

Submission to the AER on Jemena's innovation fund

In its 2026-31 EDPR Revised Proposal

This is a submission on Jemena's revised innovation fund proposal from Dean Lombard and Gavin Dufty.

Dean Lombard (*Consumer Energy Advisor, Energesis*) has been a consumer representative and advocate in the energy sector for over 20 years, including 11 years at the Victorian Council of Social Service and seven years at Renew. In this time he's worked extensively on a range of issues related to the energy transition including CER enablement, tariff reform, and consumer protections in emerging energy markets. Since leaving Renew he has represented small consumers' interests as a member of numerous government and industry reference groups and distribution and transmission networks' customer advisory panels. Dean is a member of Jemena's *Industry Reference Group (IRG)* as well as AusNet Services' *Innovation Advisory Committee* and the national *CER Taskforce Reference Group*.

Gavin Dufty (*National Director of Energy Policy and Research, St Vincent de Paul Society*) has been a consumer representative and advocate in the energy sector for over 30 years undertaking research and policy evaluation on its impacts on domestic consumers, with a growing focus on the impacts and implications of new energy technologies and the energy transition more broadly. He is currently a consumer representative on a number of boards and government and industry committees, representing the interests of vulnerable and low-income Victorians, ensuring that affordability, equity, and social justice are central to energy system policy and planning. Gavin is a member of Jemena's *Industry Reference Group (IRG)* and *Energy Reference Group (ERG)*, as well as the national *CER Taskforce Reference Group*.

Note: As members of Jemena's stakeholder reference groups, Jemena resourced us to prepare this submission, but this is our independent view, and Jemena has had no editorial role.

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We are writing in support of the Innovation Fund Proposal in Jemena's 2026–31 EDPR Revised Proposal.

Through its customer engagement, Jemena received a strong message from its customers that they want the business to innovate in order to manage the network more efficiently and respond to the changing energy landscape. Consumers are themselves innovating with respect to the way they use energy in their homes and businesses, and they expect the energy businesses they rely on to enable this innovation in the way the energy services they provide are evolving. Equally, the energy system itself needs networks to innovate as it navigates the challenges, complexities and opportunities of the ongoing energy transition.

As members of Jemena's *Industry Reference Group* and *Energy Reference Group*, we engaged with the business during the development of the initial Innovation Fund proposal. As participants in broader energy sector processes, we are cognisant of the importance of ongoing innovation and of the critical role of DNSPs as the nature of distribution network services are fundamentally changing. This is the context in which, as engaged witnesses to the evolving process, we supported Jemena's initial innovation value proposition as a response to their customers' expectations – and looked to the AER's expertise in assessing the prudence and efficiency of the proposed expenditure.

When assessing distribution businesses' innovation proposals, the AER needs to acknowledge the importance of and consumer interest in innovation and support innovative approaches to managing networks so as support consumers' investments and the energy system as a whole. In its draft decision, the AER acknowledges the need for and importance of innovation but gives no clear narrative back to customers with respect to the value and opportunity they are seeking from their network service provider. We expect the AER to pursue not only discipline and rigour on costs, but also pathways to deliver customer value – with a clarity that speaks to customers' needs and experience.

In saying all this, we recognise that this is a brand new area and a lot of learning is still happening. We are encouraged by the growing maturity of both the DNSPs and the AER in this area.

The draft decision

We welcome the detail the draft decision gives in explaining the basis upon which specific projects were or were not approved. In particular:

- The distinctions made between projects considered sufficiently innovative to be eligible for the innovation allowance and those considered suitable as

BAU activities. This is an area in which many of a DNSP's stakeholders have limited insight, but that is a core aspect of a regulator's ambit. In articulating this distinction, the draft decision provides useful guidance as to the types of innovative activities we should expect to see as part of base capital and operational expenditure in future regulatory proposals.

- The guidance as to the explicit linking of projects to expenditure objectives. We share the AER's view that clear linkage of projects with expenditure objectives represents best practice in innovation proposals.
- The emphasis on the scale of proposed projects being consistent with a trial or pilot in assessing the prudence of innovation expenditure.

We also welcome the AER's requests to the business for quantitative estimates of individual projects' benefits – while still allowing for the myriad uncertainties that are integral to innovation projects. Though we understand and to a large extent agree with Jemena's (and other DNSPs', in their own innovation proposals) position that uncertainty about the net benefits is characteristic of innovation projects and that a clear positive net benefit marks a project as suitable for BAU expenditure, we recognise that a reasonable expectation of potential net benefit is a clear indicator of the prudence of a project and that a quantitative estimate is an indication that this has been rigorously assessed and provides a benchmark against which a project's success can be measured.

We also support the VGA's recommendations, cited in the draft decision, that evidence of a clear pathway to BAU funding and delivery should be provided; and that the AER should develop an innovation allowance scheme up to a specified portion of capex that is commensurate with other industrialised businesses. We welcome the AER's commitment to developing a standard innovation allowance (with a mechanism enabling return of unspent funds to customers) given in its [submission](#) to the recent Federal Government inquiry into bolstering productivity growth.

