatory proposal forecast

In this revised regulatory proposal, we have adopted more recent AEMO projections that show lower growth in customer numbers and circuit length compared to the AER's draft decision.

[12] JEN - Oxford Economics – RP – Att 05-07 Real cost escalation report - 20251929.

[13] AER draft decision, Jemena electricity distribution determination 1 July 2026 – 30 June 2031, Attachment 3 – operating expenditure, September 2025, section 3.3.3.2.

In our initial regulatory proposal, we forecast ratcheted maximum demand over the next regulatory period, including the load from all data centre customers who had approached us for a connection. Figure 3-1 below outlines the data centre connection stage process.

Figure 3–1: Connection process and stages for data centre projects

In its draft decision, the AER adopted lower growth forecasts of ratcheted maximum demand than those in our proposal. This reflects the AER's exclusion of forecast growth from non-confirmed data centre connections that we had forecast towards the end of the period. We consider that this approach does not provide the best estimate in the circumstances.

While we accept the AER's position to exclude more uncertain data centre projects, albeit using a different definition of uncertainty, we have applied a stricter threshold. Specifically, we have excluded all data centre projects from enquiry (stage 1) to firm offer requested (stage 4) per our standard connection process, despite the AER including these in its draft decision. That is, our revised forecast includes only projects for firm offer issued (stage 5) and in-flight (stage 6 to 8), based on the most recent information on expected data centre connections and load.[14]

Although the scope of included projects has narrowed compared to the AER's draft decision, the number of in-flight and firm offer data centres has increased since submitting our initial regulatory proposal; the capacity sought or contracted by proponents has also increased materially. As a result, our revised forecast for ratcheted maximum demand is higher than that in the AER's draft decision.

A comparison of operating expenditure scaling factors between our revised regulatory proposal and the AER's draft decision is provided in Table 3–2 below.

Table 3–2: Forecast SCS operating output growth for 2026–31 period (%)

Description	FY27	FY28	FY29	FY30	FY31
AER draft decision					
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%
Revised regulatory proposal					
Customer numbers	1.2%	1.2%	1.2%	1.2%	1.2%
Circuit length	2.4%	1.2%	1.5%	1.1%	1.5%
Ratcheted maximum demand	7.6%	8.5%	8.5%	10.2%	11.4%
Difference (revised regulatory proposal less draft decision)					
Customer numbers	**-0.5%**	**-0.6%**	**-0.6%**	**-0.5%**	**-0.5%**
Circuit length	**0.6%**	**-0.4%**	**0.1%**	**-0.3%**	**0.2%**
Ratcheted maximum demand	**5.1%**	**0.7%**	**2.8%**	**5.2%**	**5.5%**

14 Refer to section 3 of Attachments 05-01 - Response to the AER's draft decision - Capital expenditure for further details on our revised demand forecast.

In addition, we have updated the output elasticities to align with the econometric cost function outputs from Quantonomics' draft 2025 benchmarking report[15] as placeholders in our revised regulatory proposal, we anticipate these output weights to be updated in the AER's final decision once the final benchmarking report is published.

3.2 Price growth

3.2.1 The AER's draft decision

In its draft decision, the AER accepted the forecasting approach of using the average of Oxford Economics and Deloitte Access Economics (**DAE**) in estimating the real labour escalation for the next regulatory period. The AER also updated its labour price growth forecast to include the more recent DAE forecast.

3.2.2 JEN's revised regulatory proposal forecast

In this revised regulatory proposal, we have updated the real labour escalation forecasts from Oxford Economics, while retaining the DAE forecasts used in the AER's draft decision. A comparison is provided in Table 3–3 below.

Table 3–3: Forecast SCS price growth for 2026–31 period

Description	FY27	FY28	FY29	FY30	FY31
AER draft decision					
WPI - DAE	0.7%	0.9%	1.1%	1.1%	1.0%
WPI - Oxford Economics - JEN	1.2%	1.1%	1.3%	1.3%	1.2%
WPI - average + super guarantee increases	0.9%	0.9%	1.2%	1.2%	1.1%
Revised regulatory proposal					
WPI - DAE	0.7%	0.9%	1.1%	1.1%	1.0%
WPI - Oxford Economics - JEN	1.0%	1.0%	1.2%	1.4%	1.4%
WPI - average + super guarantee increases	0.8%	1.0%	1.1%	1.2%	1.2%
Overall difference	**-0.1%**	**0.1%**	**-0.1%**	**-**	**0.1%**

3.3 Productivity

The AER adopted a productivity growth rate of 0.5% per annum, consistent with its standard approach.[16] We accept this position and have applied the 0.5% rate in our revised regulatory proposal.

[15] Quantonomics, Economic Benchmarking Results for the AER's 2025 DNSP Annual Benchmarking Report (draft), August 2025.

[16] AER draft decision, Jemena electricity distribution determination 1 July 2026 – 30 June 2031, Attachment 3 – operating expenditure, September 2025, section 3.3.3.3.

3.4 Total trend

Table 3–4 shows the forecast rate of change, excluding inflation, over the next regulatory period. These costs will increase our operating expenditure by 14.6% in the next regulatory period compared to our 2024-25 base operating expenditure.

Table 3–4: SCS operating expenditure trend for next regulatory period ($2026, million)

Description	FY27	FY28	FY29	FY30	FY31	Total
AER draft decision						
Output growth	2.1	6.6	10.3	13.7	17.7	50.4
Price growth (labour)	0.6	1.1	1.9	2.6	3.3	9.5
Ongoing productivity improvements	-0.5	-1.0	-1.6	-2.1	-2.6	-7.8
Total trend	**2.2**	**6.7**	**10.6**	**14.2**	**18.4**	**52.1**
Revised regulatory proposal						
Output growth	4.3	8.9	13.9	19.8	26.8	73.8
Price growth (labour)	0.5	1.1	1.8	2.5	3.3	9.1
Ongoing productivity improvements	-0.5	-1.0	-1.6	-2.1	-2.6	-7.8
Total trend	**4.3**	**9.0**	**14.1**	**20.3**	**27.5**	**75.1**
Overall difference						**23.0**

Note: Totals do not add due to rounding

4. Step changes

4.1 AER draft decision

In its draft decision,[17] the AER approved net negative operating expenditure step changes (that is, a decrease to our base year operating expenditure) of $14.3M over the next regulatory period. In its draft decision, the AER:

- Approved an alternative allowance for ICT step changes totalling $8.1M over the next regulatory period. The main reasons for the AER adopting its alternative ICT step changes were that it considered several of our proposed step changes to be:
  - double-counted in the base and trend approach
  - covered by efficiencies, and/or
  - subject to further information.
- Rejected our proposed step change of $3.0M over the next regulatory period for CER integration relating to grid stability, voltage and Power Quality (**PQ**) management and data visibility and analytics on the basis that it considers the activities to be part of Alternative Control Services (**ACS**).
- Accepted as a placeholder, our proposed $4.9M step change over the next regulatory period for new REFCLs, subject to review of actual costs incurred by us in preparation for the 2025–26 bushfire season.
- Rejected our proposed step change of $4.9M for network resilience initiatives over the next regulatory period on the basis that they are business-as-usual activities and covered by the output factor.
- Rejected our proposed step change of $2.6M over the next regulatory period for safety initiatives on the Local Bushfire Risk Assessment (**LBRA**) hazard trees management program on the basis that we did not provide sufficient information to demonstrate prudency and efficiency, and that it is business-as-usual activity and covered by the output factor.
- Rejected our proposed customer communications and education step change of $4.3M over the next regulatory period on the basis that it is covered by the base and trend.
- Included a negative step change adjustment of $27.2M over the next regulatory period for insurance. The AER stated that the adjustment is required to ensure that our total forecast operating expenditure is prudent and efficient and to treat the significant insurance premium underspends in the current regulatory period as non-recurrent efficiency gains.

In addition, the AER rejected our proposed $4M adjustment for ICT project implementation costs[18] on the basis that incremental ICT base adjustment was not prudent, and it risks double counting costs already provided through the base-trend-step operating expenditure forecasting approach.

4.2 Our response to the AER's draft decision

We accept the AER's draft decision on our proposed customer communications and education, CER Integration Strategy Initiatives, and Network Resilience step changes. We also accept the AER's placeholder decision on the new REFCL's and provide in section 4.4 further information sought by the AER.

We do not wholly accept the AER's draft decision on our ICT services. We accept some components, including the treatment of our project implementation costs as part of the total ICT step changes. We do not accept that we have double counted costs already provided through the base-trend-step operating expenditure forecasting

[17] AER draft decision, Jemena electricity distribution determination 1 July 2026 – 30 June 2031, Attachment 3 – operating expenditure, September 2025.

[18] In our initial regulatory proposal we had treated this as an adjustment to our 2024-25 base year operating expenditure.

approach. We do not accept the negative step change for the insurance adjustment (Refer to section 2.3). We provide our reasons below, along with details on our revised regulatory proposal forecast for these components.

Table 4–1 sets out our revised regulatory proposal, operating expenditure step changes compared with our initial regulatory proposal and the AER's draft decision.

Table 4–1: Forecast SCS operating expenditure step changes for 2026–31 period ($2026, million)

Description	Initial regulatory proposal	AER draft decision	Revised regulatory proposal
Customer communications and education	4.3	-	-
ICT services	21.6	8.1	34.1
CER Integration Strategy Initiatives	3.1	-	-
New REFCL	4.9	4.9	4.9
Network resilience initiatives	4.9	-	-
Safety initiatives – LBRA hazard trees management program	2.6	-	2.6
Negative step change for insurance adjustment	-	-27.2	-
Total	**41.4**	**-14.3**	**41.6**

The totals do not add due to rounding.

We note that the main reasons for the variation of $56M between our revised regulatory proposal forecast step changes and the AER's decision are due to:

- Increased ICT step changes mainly resulting 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. The increased step changes result from new regulatory obligations and / or capital to operating expenditure trade-off.
- Provision of new information to support the LBRA hazard trees management safety initiatives program.
- Rejection of the negative step change for the insurance adjustment.

We discuss these below and provide new information on the REFCL annual testing validation costs and the LBRA hazard trees management safety initiatives program.

4.3 ICT step changes

This section provides an overview of our revised regulatory proposal for ICT operating expenditure for the next regulatory period. Our more detailed response and support for ICT operating expenditure where we disagree with the AER's draft decision, or propose new operating expenditure resulting from changed conditions, is detailed in the attached *JEN - RP - Att 05-01A Technology expenditure addendum - 20251201*.

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.'[19] We do not agree with this position and discuss this in section 4.3.1.

[19] For example, AER, Attachment 3 – Operating expenditure | Draft decision – Jemena distribution determination 2026-31, sections 3.3.4.1 ICT services (various ICT step changes), 3.3.4.2 CER integration – grid stability and flexible services, 3.3.4.3 CER integration – Voltage and Power Quality management, 3.3.4.4 CER integration – data visibility and analytics, and 3.3.4.8 Resilience – deploying mobile response vehicle.

Also, in response to the AER's draft decision:

- Consistent with the draft decision and further feedback from the AER, we have now included our ICT project implementation costs with our incremental ICT ongoing operating expenses as ICT step changes.
- Compared with the AER's determination for the current regulatory period, a change in accounting treatment coupled with ICT vendors increasingly moving towards recurring subscription services that are cloud-based means that a significant portion of our ICT costs previously recorded as capital expenditure is now recorded as operating expenditure. The operating expenditure relates to project implementation costs and incremental ongoing operating expenditure. We expect industry structure changes to continue into the next regulatory period, leading to further ICT step changes. Therefore, we consider that a number of ICT step changes rejected by the AER in its draft decision are best regarded as a capital-to-operating expenditure trade-off. This also means that our base-year costs do not cover our proposed ICT step changes; they reflect step changes associated with implementing new systems and ongoing costs for new subscription services.
- In the context of the ICT industry structural change, we consider that the AER's top-down assessment approach of our ICT step changes may not be appropriate for new cloud based technology solutions in an environment where significant change is occurring, and that alternative assessment efficiency techniques may be more suitable (such as a bottom-up forecast of ICT step changes).
- We believe that in deciding on our proposed ICT step changes, the AER needs to consider the financial impact of our step changes individually and in aggregate and should be consistent in the treatment of materiality of the step changes with its recent decisions.
- We also consider that the intent of the trend allowance is driven by increased demand and general network growth more broadly and enabling us to maintain our services. Given the scale of the expected ongoing ICT industry structural changes over the next regulatory period, we consider the associated step changes to be outside the trend allowance.
- We have updated two of our reform projects, Market Interface Technology Enhancements (MITE) initiatives and the Flexible Trading Arrangements (FTA), based on new information and included forecast expenditure for a new regulatory obligation for the Victorian Government's Emergency Backstop Mechanism no. 2 (VEBM2). We also consider that the AER's reliance on benchmarking for MITE operating expenditure is inappropriate because of the likely differences in ICT environments in terms of system maturity, automation, and adaptability.
- We have included the three Enterprise Initiatives that the AER did not approve for JEN but it did in its recent decision on the Jemena Gas Networks Access Arrangement for the 2025-30 period.
- Our ICT step changes are net of the project implementation costs in our base year operating expenditure and the associated trend allowance.

Table 4–2 shows our forecast net ICT step change over each year of the next regulatory period.