The revised proposal

In developing its initial proposal, Jemena engaged with its customers not only on the focus areas for innovation but also on the scale of expenditure, expressed as the average annual impact on the network portion of electricity bills. The package approved by customers reflected this scale. The significantly lower expenditure approved in the draft decision reflected a lower level of innovation investment than customers expressed a preference for.

In developing the revised proposal, Jemena responded to the AER's feedback with a smaller program more focused on critical challenges that demand a high level of innovation and testing. This comprises three projects from the initial

proposal revised and further developed, and a new project that contains some elements of other projects from the initial proposal and has a strong partnership aspect and an opportunity for co-funding to maximise impact. The four projects in the revised proposal all have the potential to drive new approaches to managing critical consumer and system needs, and to open up new opportunities for energy consumers investing in new technologies and interacting with the evolving electricity system.

In our view, the revised innovation fund proposal broadly reflects the innovation priorities expressed by Jemena's customers in its engagement with them, while the scale of expenditure is less than but close to the ambition expressed by customers. We welcome the greater articulation of alignment with objectives and the estimated quantitative benefits that Jemena has provided – as well as the assessment of the potential broader benefits of subsequent scaling up of the projects. The benefit descriptions given in the revised proposal reflect the reality that customers are concerned not only with cost, but also with the value they get from their energy expenditure on electricity.

With respect to the projects that the draft decision assessed as not being sufficiently innovative, we look forward to engaging further with the business on the degree to which some of these can be integrated into BAU activities going forward.

Governance

Jemena has a strong history of genuine engagement with customers and other stakeholders, and of being responsive to customer and stakeholder feedback, critiques and suggestions. In this context, we supported the governance approach articulated in the original proposal (itself influenced by stakeholder engagement) and are comfortable with it going forward with the expectation of working closely with Jemena in its stakeholder groups to develop in more detail and refine it as necessary, with a focus on ensuring the involvement of a diversity of stakeholders (including customer, academic and industry representatives) with a clear ability to influence decision-making and guide the business in responding to the changing energy and technological environment.

On the latter point: a critical issue with an innovation program developed a year out from a five-year implementation period is that the rapidly evolving energy system is always ahead of us. A project that is innovative now may become a BAU necessity within the next few years. Some challenges might evaporate while other unforeseen needs might emerge. We know that the AER is cognisant of this, and we know that there are already precedents for approved innovation projects to be abandoned or moved to BAU, and new projects developed in their stead. The

governance group has a critical role in managing this eventuality with the business. We look to the AER for more clarity and guidance as to how the inevitable changes can be facilitated while maintaining the rigour with which projects are assessed as appropriate for innovation allowance expenditure. Additionally, while we support Jemena's governance approach and are confident it is fit for purpose and provides the necessary transparency and accountability, we would welcome guidance on governance arrangement and stakeholder engagement on innovation programs from the AER for future EDPRs.

Knowledge sharing

An underlying rationale for this type of innovation program is that projects are trials or pilots to test new technologies and techniques in order to develop new ways of operating distribution networks in response to emerging challenges and opportunities – building the collective knowledge base to benefit the broader industry and, importantly, maximise the value of innovation to customers. We welcome the clear mapping of knowledge-sharing opportunities and commitment to collaborating with other industry participants' innovation activities articulated in Jemena's original innovation proposal. A stakeholder advisory group for an innovation program is another vector for knowledge sharing – as noted by Jemena in its original proposal in reference its participation in AusNet's *Innovation Advisory Committee* – and we encourage Jemena and other DNSPs to make full use of this opportunity. We also encourage the AER, when developing its future approach to a structured innovation allowance framework, to ensure there are clear pathways and mechanisms for transparent project development and knowledge sharing to ensure that electricity customers get maximum value from innovation activities.

Broader policy considerations

We also urge Jemena and other DNSPs to be ever mindful of the broader policy context when engaged in innovation projects. Many projects will interact with other aspects of distribution network policy as well as broader energy system policies and issues that are not directly related to DNSPs. For example, because they have elements of control of timeshifting of electricity exports and imports, all of Jemena's proposed projects have connections (to varying degrees) with network tariff reform and tariff reassignment, with the way the energy customer protections framework interacts with new energy products and services, with the way environmental schemes are recouped through customer bills, and possibly with the operation of energy concessions schemes. We urge Jemena and other DNSPs to be cognisant of possible implications of their innovation projects on these and other public policy issues and to be forthcoming in flagging potential

issues (and opportunities) with jurisdictional governments. We also expect that this will be an issue that is given explicit consideration in conversations between DNSPs and their innovation project stakeholder governance groups.

Thanks for the opportunity to make a submission. We are very supportive of the capacity to promote innovation within the regulatory framework for DNSPs and, as stated above, support Jemena's revised proposal with particular support for its comprehensive acceptance of and response to the AER's draft decision, the strong strategic thinking in the development of the revised proposal, and Jemena's clear commitment to transparent and responsive stakeholder engagement.

Yours Sincerely

Dean Lombard
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19 January 2026

If you have any further questions, please don't hesitate to contact Dean Lombard at

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