Table 4–2: Revised forecast ICT step change (5 years, $2026 million)

	FY27	FY28	FY29	FY30	FY31	Total	JEN response
Project implementation costs	7.6	10.1	9.9	4.5	1.4	33.5	See section 4.3.2, Table 4–3
Ongoing operating expenditure	2.8	4.1	4.7	6.0	6.8	24.5	See section 4.3.3, Table 4.4
Less base year project implementation costs and trend	-4.3	-4.5	-4.7	-5.0	-5.3	-23.8	See section 4.3.5, Table 4–6
Total ICT step change	**6.0**	**9.7**	**9.9**	**5.5**	**2.9**	**34.1**	

We discuss these matters further below, along with the AER's draft decision and our response. Given that we proposed alternative treatments of our project implementation costs and incremental ongoing operating expenditure in our initial regulatory proposal, we have provided our response to the AER's draft decision separately. We then provide an overall summary of our revised regulatory proposal ICT step changes in section 4.3.5.

4.3.1 Materiality and trend allowance

We are concerned that in making its decisions on our component step changes, the AER has considered the materiality of each item and not the materiality of the aggregate impact of its decision on each component step change that it has not accepted. It is common business practice to consider both the impact of materiality of an individual item and in aggregate with other identified items.

We note that in its recent network decisions, the AER has approved operating expenditure step changes on an individual basis that represent less than 1% of total operating expenditure over the regulatory period, and considerably less than 1% of total revenue over the regulatory period. In fact, the AER has, in several instances, approved individual step changes that represent between 0.1% to 0.5% of total operating expenditure over a five-year regulatory period. In aggregate, the AER has generally approved total step changes that are 1% or more of total revenue over the regulatory period. Our proposed aggregated ICT step changes represent 5.6% of our total operating expenditure and 1.7% of total revenue over the regulatory period.

Recent examples of step changes which met the AER's materiality threshold

- **AusNet** (2026 – 2031 draft decision**)** - IT step change representing 0.18% of operating expenses and 0.07% of total revenue, with total step changes representing 4.5% and 1.6% respectively
- **SA Power Networks** (2025 – 2030) - IT Infrastructure Refresh step change representing 0.43% of operating expenses and 0.17% of total revenue, with total step changes representing 4.7% and 1.8% respectively
- **Ausgrid** (2024 – 2029) - climate resilience step change representing 0.13% of operating expenses and 0.04% of total revenue, with total step changes representing 1.5% and 0.4% respectively
- **Endeavour Energy** (2024 – 2029) - demand management step change representing 0.22% of operating expenses and 0.06% of total revenue, with total step changes representing 3.8% and 1.0% respectively

We are also concerned that the AER considers that most of our proposed ICT step changes are double-counted or adequately provided for in the trend allowance in the base, step, trend approach. Firstly, we note that under the AER's opex model, no trend is applied to step changes. Further, we understand that the intent of the trend component is to provide regulated network businesses with an increase in their operating expenditure allowance resulting from increased demand:[20]

> *We consider the revealed cost base-step-trend forecasting approach is a robust means of testing an opex forecast against the opex criteria. There are a number of reasons why efficient opex in forecast regulatory control period will be different from actual expenditure in an efficient base year. It is necessary to take these into account to ensure forecast opex reasonably reflects the opex criteria:*
>
> > *Increased demand for NSPs' outputs may require them to expand their networks. It is reasonable that an efficient NSP will require more inputs, and thus greater opex, to deliver more output. We therefore include forecast output growth in the rate of change formula.*

We note that many of our proposed ICT operating expenditure step changes are not driven by scale, resulting from increased demand, but rather changes in ICT industry trends. As set out in our *JEN - RIN - Support - Technology plan – 20250131* submitted as part of our initial regulatory proposal, these industry trend factors include cloud computing, cyber security, data and analytics, and vendor dominance.

ICT vendors are increasingly moving away from perpetual licence (treated as capital expenditure) plus maintenance (treated as operating expenditure) models and transitioning towards recurring subscription services that are cloud-based (for example, Software as a Service, SaaS) and only treated as operating expenditure. Over time we expect that this will result in increased total ICT expenditure costs that are reported as operating

20 AER, Better Regulation | Explanatory Statement | Expenditure Forecast Assessment Guideline, 2013, section 5.3.2.

expenditure. As a result, the industry-wide move towards SaaS is reshaping our ICT expenditure profile. This shift entails a transition from capital to operating expenditure as we embrace pay-as-you-go models.

The increase in our operating expenditure that we proposed as a step change in our initial and revised regulatory proposals is driven by the ongoing expected trend of vendors who give us no choice but to move to subscription-based services, which is beyond the input price growth and also not related to the increase in network size. Our proposed ICT step changes are not covered by our base year costs or the trend component; they reflect project implementation costs and incremental ongoing operating expenditure associated with implementing new systems and ongoing costs to pay for new subscription services. This contrasts from the trend allowance that will enable us to provide our existing services to our growing customer base at the current level of performance over the next regulatory period – that is, our step changes are over and above our business as usual activities.

We elaborate on the factors increasing our ICT operating expenses in more detail in section 2 of *JEN - RP - Att 05-01A Technology expenditure addendum - 20251201*.

4.3.2 Project implementation costs

To implement our ICT projects, we forecast a combination of capital expenditure and/or project implementation costs (we term these Propex). There are two key categories of project implementation costs:

- **IFRS** (International Financial Reporting Standards) **related**. IFRS stipulates how to account for projects that include Subscription services; that is, Software as a Service (SaaS), Infrastructure as a Service (IaaS), and Platform as a Service (PaaS). In summary, these are not intangible assets as defined under IAS38 since we do not have full 'control' and so costs related to implementation are expensed as incurred rather than capitalised.
- **Non-IFRS related**. Where no lasting asset is created, accounting standards require the costs to be expensed rather than capitalised. These costs include user training, change management and project management overhead.

The activity of implementing new ICT capacity is ongoing in nature; however, the level of activity fluctuates year by year and across regulatory periods. To ensure that our ICT operating expenditure forecast for the next regulatory period reflects this variability, we need to account for any increased activity in implementing new ICT capacity.

We also note that compared with the current regulatory period, project implementation costs reported under IFRS were recorded as capital expenditure in our regulatory revenue allowance. Since 2021, we have recorded certain project implementation costs as operating expenditure. We consider that under the AER's framework for assessing such costs, they should be considered as a **capital to operating expenditure trade-off, as well as new regulatory obligations** if applicable. We also note that for many of our projects, the move by vendors to subscription services also means that any incremental ongoing operating expenditure should be assessed as a capital to operating expenditure trade-off, as well as a new regulatory obligation if applicable.

AER's draft decision on project implementation costs

In making its draft decision on our operating expenditure, the AER applied a top-down methodology using the base, step, trend approach. It considers that for items included in the base year operating expenditure, there are expected 'swings and roundabouts' across and within reset periods that the business should manage. The AER rejected our adjustment for ICT project implementation costs on the basis that the incremental ICT base adjustment was not prudent and would risk double-counting costs already provided through the base-trend-step operating expenditure forecasting approach.[21]

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

Whilst we note that the AER's ICT capital expenditure guidance note states ICT operating expenditure will be assessed in accordance with the AER's standard base - step - trend approach, the uniquely lumpy nature of ICT operating expenditure is a long recognised phenomenon, most recently re-endorsed by the AER's updated annual regulatory information order (RIO) templates, whereby we are required to report recurrent and non-recurrent ICT operating expenditure disaggregated by category where we can.[22]

The base-step-trend approach might be appropriate in a steady state environment, but as noted above we are currently facing industry structural changes, that along with new accounting reporting requirements, which is significantly increasing our ICT operating expenditure. Therefore, this approach may not be appropriate in an environment where significant change is occurring. We note that this is consistent with the AER’s Expenditure Assessment Guideline, whereby the AER acknowledges that operating expenditure is largely recurrent and that capital expenditure on non-recurrent projects are lumpy (pages 5 and 6), indicating that where circumstances arise where expenditure is not smooth, alternative assessment efficiency techniques may be more appropriate.

As mentioned above, we consider that the AER should assess projects over the next regulatory period that would previously 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, project implementation costs, 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 of expenditure.

The AER’s draft decision was based on advice from EMCa, who 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, and contract lifecycle management.[23] EMCa also identified that if it 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 may have made a different draft decision on our project implementation costs.

Table 4–3 compares the AER’s and EMCa’s findings on our ICT project implementation costs against our initial regulatory proposal, and our revised regulatory proposal response.

Table 4–3: AER / EMCa draft decision on ICT project implementation costs for 2026–31 period ($2026, million)

ICT project implementation cost	Initial regulatory proposal $M	AER / EMCa draft decision[24]	JEN’s revised regulatory proposal response
Maintaining existing services, functionalities, capabilities and/or market benefits			
Customer systems lifecycle	1.0	1.0	We accept the AER’s draft decision.
SAP migration	12.9	12.9	We accept the AER’s draft decision.
Network Operations Geospatial enhancements	0.4	0.4	We accept the AER’s draft decision.
Digitising Network Switching	3.9	3.9	We accept the AER’s draft decision; however, note in table 4.3 that the AER did not approve our incremental ongoing operating expenditure that we proposed as a step change in the initial regulatory proposal.

22 AER, Annual Information Order – Electricity distributors – Appendix A – Data workbooks instructions, clauses 6.2.11 and 6.2.12.

23 EMCa Jemena 2026-2031 Regulatory Proposal, Review of proposed expenditure on ICT and CER, August 2025, table 5.8.

24 The decision on our project implementation costs is as per EMCa Jemena 2026-2031 Regulatory Proposal, Review of proposed expenditure on ICT and CER, August 2025, table 5.8. EMCa advised the AER that our forecast implementation costs of $38.2M is overstated because some projects are not justified and instead recommended an alternative forecast of $28M. The AER agreed with EMCa and that no adjustment was required to our base year for project implementation costs.

ICT project implementation cost	Initial regulatory proposal $M	AER / EMCa draft decision[24]	JEN's revised regulatory proposal response
Cyber program	6.0	6.0	We accept the AER's draft decision.
Complying with new / altered regulatory obligations / requirements			
Enterprise Content Management Uplift *	4.0	-	We do not agree with the AER and have included $4.0M over the next regulatory period. This is a new activity and not business as usual. We note that the AER approved this Enterprise Initiative in its recent decision on the Jemena Gas Networks Access Arrangement for the 2025-30 regulatory period and see no reason for a different decision given that the expenditure was considered efficient in that decision.[25]
Data foundations and governance *	1.9	-	We do not agree with the AER and have included $1.8M over the next regulatory period. This is a new activity and not business as usual. We note that the AER approved this Enterprise Initiative in its recent decision on the Jemena Gas Networks Access Arrangement for the 2025-30 regulatory period and see no reason for a different decision given that the expenditure was considered efficient in that decision.[26]
Reform – MITE	0.3	-	We do not accept the AER's decision. Since our initial regulatory proposal, the MITE scope, requirements and timing have become clearer in supporting regulatory instruments. We have submitted a cost pass through application for estimated costs in the current regulatory period. The application also includes our forecast costs for the next regulatory period, which includes $0.2M for project implementation costs. We also consider the AER's reliance on benchmarking inappropriate given likely differences in ICT environments, including system maturity, automation, and adaptability. See section 4.3.3 for more details.
Reform – FTA	1.1	-	We do not accept the AER's decision. Since our initial regulatory proposal, the FTA scope, requirements and timing have become clearer in supporting regulatory instruments. We have submitted a cost pass through application for estimated costs in the current period. The application also includes our forecast costs for the next regulatory period, which includes $0.4M for project implementation costs. See section 4.3.3 for more detail.
Outage Preparedness and Response	0.8	0.8	We have withdrawn this project given the current lack of detail around the obligation change at the time of submitting this revised regulatory proposal.

25 AER, Attachment 6: Operating expenditure | Final decision – Jemena Gas Networks (NSW) 2025–30, May 2025, sections 6.4.1 and 6.4.3.3.

26 Ibid.

ICT project implementation cost	Initial regulatory proposal $M	AER / EMCa draft decision[24]	JEN's revised regulatory proposal response
Contract lifecycle management *	0.8	-	We do not agree with the AER and have included $0.8M over the next regulatory period. This is a new activity and not business as usual. We note that the AER approved this Enterprise Initiative in its recent decision on the Jemena Gas Networks Access Arrangement for the 2025-30 regulatory period and see no reason for a different decision given that the expenditure was considered efficient in that decision.[27]
New or expanded ICT capability, functions and services			
Customer education	2.3	-	We do not repropose this project in the revised regulatory proposal.
Dynamic Network planning with automation	1.8	1.8	We accept the AER's decision but note in table 4.3 that the AER did not approve the incremental ongoing operating expenditure that we proposed as a step change in the initial regulatory proposal.
CER Integration – Strategic Network Analytics Platform (SNAP) Data Hub	0.3	0.3	We accept the AER's decision but note in table 4.3 that the AER did not approve the incremental ongoing operating expenditure that we proposed as a step change in the initial regulatory proposal.
CER Integration – Analytics program	0.6	0.6	We note that the AER did not accept our proposed capital expenditure. However, we do not repropose this project in the revised regulatory proposal.
Total	**38.2**	**28.0**	**Revised project implementation costs $33.5M**

Totals do not add due to rounding

* Jemena Group Enterprise Initiatives approved for Jemena Gas Networks but not Jemena Electricity Networks

We do not agree with the AER's / EMCa's findings on our ICT project implementation costs it rejected as set out in Table 4–3. We consider that the following increases to our ICT project implementation costs are necessary expenditures in the next regulatory period:

- **Enterprise Initiatives of $6.7M** - our forecast non-recurrent ICT expenditure included five[28] Enterprise Initiatives. The costs for these initiatives were allocated in accordance with Jemena Group Cost Allocation Methodology. The AER did not approve three of the Enterprise Initiatives for JEN that had associated Project implementation costs, even though the AER approved the Enterprise Initiatives in its recent decision on the Jemena Gas Networks Access Arrangement for the 2025-30 regulatory period.[29] The Enterprise Initiatives not approved by the AER were Data Foundations and Governance, Enterprise Content Management Uplift and Contract Lifecycle Management. In each of the supporting business cases and CBA models for these three projects we have provided a breakdown of costs that demonstrate this is not business as usual activity; all three projects will implement new systems and require new licences that are not in our base year operating expenditure.

  We note that by proposing these Enterprise Initiatives across the Jemena Group, JEN and its customers benefit from consequential scale and efficiencies in delivery of ICT services. We consider that this approach and resulting outcomes are consistent with the incentive-based regime. The alternative of having duplicate

27 Ibid.

28 The five proposed non-recurrent ICT expenditure projects included: SAP migration, Data Foundations and Governance, Cyber Program, Enterprise Content Management Uplift, and Contract Lifecycle Management.

29 In table 5.4 of its Final decision Jemena Gas Networks (NSW) access arrangement 2025 to 2030 (1 July 2025 to 30 June 2030), Attachment 5 – Capital expenditure, May 2025, the AER accepted its draft decision set out in AER - Draft decision - JGN access arrangement 2025–30 - Attachment 5 - Capital expenditure - November 2024, November 2024, pp. 10-13.

systems for each business is inefficient, which may be a serious consideration in future architecture designs if not funded under this proposal.

We consider that these projects are prudent and efficient, as agreed by the AER in its recent decision on the Jemena Gas Networks Access Arrangement for the 2025-30 regulatory period, and that the AER should allow the corresponding Project implementation costs and step changes (and capital expenditure). See section 4.3.3 of *JEN - RP - Att 05-01A Technology expenditure addendum - 20251201* for more information.

- **Energy Reform costs of $0.7M** - we also do not agree with the AER's / EMCa's decision to provide no project implementation cost allowance for Reform – MITE and Reform – FTA. Our updated estimate as set out in our cost pass through applications is based on clarity of the scope, requirements and timing of the reforms made since our initial regulatory proposal.

Our revised regulatory proposal project implementation costs are $33.4M, including adjustments of $6.7M for our Enterprise Initiatives and $0.7M for Energy Reform. We provide the details and substantiation for our project implementation costs in *JEN - RP - Att 05-01A Technology expenditure addendum - 20251201*.

We set out in Table 4–6 our revised regulatory proposal ICT step changes which include our revised project implementation costs.

4.3.3 Incremental ongoing operating expenditure

As noted above, we expect an ongoing trend of vendors requiring us to move to subscription-based services, thereby increasing our incremental ongoing operating expenditure. Under the AER's assessment framework for step changes, these should be considered as capital to operating expenditure trade-offs, and potentially a new regulatory obligation if applicable.

Table 4.4 summarises the key elements of our response to the AER's draft decision on our incremental ICT operating expenditure step changes.

Table 4.4: Jemena Electricity Networks: response to the AER's draft decision on incremental ICT operating expenditure ($2026, million)

ICT incremental operating expenditure over next period	AER draft decision	JEN's revised regulatory proposal response
Customer systems $0.4M	Rejected as covered by the base / trend	As discussed in Table 4.2, we have only included project implementation costs approved by the AER in its draft decision.
Network operations geospatial enhancements $0.2M	Rejected as covered by efficiencies	We accept the AER's draft decision.
Cyber program $2.3M	Approved	We accept the AER's draft decision.
Digitising network switching $0.5M	Rejected as covered by efficiencies	We do not agree with the AER and have included $0.5M over the next regulatory period. The AER approved both the capital expenditure and project implementation expenditure for this program. It is not feasible to not approve the incremental operating expenditure, as well as to maintain and support these newly implemented systems. We have submitted a revised business case and CBA model to justify our proposed incremental ongoing operating expenditure for this project which comprises new

ICT incremental operating expenditure over next period	AER draft decision	JEN's revised regulatory proposal response
		licences that are not in our base year operating expenditure.
Cloud capacity Growth $2.7M	Approved	We accept the AER's draft decision.
Enterprise content uplift $0.6M	Rejected as covered by the base / trend	We do not agree with the AER and have included $0.7M over the next regulatory period. This is a new activity and not business as usual. We note that the AER approved this Enterprise Initiative in its recent decision on the Jemena Gas Networks Access Arrangement for the 2025-30 regulatory period and see no reason for a different decision, given that the expenditure was considered efficient in that decision.[30]
Data foundations Governance $0.3M	Rejected as covered by the base / trend	We do not agree with the AER and have included $0.4M over the next regulatory period. This is a new activity and not business as usual. We note that the AER approved this Enterprise Initiative in its recent decision on the Jemena Gas Networks Access Arrangement for the 2025-30 regulatory period and see no reason for a different decision, given that the expenditure was considered efficient in that decision.[31]
NEM reform – FTA $4.3M	AER considers this to be part of ACS and not SCS. The AER requested that we provide further justification for why these costs should remain in SCS or consider proposing these as ACS.	We do not agree with the AER classifying the FTA Reforms as ACS. While the FTA reforms primarily focus on introducing new metering arrangements, their implications are broader. This is because we must change how we interact with the market and other businesses (through the retail market and B2B procedures), requiring amendments to our systems to ensure they align with changes to the market structure (that is, to reflect the existence of secondary settlement points). All the required system changes, other than Utility IQ, are deployed to provide SCS, that is, to maintain market compliance. We have also updated our incremental ongoing operating expenditure estimates to comply with new Energy Reform obligations in our revised regulatory proposal over the next regulatory period as follows: 1. $1.1M for FTA 2. $2.7M for MITE 3. $9.2M for VEBM2 These addition operating expenditure step changes total $12.9M over the 2026-31 regulatory period (with an additional $0.7M for associated project implementation costs), making up a large part of the difference between our revised regulatory proposal forecast and the AER's draft decision. See section 4.3.4 for more detail.

30 AER, Attachment 6: Operating expenditure | Final decision – Jemena Gas Networks (NSW) 2025–30, May 2025, sections 6.4.1 and 6.4.3.3.

31 Ibid.

ICT incremental operating expenditure over next period	AER draft decision	JEN's revised regulatory proposal response
Outage preparation and response $0.7M	Rejected as covered by the base / trend	We have withdrawn this project given the current lack of detail around the obligation changes at the time of implementing this revised proposal.
Contract lifecycle Management $0.8M	Rejected as covered by efficiencies and covered by the base / trend	We do not agree with the AER and have included $0.7M over the next regulatory period. This is a new activity and not business as usual. We note that the AER approved this Enterprise Initiative in its recent decision on the Jemena Gas Networks Access Arrangement for the 2025-30 period and see no reason for a different decision given that the expenditure was considered efficient in that decision.[32]
Customer Education $0.8M	Rejected as covered by the base / trend	We withdraw the proposed project. The AER's draft decision on our Tariff Structure Statement noted the importance of customer education programs in supporting tariff reform and encouraging demand response, thereby contributing to lower prices over time. However, by rejecting our proposed step change, the AER has constrained our ability to deliver these programs at the scale required.
Dynamic network planning and automation $0.4M	Rejected as covered by efficiencies	We do not agree with the AER and have included $0.4M over the next regulatory period. The AER approved both the capital expenditure and project implementation expenditure for this program. It is not feasible to not approve the incremental operating expenditure as well as required to maintain and support this newly implemented analytics platform. We have submitted a revised business case and CBA model to justify our proposed incremental ongoing operating expenditure for this project which comprises new licences that are not in our base year operating expenditure.
3D digital twin $0.2M	Rejected as covered by efficiencies	We accept the AER's draft decision.
CER integration – flexible exports $3M	Approved	We accept the AER's draft decision but have lowered our estimate to $2.4M over the next regulatory period because we have proposed a different solution than the one we based on a step change in our initial regulatory proposal.
CER integration – strategic network analytics platform (SNAP)[33] – data hub $1.3M	Rejected our proposed incremental operating expenditure step change on the basis that the costs would be covered by the base / trend. However, the AER did approve the corresponding capital expenditure program and	We do not agree with the AER and have included $1.4M over the next regulatory period. The AER approved both the capital expenditure and project implementation expenditure for this program. It is not feasible to not approve the incremental operating expenditure as well as required to maintain and support this newly implemented analytics platform. We have submitted a revised business case and CBA model to justify our proposed incremental ongoing operating expenditure for this project which

32 Ibid.

33 Comprises the CER integration programs Data visibility and analytics, voltage and power quality management

ICT incremental operating expenditure over next period	AER draft decision	JEN's revised regulatory proposal response
	supporting project implementation expenditure.	comprises new licences that are not in our base year operating expenditure.
CER integration – Volt Var Control (VVC) rollout $3.2M	Rejected as covered by the base / trend	We withdraw our proposed step change.
Total initial regulatory proposal $21.6M	**Total AER draft decision approved $8.1M**	**Total revised regulatory proposal $24.5M**

We provide the details and justification for our incremental ongoing operating expenditure for the projects that the AER rejected in its draft decision and which we have included in this revised regulatory proposal (as noted above) in *JEN - RP - Att 05-01A Technology expenditure addendum - 20251201*.

4.3.4 Energy market reforms update

At the time we prepared our initial regulatory proposal, FTA and MITE reforms were under consideration. However, there was uncertainty regarding the scope, requirements, and timelines for compliance with the reforms, as not all required supporting procedural and/or rule changes had been finalised. We included our best estimate of capital and operating expenditure required to comply with the FTA and MITE regulatory obligations in our initial regulatory proposal.

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 across the current regulatory period and the next regulatory period.

Additionally, a new regulatory obligation related to Victorian Emergency Backstop Mechanism No.2 (**VEBM2**) is required but was not included in our forecast at the time of the initial regulatory proposal.

Consequently, we recently submitted pass through applications to the AER in accordance with the NER clause 6.6.1(a) to recover costs associated with ICT changes in JEN's systems and business processes necessitated by the:

- Flexible Trading Arrangement (**FTA**) reforms
- Market Interface Technology Enhancements (**MITE**) initiatives
- VEBM2.

We also expect to incur costs in the next regulatory period and have included revised forecasts in the revised regulatory proposal. Table 4–5 shows the forecast step changes for each of the FTA, MITE and VEBM2 reform projects over the next regulatory period.

Table 4–5: Forecast operating expenditure energy reform project costs over next regulatory period ($2026, million)

Energy reform project	Project implementation costs	Incremental ongoing operating expenditure	Total step change
FTA	0.4	1.1	1.5
MITE	0.2	2.7	2.9
VEBM 2	-	9.2	9.2
Total	**0.6**	**12.9**	**13.6**

The totals do not add due to rounding.

We note that in its draft decision on FTA, the AER concluded that the forecast capital expenditure, project operating expenditure and step operating expenditure are reasonable.[34]

We provide more detail on the above Energy Reforms in section 9 of *JEN - RP - Att 05-01A Technology expenditure addendum - 20251201* and:

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.

4.3.5 Our revised ICT step changes

Table 4–6 sets out our revised regulatory proposal, operating expenditure ICT step changes compared with our initial regulatory proposal and the AER's draft decision.

Table 4–6: Forecast SCS IT operating expenditure step changes for 2026–31 period ($2026, million)

ICT project / program	Initial regulatory proposal project implementation costs	Initial regulatory proposal ICT step change	AER consolidated draft decision[35]	Basis where we disagree with the draft decision	Revised regulatory proposal ICT step change
Maintaining existing services, functionalities, capabilities and/or market benefits					
Customer systems lifecycle	1.0	0.4	1.0	AER approved	0.9
SAP migration	12.9	-	12.9	AER approved	12.8
Network Operations Geospatial enhancements	0.4	0.2	0.4	AER approved	0.4
Digitising Network Switching	3.9	0.5	3.9	AER approved our capital expenditure and implementation costs	4.4
Cyber program	6.0	2.3	8.3	AER approved	8.4
Cloud capacity growth	-	2.7	2.7	AER approved	2.6
Complying with new / altered regulatory obligations / requirements					
Enterprise Content Management Uplift *	4.0	0.6	-	AER approved for Jemena Gas Networks, also see notes 2, 1	4.7

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

35 The decision on our project implementation costs is as per EMCa Jemena 2026-2031 Regulatory Proposal, Review of proposed expenditure on ICT and CER, August 2025, table 5.8. EMCa advised the AER that our forecast implementation costs of $38.2M is overstated because some projects are not justified and instead recommended an alternative forecast of $28M. The AER agreed with EMCa and that no adjustment was required to our base year for project implementation costs.

ICT project / program	Initial regulatory proposal project implementation costs	Initial regulatory proposal ICT step change	AER consolidated draft decision[35]	Basis where we disagree with the draft decision	Revised regulatory proposal ICT step change
Data foundations and governance *	1.9	0.3	-	AER approved for Jemena Gas Networks, also see notes 2, 1	2.3
Reform – MITE	0.3	-	-	See note 2	2.9
Reform – FTA	1.1	4.3	-	See note 2	1.5
Reform – VEBM2	-	-	-	See note 2	9.2
Outage Preparedness and Response	0.8	0.7	0.8	Withdrawn	-
Contract lifecycle management *	0.8	0.8	-	AER approved for Jemena Gas Networks, also see notes 2, 1	1.6
New or expanded ICT capability, functions and services					
Customer education	2.3	0.8	-	Withdrawn	-
Dynamic Network planning with automation	1.8	0.4	1.8	AER approved our capital expenditure and implementation costs	2.2
3D digital Twin	-	0.2	-	Withdrawn	-
CER Integration – flexible exports	-	3.0	3.1	AER approved but we have reduced	2.4
CER Integration – Strategic Network Analytics Platform (SNAP) Data Hub	0.3	1.3	0.3	AER approved our capital expenditure and implementation costs	1.6
CER Integration – Analytics Program	0.6	-	0.6	Withdrawn	-
CER Integration – VVC rollout	-	3.2	-	Withdrawn	-
Total	**38.2**	**21.6**	**35.8**		58.0
Less project implementation costs in the base year and trend allowance	-34.0	-	-28.0		-23.9
Net	**4.2**	**21.6**	**8.1**		**34.1**

Totals do not add due to rounding

Notes: 1 – capital to operating expenditure trade-off

2 – complying with new / altered regulatory obligations / requirements

* Jemena Group Enterprise Initiatives approved for Jemena Gas Networks, but not Jemena Electricity Networks

We provide the details and support for our ICT step changes in *JEN - RP - Att 05-01A Technology expenditure addendum – 20251201* and provide details of our ICT step changes in *JEN - RP - Support - ICT step change calculation - 20251201*.

The main reasons for the difference of $26M between our revised regulatory proposal forecast ICT step changes and the AER's decision over the next regulatory period is mainly due to:

- New Energy Reform obligations of $13.6M ($0.7M project implementation costs and $12.9M incremental ongoing operating expenditure) not considered by the AER in its draft decision
- Inclusion of Jemena Group enterprise projects of $8.6M ($6.8M project implementation costs and $1.8M incremental ongoing operating expenditure), not approved by the AER in its draft decision
- Additional project implementation costs of $2.1M.[36]

4.4 New Rapid Earth Fault Current Limiter obligations

In its draft decision, the AER agreed that an increase in expenditure for these activities is prudent. However, the AER included our proposed step change amount as a placeholder in its draft decision, and asked that we provide details of the activities and associated costs relating to JEN's annual validation testing in preparation for the 2025–26 bushfire season, including invoices from external parties, project management documents showing units / quantities, and rates for internal resources utilised following information.[37]

We set out this information below, as well as an update of our total REFCL testing costs.

4.4.1 Updated REFCL AVT costs

We note that in our response to an information request (IR020) to AER questions, we stated that the Annual Validation Testing (AVT) for the Coolaroo REFCL (COO) was incurred in the base year and, therefore, a step change for these costs is not required. However, while this expenditure was incurred in the base year, the works were part of the 'REFCL implementation project' and therefore treated as capital expenditure. Consequently, we do not have any COO AVT costs in our base year operating expenditure. As this project is now complete, AVT will now be part of our ongoing operating costs, and a step change is required.

In addition to the REFCLs at Sydenham (SHM) and Footscray West (FW), we also noted in IR020 that AVT will be required for REFCLs that will be installed over the next regulatory period. These REFCLs will be located at;

- Coburg North (CN),
- Coburg South (CS),
- Craigieburn (CBN), and
- Sunbury (SBY).

Our revised REFCL AVT costs over the next regulatory period are set out in Table 4–7, based on actual AVT capital expenditure incurred in 2024-25 for COO (discussed below), and for the other REFCLs based on the average of our estimate set out in table 5.2 of *JEN - RP - Att 06-04 Operating expenditure step changes - 20251201 – Confidential* converted into 2026$.

Table 4–7: Jemena Electricity Networks forecast REFCL AVT step change ($2026, million)

REFCL	FY27	FY28	FY29	FY30	FY31	Total
COO	0.3	0.3	0.3	0.3	0.3	1.5
SHM	0.2	0.2	0.2	0.2	0.2	0.9
FW	0.2	0.2	0.2	0.2	0.2	0.9
CN			0.2	0.2	0.2	0.5
CS					0.2	0.2

[36] Total net project implementation costs of $9.6M less project implementation costs of $0.7M for Energy Reform and $6.8M for Jemena Group enterprise projects.

[37] AER, Attachment 3 – Operating expenditure | Draft decision – Jemena distribution determination 2026-31, section 3.3.4.5.

REFCL	FY27	FY28	FY29	FY30	FY31	Total
CBN		0.2	0.2	0.2	0.2	0.7
SBY		0.2	0.2	0.2	0.2	0.7
Total	**0.6**	**1.0**	**1.2**	**1.2**	**1.3**	**5.3**

Totals do not add due to rounding.

4.4.2 Actual COO AVT costs in 2024-25

AVT's are completed by contractors on our behalf. A Statement of Work order is raised, including an estimate of costs, prior to commencing any work. Once approved, the contractor carries out the work and charges for actual costs incurred as part of the monthly bill it invoices JEN for the projects it has worked on that month. The costs are then allocated to the relevant JEN projects / cost categories.

The contractor provided a Statement of Work order in April 2025 estimating total AVT costs for COO at [redacted] The actual costs charged by the contractor for the COO AVT in 2024-2025 came in significantly less than the estimated costs at [redacted] as shown Table 4–8. We note that the REFCL testing regime is different at the other zone sub-stations and therefore the comparison of the planned and actual costs at COO do not relate to the other REFCL sites.

Table 4–8: Jemena Electricity Networks COO AVT costs 2024-2025 ($2025)

COO AVT component cost	$
[redacted]	

We provide the record of the billing against the COO AVT at *JEN - RP - Att 06-02 REFCL annual verification test - cost report - 20251201*.

4.5 Safety initiatives – LBRA hazard trees management program

In its draft decision, the AER rejected our proposed operating expenditure step change for our LBRA hazard tree management program on the basis that we had not provided sufficient information to demonstrate prudence and efficiency, and that the costs would be accounted for in the base and trend components of our total operating expenditure forecast.[38]

The JEN network area features green urban areas with large, expanding tree canopies. We consider that our LBRA hazard tree management program is required to manage the risk of overhead distribution assets in urban areas being damaged by trees and branches, thereby posing a safety hazard to members of the public and utility workers. The safety hazards include the risk of contact with live bare conductors on the ground and the risk of fire from contact between assets and trees or other assets. The safety risk is compounded by worsening climate change, which is causing increasingly severe and abnormal weather.

[38] Ibid, section 3.3.4.7.

To provide the AER with the additional information that it requires to make an informed decision on our program, we have prepared a revised business case. The objective of the program is to restore network reliability and safety, particularly given the increased likelihood of severe and unusual weather events, by targeting hazard trees.

We have considered four options, including doing nothing and managing the hazard tree risk. The recommended option is to implement a hazard tree management program by engaging an arborist to identify and manage hazard trees in the low bushfire risk area.

The proposed program will require:

- Engagement of a dedicated arborist.
- Assessment based on a two-year assessment cycle.
- Cutting, removal or management of identified hazard trees.

The preferred option will address reliability and, secondarily, network safety by treating the hazard these trees pose, as corrective action is conducted more immediately after identification than any engineering solution and is more practical and significantly more financially viable than the alternatives. Based on the HBRA hazard tree arborist and tree-cutting program results, this option is estimated to reduce the number of events involving hazard trees contacting electrical assets by 70%. It is expected to provide ongoing protection to areas of the network where trees might grow sufficiently large as to become new hazard trees and can be deployed much more quickly across a larger portion of the LBRA than the other credible options considered.

Table 4–9 sets out our estimated costs for the proposed program, which represent the lowest net present cost.

Table 4–9: Jemena Electricity Networks annual forecast LBRA step change ($2026)

2026$M	Costs
50% FTE Arborist	$0.1M/year
Cutting costs based on 120 spans/year at a cost of $3,000/span	$0.4M/year
Remediation costs – 24 at a cost of $5,000 each	$0.1M/year
Total	**$0.5M/year**

The totals do not add due to rounding.

This option is estimated to deliver a positive NPV of $0.3M relative to the do-nothing scenario, driven by the reduction in the cost of risk. Severe and infrequent events due to climate change have not been accounted for in this analysis, which would likely raise this benefit.

We note that we incurred $0.1M in costs for hazard tree cutting in our 2024-25 base year out of a total $6M for vegetation management. We expect the trend allowance on our total vegetation management costs in our base year will be absorbed by likely increased rectification costs resulting from our use of light detection and ranging (**LiDAR**) technology over the next regulatory period. We note that CitiPower, Powercor and United Energy, who use LiDAR technology to inspect close to 100% of their spans each year, have identified an increasing number of spans that are or will become non-compliant over the current regulatory period. This has significantly impacted their vegetation management program both in the current regulatory period and in the forecast for the next regulatory period. We expect a similar outcome as we rely on LiDAR technology over the next regulatory period. Therefore, we consider that a step change for our LBRA hazard tree program is required as the trend in our current hazard tree cutting over the next regulatory period will be insufficient.

Further justification for our proposed LBRA hazard trees management program step change is provided in *RIN – Support – LBRA Hazard Tree Management Program – Business Case – 20250131*.

5. Category-specific forecasts

In its draft decision, the AER:

- Modified our forecast GSL costs from $1.3M to $1M over the next regulatory period to account for the double-counting of costs in our forecast.
- Stated that it is not satisfied that we have provided sufficient information in support of the proposed innovation fund costs and projects. Therefore, it modified our innovation fund forecast from $4.2M to $1M over the next regulatory period.
- Modified our forecast debt raising costs from $6.7M to $5.9M over the next regulatory period.

Table 5–1 sets out our revised regulatory proposal operating expenditure category specific forecast compared with our initial regulatory proposal and the AER's draft decision.

Table 5–1: Forecast category specific SCS operating expenditure for 2026–31 period ($2026, million)

Description	Initial regulatory proposal	AER draft decision	Revised regulatory proposal
GSL payments	1.3	1.0	1.2
Innovation Fund	4.2	1.0	2.0
Debt raising costs	6.7	5.9	6.7
Total	**12.2**	**8.0**	**9.9**

Totals do not add due to rounding.

Our forecast operating expenditure category specific is $9.9M, or $1.9M higher than the AER forecast in its draft decision. This is due to:

- GSL – we have corrected the historical data to remove double-counting identified by the AER in its draft decision. We have updated the forecast to include the 2024-25 actual costs in the averaging calculation. See section 5.1.
- Innovation fund – we have included the three projects approved by the AER in its draft decision and included an additional project – see section 5.2.
- Debt raising – we have recalculated our forecast debt-raising costs for consistency with other parts of our revised regulatory proposal.

5.1 GSL payments

In our initial regulatory proposal, we forecast GSL payments based on the average of payments from 2021–22 to 2024–25, adjusted for inflation. In its draft decision, the AER accepted this approach but identified a double-counting issue when comparing our figures to those reported in the Annual Regulatory Information Notices (**RINs**).[39] The AER also noted that it will reflect any future changes to the GSL scheme in its final decision, following the ESC's review.

In this revised regulatory proposal, we have corrected the historical data to remove the double-counting. With actual GSL payments for 2024–25 now available, we have updated the forecast to include the 2024-25 actual costs in the averaging calculation, resulting in $1.2M of GSL costs over the next regulatory period.

39 AER, Attachment 3 – Operating expenditure | Draft decision – Jemena distribution determination 2026-31, Pg. 39-40.

5.2 Innovation allowance

In its draft decision, the AER allowed $1M for an Innovation fund, which is $3.2M less than what we had proposed. The AER said we had not provided sufficient information to support the proposed costs and innovation fund projects. The AER also rejected our proposed 'use it or lose it arrangement', where any unspent funds are returned to the customer, on the basis that 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.[40]

The AER accepted as placeholders the forecasts for three of our proposed 15 projects[41]:

- Vehicle-to-x (electrification & energy storage), which we now call Bidirectional EV Charging Demonstration Project – $1.3M total expenditure ($0.7M capital expenditure, $0.6M operating expenditure).
- Grid managed EV charging integration with dynamic operation (electrification) – $0.3M total expenditure ($0.1M capital expenditure, $0.2M operating expenditure)
- Customer interface with flexible markets (energy storage) – $1.1M total expenditure ($0.8M capital expenditure, $0.2M operating expenditure).

The AER asked us to provide evidence in support of the quantitative benefits of our proposed programs.

We have undertaken a reassessment of our proposed initiatives to ensure alignment with regulatory expectations and sectoral priorities. Concurrently, the pace of change in the energy innovation ecosystem has necessitated an agile response. As a result, we have developed and submitted a grant application for an additional project that complements our original portfolio of proposed projects. This new project is called EV Grid 2.0, which is led by us in collaboration with Monash Energy Institute. The project will demonstrate how smart, grid-integrated EV charging can unlock network capacity and reduce costs without compromising stability.

Table 5–2 sets out our revised regulatory proposal for the Innovation Fund allowance over the next regulatory period.

Table 5–2: Jemena Electricity Networks forecast Innovation Fund ($2026, million)

Innovation project	FY27	FY28	FY29	FY30	FY31	Total
Bidirectional EV Charging Demonstration Project	0.1	0.3	0.2	0.1	-	0.7
Grid managed EV charging integration with dynamic operation	-	-	0.3	-	-	0.3
Customer interface with flexible markets	-	-	-	0.2	0.2	0.4
EV Grid 2.0	0.2	0.2	0.1	0.1	-	0.6
Total	**0.3**	**0.5**	**0.6**	**0.4**	**0.2**	**2.0**

Totals do not add due to rounding.

Our revised Innovation Fund has a total proposed expenditure budget of $5M, of which $2M is for operating expenditure. The increase from the AER's draft decision reflects the inclusion of the fourth project and a recalibrated scope for the remaining initiatives approved by the AER.

We provide further details on our Innovation Fund projects, including details of costs and non-quantifiable benefits, in *JEN - RP - Att 03-02 Innovation Fund – 20251201.*

40 AER, Attachment 3 – Operating expenditure | Draft decision – Jemena distribution determination 2026-31, section 3.3.5.1.

41 AER, Attachment 2 – Capital expenditure | Draft decision – Jemena distribution determination 2026-31, Appendix A.7.1.